PAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with 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.

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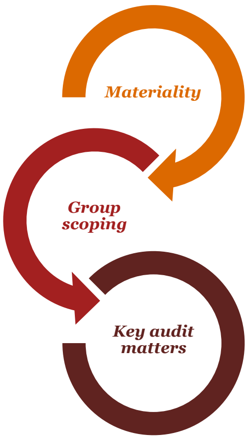
Our audit approach

Overview



Overall group materiality: 11,000 million Russian Roubles ("RUB") which represents 4% of adjusted profit before tax excluding currency exchange differences, net gain on disposal of interests in 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 and balances in Russia, Switzerland, Singapore and Republic of Cyprus.
- The Group engagement team visited all significant locations in Russia and Switzerland.
- Our audit scope addressed more than 99% of the Group's revenues and more than 99% of absolute value of income and expenses, forming the Group's underlying profit before tax.

- Acquisition of AO Geotransgas and OOO Urengoyskaya gasovaya companiya.

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.

Overall Group materiality	RUB 11,000 million
How we determined it	4% of adjusted profit before tax excluding currency differences, net gain on disposal of interests in 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 industry 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
Acquisition of AO Geotransgas and OOO Urengoyskaya gasovaya companiya In February 2018, upon the results of an auction held by AK ALROSA (PAO), the Group acquired 100 percent participation interests in Maretiom Investments Limited and Velarion Investments Limited for total cash consideration of RR 30.3 billion. These companies owned 100 percent participation interests in AO Geotransgas (renamed to AO NOVATEK-Pur in November 2018) and OOO Urengoyskaya gasovaya companiya (reorganized by merging with OOO NOVATEK-Yurkharovneftegaz in January 2019), which held the licenses for exploration and production of hydrocarbons within the Beregovoy and Ust-Yamsoveyskiy license areas located in Yamalo-Nenetski state, respectively.	Our audit procedures included, among others, reconciliation of the purchase price consideration to the share purchase agreement and the amount of actual cash paid as per bank orders. We have evaluated the management's assessment that the acquisition should be accounted for as a business combination in accordance with IFRS 3. We have performed audit procedures to assess the appropriateness of the identification of assets and liabilities assumed at acquisition date. We assessed final purchase price allocation, including an assessment of the fair values of acquired assets and liabilities and the assumptions and methodology used by the Group's management for the fair value measurement of the assets and liabilities acquired.

Key audit matter	How our audit addressed the key audit matter
Management assessed that the acquisition qualifies as a business combination and applied IFRS 3 "Business Combinations". In accordance with IFRS 3, the Group assessed fair values of the identified assets and liabilities of the acquired companies at the acquisition date. This was a significant focus area for our audit due to the significance of management's judgements and estimates involved in accounting for this acquisition. The key judgement related to assessment of identifiable assets and liabilities fair values and the allocation of the purchase price to the assets and liabilities acquired.	We have not identified any significant issues in determination of the fair values. We evaluated the completeness of the disclosures made in Note 5 of the financial statements to comply with the requirements of IFRS 3 "Business Combinations". No significant exceptions were noted in the accounting and consolidated financial statement disclosures for this acquisition.

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 our and component auditors involvement we needed to be involved 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 consolidation, financial statements disclosures and a number of complex items are audited directly by the PAO NOVATEK audit engagement team. These items include the assessment of accounting estimates performed by management in respect of fair values and classification of financial assets and liabilities, deferred income tax asset recognition, estimation of oil and gas reserves, impairment of financial and non-financial assets, impairment provision for trade receivables, pension obligations, asset retirement obligations and assessment of joint arrangements.

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

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 2018 and 2017" (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 2019" as well as "Annual Report Review of PAO NOVATEK for 2018", which are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read "Annual Report Review of PAO NOVATEK for 2018" and "Quarterly Issuer's Report of PAO NOVATEK for the first quarter of 2019", 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, related safeguards.

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

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

AO PricewaterhouseCoopers Audit

19 February 2019

Moscow, Russian Federation

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

Audited entity: PAO NOVATEK

Record made in the Unified State Register of Legal Entities regarding the legal entity registered before 1 July 2002 No. 1026303117642 issued by the Inspectorate of the Russian Ministry of Taxes and Levies of Novokuybyshevsk, Samara Region on 20 August 2002.

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

Mailing address: 2, Udaltsova street, Moscow, 119415, Russian Federation.

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

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

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

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

	Notes	At 31 December 2018	At 31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	408,201	360,051
Investments in joint ventures	7	244,500	285,326
Long-term loans and receivables	8	232,922	211,901
Other non-current assets	9	37,427	33,448
Total non-current assets		**923,050**	**890,726**
Current assets			
Inventories	10	17,251	11,084
Current income tax prepayments		1,311	43
Trade and other receivables	11	54,433	44,503
Prepayments and other current assets	12	89,645	31,863
Short-term bank deposits with original maturity more than three months		27,788	-
Cash and cash equivalents	13	41,472	65,943
Assets held for sale	5	61,420	-
Total current assets		**293,320**	**153,436**
Total assets		**1,216,370**	**1,044,162**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	14	170,043	141,448
Long-term lease liabilities	27	7,473	5,776
Deferred income tax liabilities	26	29,927	26,167
Asset retirement obligations		8,730	7,303
Other non-current liabilities		6,579	3,851
Total non-current liabilities		**222,752**	**184,545**
Current liabilities			
Short-term debt and current portion of long-term debt	15	2,120	14,302
Current portion of long-term lease liabilities	27	2,325	1,520
Trade payables and accrued liabilities	17	79,241	49,001
Current income tax payable		1,633	2,846
Other taxes payable		16,823	16,289
Liabilities associated with assets held for sale	5	4,881	-
Total current liabilities		**107,023**	**83,958**
Total liabilities		**329,775**	**268,503**
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(10,445)	(8,353)
Additional paid-in capital		31,297	31,297
Currency translation differences		(1,702)	(3,283)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		843,094	732,168
Total equity attributable to PAO NOVATEK shareholders	18	**868,254**	**757,839**
Non-controlling interest		**18,341**	**17,820**
Total equity		**886,595**	**775,659**
Total liabilities and equity		**1,216,370**	**1,044,162**

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

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

19 February 2019

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

	Notes	Year ended 31 December: 2018	2017
Revenues			
Oil and gas sales	19	825,761	579,819
Other revenues		5,997	3,367
Total revenues		**831,758**	**583,186**
Operating expenses			
Purchases of natural gas and liquid hydrocarbons	20	(319,990)	(161,443)
Transportation expenses	21	(145,664)	(137,192)
Taxes other than income tax	22	(58,768)	(49,494)
Depreciation, depletion and amortization	6	(33,094)	(34,523)
Materials, services and other	23	(22,675)	(20,768)
General and administrative expenses	24	(22,282)	(17,170)
Exploration expenses	6	(7,012)	(1,819)
Impairment (expenses) reversals, net		(287)	(52)
Change in natural gas, liquid hydrocarbons and work-in-progress		5,860	2,602
Total operating expenses		**(603,912)**	**(419,859)**
Net gain on disposal of interests in joint ventures	5	1,645	-
Other operating income (loss), net		(2,307)	424
Profit from operations		**227,184**	**163,751**
Finance income (expense)			
Interest expense	25	(4,746)	(7,712)
Interest income	25	14,003	15,872
Change in fair value of non-commodity financial instruments	27	3,492	(7,178)
Foreign exchange gain (loss), net	25	25,859	13,676
Total finance income (expense)		**38,608**	**14,658**
Share of profit (loss) of joint ventures, net of income tax	7	(37,258)	22,430
Profit before income tax		**228,534**	**200,839**
Income tax expense			
Current income tax expense		(44,543)	(35,227)
Deferred income tax benefit (expense), net		(1,044)	858
Total income tax expense	26	**(45,587)**	**(34,369)**
Profit		**182,947**	**166,470**
Profit attributable to:			
Non-controlling interest		19,205	10,083
Shareholders of PAO NOVATEK		163,742	156,387
Basic and diluted earnings per share (in Russian roubles)		54.33	51.85
Weighted average number of shares outstanding (in millions)		*3,013.8*	*3,016.2*

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: 2018	2017
Profit		**182,947**	**166,470**
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to profit (loss)			
Remeasurement of pension obligations	16	(725)	(724)
Share of remeasurement of pension obligations of joint ventures		(112)	(100)
		(837)	**(824)**
Items that may be reclassified subsequently to profit (loss)			
Currency translation differences		1,934	(2,580)
Share of currency translation differences of joint ventures		(353)	21
		1,581	**(2,559)**
Other comprehensive income (loss)		**744**	**(3,383)**
Total comprehensive income		**183,691**	**163,087**
Total comprehensive income attributable to:			
Non-controlling interest		19,205	10,083
Shareholders of PAO NOVATEK		164,486	153,004

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

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2018	2017
Profit before income tax		**228,534**	**200,839**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		33,094	34,523
Impairment expenses (reversals), net		287	52
Foreign exchange loss (gain), net		(25,859)	(13,676)
Loss (gain) on disposal of assets, net	5	(1,645)	305
Interest expense		4,746	7,712
Interest income		(14,003)	(15,872)
Share of loss (profit) of joint ventures, net of income tax	7	37,258	(22,430)
Change in fair value of non-commodity financial instruments		(3,492)	7,178
Revaluation of commodity derivatives through profit or loss		450	9
Other adjustments		749	240
Decrease (increase) in long-term advances given		4,939	655
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(13,598)	(786)
Decrease (increase) in inventories		(9,137)	(2,607)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		10,750	6,592
Increase (decrease) in taxes payable, other than income tax		592	1,962
Total effect of working capital changes		**(11,393)**	**5,161**
Dividends received from joint ventures		8,500	2,383
Interest received		1,311	5,949
Income taxes paid		(47,127)	(32,629)
Net cash provided by operating activities		**216,349**	**180,399**
Cash flows from investing activities			
Purchases of property, plant and equipment	6	(73,564)	(24,783)
Payments for mineral licenses	6	(327)	(9,786)
Purchases of materials for construction		(15,442)	(1,697)
Purchases of intangible assets		(872)	(780)
Proceeds from disposals of property, plant and equipment and materials for construction		2,133	-
Acquisition of joint ventures	5	(2)	(1,583)
Additional capital contributions to joint ventures	7	-	(2,269)
Payments for acquisition of subsidiaries, net of cash acquired	5	(30,492)	(15,706)
Interest paid and capitalized	6	(5,032)	(3,391)
Net decrease (increase) in bank deposits with original maturity more than three months		(26,161)	-
Guarantee fees paid		(1,431)	(1,315)
Loans provided to joint ventures	8	(3,429)	(5,211)
Repayments of loans provided to joint ventures	8	1,573	8,246
Net cash used for investing activities		**(153,046)**	**(58,275)**

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2018	2017
Cash flows from financing activities			
Proceeds from long-term debt		7,928	-
Repayments of long-term debt		(22,035)	(53,035)
Repayments of short-term debt with original maturity more than three months		-	(136)
Proceeds from (repayments of) short-term debt with original maturity three months or less, net		(150)	(56)
Interest on debt paid		(3,024)	(6,526)
Dividends paid to shareholders of PAO NOVATEK	18	(51,980)	(42,075)
Dividends paid to non-controlling interest		(20,068)	-
Payments of lease liabilities		(2,192)	(567)
Purchases of treasury shares	18	(2,137)	(1,442)
Net cash used for financing activities		**(93,658)**	**(103,837)**
Net effect of exchange rate changes on cash and cash equivalents		5,884	(645)
Net increase (decrease) in cash and cash equivalents		**(24,471)**	**17,642**
Cash and cash equivalents at the beginning of the period		65,943	48,301
Cash and cash equivalents at the end of the period		**41,472**	**65,943**

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 2017	***3,017.7***	**393**	**(6,913)**	**31,297**	**(724)**	**5,617**	**618,680**	**648,350**	**9,370**	**657,720**
Profit	-	-	-	-	-	-	156,387	156,387	10,083	166,470
Other comprehensive loss	-	-	-	-	(2,559)	-	(824)	(3,383)	-	(3,383)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(2,559)**	**-**	**155,563**	**153,004**	**10,083**	**163,087**
Dividends (Note 18)	-	-	-	-	-	-	(42,075)	(42,075)	(1,633)	(43,708)
Purchase of treasury shares (Note 18)	*(2.1)*	-	(1,440)	-	-	-	-	(1,440)	-	(1,440)
At 31 December 2017	***3,015.6***	**393**	**(8,353)**	**31,297**	**(3,283)**	**5,617**	**732,168**	**757,839**	**17,820**	**775,659**
Profit	-	-	-	-	-	-	163,742	163,742	19,205	182,947
Other comprehensive income (loss)	-	-	-	-	1,581	-	(837)	744	-	744
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**1,581**	**-**	**162,905**	**164,486**	**19,205**	**183,691**
Dividends (Note 18)	-	-	-	-	-	-	(51,979)	(51,979)	(18,684)	(70,663)
Purchase of treasury shares (Note 18)	*(2.7)*	-	(2,092)	-	-	-	-	(2,092)	-	(2,092)
At 31 December 2018	***3,012.9***	**393**	**(10,445)**	**31,297**	**(1,702)**	**5,617**	**843,094**	**868,254**	**18,341**	**886,595**

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

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

In the fourth quarter of 2017, the Group's joint venture OAO Yamal LNG started production at the first train of its natural gas liquefaction plant (hereinafter referred to as the "LNG Plant") based on the hydrocarbon resources of the South-Tambeyskoye field, located in the YNAO. In the third quarter of 2018, the second LNG train was launched, six months ahead of its original schedule, and in the fourth quarter of 2018, the third LNG train was launched, more than a year ahead of its original schedule. Annual capacity of the LNG Plant after launching the four LNG trains will aggregate 17.4 million tons of liquefied natural gas (5.5 million tons for each of the first three LNG trains and 0.9 million tons for the fourth LNG train) and up to 1.2 million tons of stable gas condensate. The Group purchases a portion of the liquefied natural gas ("LNG") produced by Yamal LNG and sells it on the international markets. The Group's LNG sales volumes are not subject to significant seasonal fluctuations.

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

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

In October 2018, the Group and the company Fluxys Germany Holding GmbH arranged a joint venture, Rostock LNG GmbH, with 49 percent and 51 percent participation interests, respectively, to undertake a project to construct and operate a mid-scale LNG transshipment terminal with throughput capacity of approximately 300 thousand tons per annum located in the port of Rostock in Germany.

In May 2018, NOVATEK and TOTAL S.A. agreed in principle on the acquisition by TOTAL of a 10 percent participation interest in the Arctic LNG 2 project. The transaction is expected to close no later than 31 March 2019.

In February 2018, upon the results of an auction held by AK ALROSA (PAO), the Group acquired 100 percent participation interests in Maretiom Investments Limited and Velarion Investments Limited for RR 30.3 billion. These companies were the owners of 100 percent participation interests in AO Geotransgas (renamed to AO NOVATEK-Pur in November 2018) and OOO Urengoyskaya gasovaya companiya (merged into OOO NOVATEK-Yurkharovneftegas in January 2019), which held the licenses for exploration and production of hydrocarbons within the Beregovoy and Ust-Yamsoveyskiy license areas located in YNAO, respectively.

In January 2018, the Group acquired a 100 percent participation interest in OOO Chernichnoye for RR 616 million. OOO Chernichnoye is a holder of the license for exploration and production of hydrocarbons within the Chernichniy license area located in YNAO.

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES (CONTINUED)

In January 2018, the Group, TOTAL S.A. and Eni S.p.A., through their subsidiaries NOVATEK Lebanon SAL, Total E&P Liban SAL and Eni Lebanon B.V. (hereinafter referred to as the "Right holders"), entered into Exploration and Production Agreements for Petroleum Activities with the Republic of Lebanon for the exploration and production of hydrocarbons on two offshore blocks located in the Eastern Mediterranean (hereinafter referred to as the "Exploration and Production Agreements"). The Exploration and Production Agreements stipulate that the Group is assigned a 20 percent participating interest and the Right holders are committed to undertake specified joint upstream activities during the exploration phase within five years. The Group considers that the Exploration and Production Agreements constitute a joint arrangement classified as a joint operation in accordance with IFRS 11, *Joint Arrangements*.

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 4.

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

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

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

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

			Average rate for the year ended 31 December:	
Russian roubles to one currency unit	**At 31 December 2018**	**At 31 December 2017**	**2018**	**2017**
US dollar (USD)	69.47	57.60	62.71	58.35
Euro (EUR)	79.46	68.87	73.95	65.90
Polish zloty (PLN)	18.48	16.51	17.36	15.48

2 BASIS OF PREPARATION (CONTINUED)

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and amended standards and interpretations. In 2018, the Group adopted all IFRS, amendments and interpretations which are effective 1 January 2018 and relevant to its operations. None of them had material impact on the Group's consolidated financial statements. In particular, the following new standard was adopted by the Group starting from the annual period beginning on 1 January 2018:

IFRS 9, Financial instruments. The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting.

In accordance with the transition provisions in IFRS 9, the Group applied the new rules retrospectively, except for the items that have already been derecognized at the date of initial application, which is 1 January 2018. The Group also used an exemption in IFRS 9 allowing not to restate prior periods presented as a result of adoption of the new classification and measurement requirements, but rather recognize any differences in the opening retained earnings as at 1 January 2018. The initial application of the standard did not result in any reclassifications of the Group's financial instruments or any material changes in their measurement, therefore, the opening retained earnings were not restated.

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 joint ventures are recognized within retained earnings in the consolidated statement of changes in equity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 joint ventures. 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; only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

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 cost 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 amortized cost with the interest expense recognized within finance income (expense) in the consolidated statement of income.

In accordance with IFRS 16, *Leases*, the Group elected not to apply accounting requirements under this standard to short-term leases.

Non-current assets held for sale. Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and the sale within a year from the date of classification is highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment are not depreciated once classified as held for sale.

The Group ceases to use the equity method of accounting in relation to an interest in a joint venture or an associate classified as an asset held for sale.

Inventories. Natural gas, gas condensate, crude oil and gas condensate refined products are valued at the lower of cost or net realizable value. The cost of natural gas and liquid hydrocarbons includes direct cost of materials, direct operating costs, and related production overhead expenses and is recorded on weighted average cost basis. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

Materials and supplies are carried at amounts which do not exceed their respective recoverable amounts in the normal course of business.

Financial instruments. Prior to 1 January 2018, the Group applied IAS 32, *Financial instruments: Presentation*, and IAS 39, *Financial instruments: recognition and measurement*, for accounting for its financial instruments. According to IAS 39, the Group's financial instruments were classified into the following measurement categories:

- Loans and receivables recognized initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. This category included the Group's loans provided and receivables with fixed or determinable payments that were not quoted in an active market.

- Financial liabilities recognized initially at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. This category included the Group's debt, trade payables and other non-derivative liabilities.

- Financial instruments measured at fair value through profit or loss. This category included the Group's derivatives relating to certain shareholders' loans provided by the Group its joint ventures and certain commodity contracts (see Note 27).

Starting from 1 January 2018, the Group adopted IFRS 9, *Financial instruments*, according to which the 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under IFRS 9, 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 27).

The difference between the loan proceeds and the fair at initial recognition is recorded as the Group's investment in the joint ventures. Subsequently, the loans are measured at fair value at each reporting date with recognition of the revaluation through profit or loss. Interest income and foreign exchanges differences (calculated using the effective interest method), and the remaining effect from fair value remeasurement of such loans are disclosed separately in the consolidated statement of income.

Other shareholders' loans provided by the Group, trade and other financial receivables, and cash and cash equivalents, are classified as at amortised cost. The Group does not have financial assets classified as at fair value through other comprehensive income.

In accordance with IFRS 9, 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 27).

Overall, the Group's financial assets and liabilities that were measured at amortised cost or at fair value through profit and loss under IAS 39 continue to be measured at amortised cost or at fair value through profit and loss, respectively, in accordance with IFRS 9.

IFRS 9 replaced the "incurred loss" impairment model used in IAS 39, *Financial instruments: recognition and measurement*, with a new "expected credit loss" ("ECL") model that requires a more timely recognition of expected credit losses. An allowance for expected credit losses shall be recorded for financial assets classified as at amortised cost.

Under IFRS 9, loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument. For trade receivables, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. To measure the expected credit losses, expected loss rates are applied to trade receivables grouped based on the days past due. For other financial assets classified as at amortised cost, including some shareholders' loans provided, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

The effective interest rate is the rate that exactly discounts future cash payments and receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying value of the financial asset or financial liability.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions for liabilities and charges. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are reassessed at each reporting date, and those changes in the provisions resulting from the passage of time are recognized in the consolidated statement of income as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Pension obligations. The Group performs mandatory contributions to the Pension Fund of the Russian Federation on behalf of its employees based on gross salary payments. These contributions represent a defined contribution plan, are expensed when incurred and are included in the employee compensation in the consolidated statement of income.

The Group also operates a non-contributory post-employment defined benefit plan based on employees' years of service and average salary (see Note 16). The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. They are not reclassified to profit or loss in subsequent periods. Past-service costs are recognized in profit or loss in the period when a plan is amended or curtailed.

Non-financial guarantees. The Group issued a number of shareholder guarantees that provide compensation to third parties if a joint venture fails to perform a contractual obligation. Such guarantees meet the definition of insurance contracts and are accounted for under IFRS 4, *Insurance contracts*. Liabilities for a non-financial guarantee are recognized when an outflow of resources embodying economic benefits required to settle the obligation is probable. The liabilities are recognized in the amount of best estimates of such an outflow.

Income taxes. The income tax charge or benefit comprises current tax and deferred tax and is recognized in the consolidated statement of income unless it relates to transactions that are recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Russian tax legislation allows to prepare and file a single, consolidated income tax declaration by the taxpayers' group comprised of a holding company and any number of entities with at least 90 percent ownership in each (direct or indirect). Eligible taxpayers' group must be registered with tax authorities and meet certain conditions and criteria. The tax declaration can be submitted then by any member of the group. The Group prepares a consolidated tax return for the taxpayers' group including the Company and majority of its subsidiaries in Russia.

Deferred tax assets and liabilities are recognized on temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or when the tax loss carry forwards will be utilized. The Group applies a net-basis accounting in respect of temporary differences arising from right-of-use assets and long-term lease liabilities. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes balances relate to the same taxation authority and the same taxable entity, consolidated tax group of entities or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only with respect to individual companies of the Group (for companies outside the consolidated tax group of companies) and within the consolidated tax payers' group of companies.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognize deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Treasury shares. Where any Group company purchases PAO NOVATEK's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to PAO NOVATEK shareholders until the shares are cancelled or reissued or disposed. Where such shares are subsequently reissued or disposed, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to PAO NOVATEK shareholders. Treasury shares are recorded at weighted average cost. Gains or losses resulting from subsequent sales of shares are recorded in the consolidated statement of changes in equity, net of associated costs including taxation.

Dividends. Dividends are recognized as a liability and deducted from shareholders' equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the consolidated financial statements are authorized for issue.

Revenue recognition. Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts, export duties, value-added tax, excise and fuel taxes.

Revenues from oil and gas sales are recognized when control over such products has transferred to a customer, which refers to ability to direct the use of, and obtain substantially all of the remaining benefits from the products. The Group considers indicators of the transfer of control, which include, but are not limited to the following: the Group has a present right to payment for the products; the Group has transferred physical possession of the products; the customer has legal title to the products; the customer has the significant risks and rewards of ownership of the products; the customer has accepted the products. Not all of the indicators have to be met for management to conclude that control has transferred and revenue could be recognized. Management uses judgment to determine whether factors collectively indicate that the customer has obtained control over the products. Revenues from services are recognized in the period in which the services are rendered.

When the consideration includes a variable amount, minimum amounts must be recognized that are not at significant risk of reversal. If sales contract includes the variability associated with market price it represents a separated embedded derivative that is treated as part of revenue. Accordingly, at the date of sale the sales price is determined on a provisional basis, and the fair value of the final sales price adjustment is re-estimated continuously with changes in fair value recognized as an adjustment to revenue.

Trade receivables are recognized when the goods are transferred as this is the point in time that the consideration is unconditional and only the passage of time is required before the payment is due. No significant element of financing is deemed present as the sales are made with short-term credit terms consistent with market practice.

General and administrative expenses. General and administrative expenses represent overall corporate management and other expenses related to the general management and administration of the business unit as a whole. They include management and administrative compensation, legal and other advisory expenses, insurance of administrative buildings, social expenses and compensatory payments of general nature not directly linked to the Group's oil and gas activities, charity and other expenses necessary for the administration of the Group.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to PAO NOVATEK shareholders by the weighted average number of shares outstanding during the reporting period.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated statement of cash flows. Cash and cash equivalents comprises cash on hand, cash deposits held with banks and short-term highly liquid investments which are readily convertible to known amounts of cash and which are not subject to significant risk of change in value and have an original maturity of three months or less.

The Group reports cash receipts and the repayments of short-term borrowings which have a maturity of three months or less on a net basis in the consolidated statement of cash flows.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

For commodity derivative contracts where observable information is not available, fair value estimations are determined using mark-to-market analysis and other acceptable valuation methods, for which the key inputs include future prices, volatility, price correlation, counterparty credit risk and market liquidity. Fair values of the Group's commodity derivative contracts and sensitivities are presented in Note 27.

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 27.

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

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

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

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

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

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

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.

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

5 ACQUISITIONS AND DISPOSALS

Assets held for sale

In May 2018, NOVATEK and TOTAL S.A. agreed in principle on the acquisition by TOTAL of a 10 percent participation interest in the Arctic LNG 2 project. The transaction is expected to close no later than 31 March 2019. In July 2018, the NOVATEK's Board of Directors approved the sale of a 10 percent participation interest in OOO Arctic LNG 2 to TOTAL.

It is expected that with a new participant added, key financial and operational decisions regarding the Arctic LNG 2 project will be subject to unanimous approval by both participants and none of the participants will have a preferential voting right. Management believes that upon closing this transaction, the Group will exercise joint control over OOO Arctic LNG 2.

At 31 December 2018, in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*, the conditions for recognition of an asset held for sale have been met. Therefore, assets and liabilities related to Arctic LNG 2 project, excluding intercompany balances, have been classified as assets and liabilities held for sale. No impairment of assets was identified as a result of the decision to sell an interest in this entity.

Below is a breakdown of major classes of assets and liabilities for assets classified as held for sale:

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

Acquisition of AO Geotransgas and OOO Urengoyskaya gasovaya companiya

In February 2018, upon the results of an auction held by AK ALROSA (PAO), the Group acquired 100 percent participation interests in Maretiom Investments Limited and Velarion Investments Limited for total cash consideration of RR 30.3 billion. These companies owned 100 percent participation interests in AO Geotransgas (renamed to AO NOVATEK-Pur in November 2018) and OOO Urengoyskaya gasovaya companiya (merged into OOO NOVATEK-Yurkharovneftegas in January 2019), which held the licenses for exploration and production of hydrocarbons within the Beregovoy and Ust-Yamsoveyskiy license areas located in YNAO, respectively.

In accordance with IFRS 3, *Business Combinations*, the Group assessed fair values of the identified assets and liabilities of the acquired companies at the acquisition date.

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

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

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

Acquisition of OOO Chernichnoye

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

Disposal of an ownership interest in AO Arcticgas

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

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

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

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

Acquisition of AO Eurotek and AO South-Khadyryakhinskoye

In December 2017, the Group acquired for total cash consideration of RR 5,412 million 100 percent ownership interests in AO Eurotek and AO South-Khadyryakhinskoye (merged into OOO NOVATEK-Tarkosaleneftegas in May 2018), which held licenses for exploration and production of hydrocarbons within the Syskonsyninskiy license area located in Khanty-Mansiysk Autonomous Region and the South-Khadyryakhinskiy license area located in YNAO, respectively.

In accordance with IFRS 3, *Business Combinations*, the Group assessed fair values of the identified assets and liabilities of acquired companies at the acquisition date:

	Fair values at the acquisition date
Property, plant and equipment	2,466
Deferred income tax assets	680
Cash and cash equivalents	2,701
Other current assets	101
Non-current liabilities	(375)
Trade payables and accrued liabilities	(161)
Total identifiable net assets	**5,412**
Purchase consideration	(5,412)
Goodwill	**-**

The financial and operational activities of the acquired companies would not have had a material impact on the Group's revenues for 2017, if the acquisition had occurred in January 2017. The financial results of these companies after the acquisition date did not have a material impact on the Group's revenues and results for the year ended 31 December 2017.

Acquisition of OOO Severneft-Urengoy

In November 2017, the Group acquired for a cash consideration of RR 13,062 million a 100 percent ownership interest in OOO Severneft-Urengoy (merged into OOO NOVATEK-Yurkharovneftegas in January 2019), which held a license for exploration and production of hydrocarbons within the West-Yaroyakhinsky license area, located in YNAO.

In accordance with IFRS 3, *Business Combinations*, the Group assessed fair values of the identified assets and liabilities of OOO Severneft-Urengoy at the acquisition date:

	Fair values at the acquisition date
Property, plant and equipment	14,252
Other non-current assets	140
Cash and cash equivalents	67
Other current assets	208
Deferred income tax liabilities	(858)
Other non-current liabilities	(145)
Current liabilities	(602)
Total identifiable net assets	**13,062**
Purchase consideration	(13,062)
Goodwill	**-**

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

The financial and operational activities of Severneft-Urengoy would have increased the Group's revenues for 2017 by an additional RR 6.3 billion, if the acquisition had occurred in January 2017. The financial results of this company after the acquisition date did not have a material impact on the Group's revenues and results for the year ended 31 December 2017.

Acquisition of a participation interest in OOO Cryogas-Vysotsk

In July 2017, NOVATEK acquired a 51 percent ownership interest in OOO Cryogas-Vysotsk for a cash consideration of RR 1,583 million. Cryogas-Vysotsk undertakes a project to construct the first train of a medium-scale plant to liquefy natural gas with annual capacity of 660 thousand tons, located at the port of Vysotsk on the Baltic Sea.

The Charter of Cryogas-Vysotsk stipulates that key financial and operating decisions regarding its business activities are subject to unanimous approval by the Board of Directors. Consequently, the voting mechanism effectively establishes joint control over Cryogas-Vysotsk and the Group accounts for the investment under the equity method.

In accordance with IFRS 11, *Joint Arrangements*, the Group assessed fair values of the identified assets and liabilities of Cryogas-Vysotsk at the acquisition date:

	Fair values at the acquisition date
Property, plant and equipment	15,804
Deferred income tax assets	111
Prepayments and other current assets	1,393
Cash and cash equivalents	447
Short-term debt	(13,199)
Other current liabilities	(1,453)
Total identifiable net assets	**3,103**
Purchase consideration	1,583
Fair value of the Group's interest in net assets (RR 3,103 million at 51 percent ownership)	(1,583)
Goodwill	**-**

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

6 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	412,368	34,776	15,642	462,786
Accumulated depreciation, depletion and amortization	(127,635)	-	(3,100)	(130,735)
Net book value at 1 January 2017	**284,733**	**34,776**	**12,542**	**332,051**
Additions	1,797	46,238	29	48,064
Transfers	42,740	(43,640)	900	-
Acquisition of subsidiaries (see Note 5)	14,873	1,756	89	16,718
Changes in asset retirement costs	(1,486)	-	-	(1,486)
Depreciation, depletion and amortization	(33,943)	-	(668)	(34,611)
Disposals, net	(371)	(207)	(27)	(605)
Currency translation differences	(99)	3	16	(80)
Cost	479,569	38,926	16,709	535,204
Accumulated depreciation, depletion and amortization	(171,325)	-	(3,828)	(175,153)
Net book value at 31 December 2017	**308,244**	**38,926**	**12,881**	**360,051**
Additions	3,671	94,813	-	98,484
Transfers	21,451	(23,104)	1,653	-
Acquisition of subsidiaries (see Note 5)	31,878	4,827	215	36,920
Changes in asset retirement costs	1,375	-	-	1,375
Depreciation, depletion and amortization	(32,307)	-	(886)	(33,193)
Reclassification to assets held for sale (see Note 5)	(18,469)	(35,431)	(55)	(53,955)
Disposals, net	(697)	(2,109)	(504)	(3,310)
Currency translation differences	1,764	31	34	1,829
Cost	525,089	77,953	17,949	620,991
Accumulated depreciation, depletion and amortization	(208,179)	-	(4,611)	(212,790)
Net book value at 31 December 2018	**316,910**	**77,953**	**13,338**	**408,201**

Included in additions to property, plant and equipment for the years ended 31 December 2018 and 2017 are capitalized interest and foreign exchange differences of RR 7,395 million and RR 3,827 million, respectively.

Included in additions to property, plant and equipment for the years ended 31 December 2018 and 2017 are RR 22,896 million and RR 8,593 million, respectively, related to the Arctic LNG 2 project, which assets were classified as assets held for sale at 31 December 2018.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 15,526 million and RR 6,554 million at 31 December 2018 and 2017, respectively.

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

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

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In March 2018, the Group won an auction for an oil and gas exploration and production license for the Payutskiy license area located in Krasnoyarsk Territory for a payment of RR 66 million, which was included within oil and gas properties and equipment.

In 2017, the Group purchased through auctions oil and gas exploration and production licenses for the Shtormovoy, the Gydanskiy, the Upper-Tiuteyskiy and the West-Seyakhinskiy license areas located in the YNAO for the total amount of RR 9,727 million, which were included in additions to oil and gas properties and equipment.

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

	At 31 December 2018	At 31 December 2017
Proved properties acquisition costs	71,087	58,951
Less accumulated depletion of proved properties acquisition costs	(19,197)	(18,001)
Unproved properties acquisition costs	11,947	11,376
Total acquisition costs	**63,837**	**52,326**

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

Reconciliation of depreciation, depletion and amortization (DDA):

	Year ended 31 December:	
	2018	2017
Depreciation, depletion and amortization of property, plant and equipment	33,193	34,611
Add: DDA of intangible assets	622	639
Less: DDA capitalized in the course of intra-group construction services	(721)	(727)
DDA as presented in the consolidated statement of income	**33,094**	**34,523**

At 31 December 2018 and 2017, 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 2018 and 2017.

Capital commitments are disclosed in Note 28.

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

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Leases. Included in property, plant and equipment at 31 December 2018 and 2017 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 2017	**16**	**240**	**256**
Additions	7,123	500	7,623
Depreciation, depletion and amortization	(375)	(129)	(504)
Other movements	(130)	-	(130)
Net book value at 31 December 2017	**6,634**	**611**	**7,245**
Additions	2,308	172	2,480
Depreciation, depletion and amortization	(1,677)	(219)	(1,896)
Reclassification to assets held for sale	-	(15)	(15)
Other movements	1,731	25	1,756
Net book value at 31 December 2018	**8,996**	**574**	**9,570**

The maturity analysis of lease liabilities is disclosed in Note 27.

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:	
	2018	2017
Net book value of assets at 1 January	**17,805**	**15,472**
Additions	5,417	6,345
Acquisition of subsidiaries	14	834
Reclassification to proved properties and development expenditures	(3,685)	(4,846)
Reclassification to assets held for sale	(240)	-
Net book value of assets at 31 December	**19,311**	**17,805**
Liabilities	1,938	689
Cash flows used for operating activities	7,012	1,819
Cash flows used for investing activities	4,463	5,749

For the years ended 31 December 2018 and 2017, the Group has recognized exploration expenses within operating expenses in the amount of RR 7,012 million and RR 1,819 million, respectively. These expenses included employee compensations in the amount of RR 207 million and RR 301 million, respectively.

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

7 INVESTMENTS IN JOINT VENTURES

	At 31 December 2018	At 31 December 2017
Joint ventures:		
AO Arcticgas (combined investments in OOO SeverEnergia and OOO Yamal Development at 31 December 2017)	146,631	101,539
OAO Yamal LNG	48,378	126,377
ZAO Nortgas	44,064	50,519
OOO Cryogas-Vysotsk	2,991	3,841
ZAO Terneftegas	2,434	3,050
Rostock LNG GmbH	2	-
Total investments in joint ventures	**244,500**	**285,326**

The Group considers that Arcticgas, Yamal LNG, Nortgas, Cryogas-Vysotsk, Terneftegas and Rostock LNG GmbH constitute jointly controlled entities on the basis of the existing contractual arrangements. The Charters and Shareholders' 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 shares in joint ventures under the equity method.

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

At 31 December 2017, the Group held an effective 53.3 percent participation interest in Arcticgas through SeverEnergia and Yamal Development, the Group's joint ventures with PAO Gazprom Neft. In the first quarter of the 2018, the Group and Gazprom Neft completed the final stage of the previously commenced restructuring procedures to achieve parity shareholdings in Arcticgas. As a result, Yamal Development and SeverEnergia were merged with Arcticgas, and the Group's participation ownership in Arcticgas was reduced to 50 percent (see Note 5).

OAO Yamal LNG. The Group holds a 50.1 percent ownership in Yamal LNG, along with TOTAL S.A. (20 percent), China National Petroleum Corporation ("CNPC", 20 percent) and Silk Road Fund Co. Ltd. (9.9 percent). The joint venture is responsible for implementing an integrated project on natural gas production, liquefaction and shipping. The project envisages the production of liquefied natural gas at the plant with an annual capacity of 17.4 million tons, including 5.5 million tons for each of the first three LNG trains and 0.9 million tons for the fourth LNG train, based on the feedstock resources of the South-Tambeyskoye field located on the Yamal peninsula in YNAO. Yamal LNG is the holder of the LNG export license.

At 31 December 2018 and 2017, the Group's 50.1 percent ownership in Yamal LNG was pledged in connection with credit line facility agreements signed by Yamal LNG with a number of Russian and foreign banks to obtain external project financing.

In accordance with the equity method of accounting, investment in Yamal LNG at 31 December 2018 was reduced for the Group's share of loss of the joint venture for the year ended 31 December 2018 in the amount of RR 78,978 million, of which RR 108,285 million were attributable to the Group's share of net foreign exchange loss of the joint venture.

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

In accordance with the equity method of accounting, investment in Nortgas at 31 December 2018 was reduced for the Group's share in dividends declared by the joint venture during 2018 in the amount of RR 8,500 million.

OOO Cryogas-Vysotsk. The Group holds a 51 percent ownership interest in Cryogas-Vysotsk acquired in July 2017 (see Note 5). Cryogas-Vysotsk is a joint venture with AO Gazprombank group. Cryogas-Vysotsk is undertaking a project to construct the first train of a medium-scale LNG plant with annual capacity of 660 thousand tons, located at the port of Vysotsk on the Baltic Sea.

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

At 31 December 2018 and 2017, the Group's 51 percent ownership interest in Cryogas-Vysotsk was pledged in connection with credit line facility agreements signed by the joint venture with a Russian bank to obtain external project financing.

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

Rostock LNG GmbH. The Group holds a 49 percent ownership interest in Rostock LNG GmbH since October 2018. Rostock LNG GmbH is a joint venture with the company Fluxys Germany Holding GmbH. The joint venture is undertaking a project to construct and operate a mid-scale LNG transshipment terminal with capacity of approximately 300 thousand tons per annum located in the port of Rostock in Germany.

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

	Year ended 31 December:	
	2018	**2017**
At 1 January	**285,326**	**259,650**
Share of profit from operations	124,211	39,854
Share of finance income (expense)	(160,836)	(10,297)
Share of total income tax benefit (expense)	(633)	(7,127)
Share of profit (loss) of joint ventures, net of income tax	**(37,258)**	**22,430**
Share of other comprehensive income (loss) of joint ventures	(465)	(79)
Group's costs capitalized in investments	1,378	1,328
Gain on disposal of interests in joint ventures (see Note 5)	1,645	-
Acquisitions of joint ventures (see Note 5)	2	1,583
Contributions to equity	-	2,269
Dividends received from joint ventures	(8,500)	(2,383)
Elimination of the Group's share in profits of joint ventures from hydrocarbons balances purchased by the Group from joint ventures and not sold at the reporting date	2,372	528
At 31 December	**244,500**	**285,326**

For the years ended 31 December 2018 and 2017, the Group recorded commission fees in the amount of RR 1,378 million and RR 1,328 million, respectively, for the guarantee received from the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (see Note 28) as an increase to the investment in Yamal LNG.

In October 2017, the capital of Cryogas-Vysotsk was increased through proportional contributions by its participants totalling RR 4,449 million, of which RR 2,269 million was contributed by NOVATEK.

In 2018 and 2017, Nortgas declared dividends in the total amount of RR 17,001 million and RR 4,766 million, respectively, of which RR 8,500 million and RR 2,383 million, respectively, were attributable to NOVATEK.

The Group eliminates its share in profits of joint ventures from natural gas and liquid hydrocarbons balances purchased by the Group from its joint ventures and not sold at the reporting date.

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

The summarized statements of financial position for the Group's principal joint ventures are as follows:

At 31 December 2018	**Arcticgas(*)**	**Yamal LNG**	**Nortgas**
Property, plant and equipment and materials for construction	400,606	2,155,305	130,956
Other non-current non-financial assets	13	828	36
Non-current financial assets	70	-	9
Total non-current assets	**400,689**	**2,156,133**	**131,001**
Cash and cash equivalents	27,139	8,407	1,151
Other current financial assets	27,595	37,685	2,053
Current non-financial assets	2,117	32,213	444
Total current assets	**56,851**	**78,305**	**3,648**
Non-current financial liabilities	(65,160)	(1,832,224)	(15,435)
Non-current non-financial liabilities	(46,800)	(24,312)	(23,504)
Total non-current liabilities	**(111,960)**	**(1,856,536)**	**(38,939)**
Trade payables and accrued liabilities	(12,868)	(36,558)	(468)
Other current financial liabilities	(28,615)	(244,567)	(5,587)
Current non-financial liabilities	(10,834)	(163)	(1,527)
Total current liabilities	**(52,317)**	**(281,288)**	**(7,582)**
Net assets	**293,263**	**96,614**	**88,128**
At 31 December 2017			
Property, plant and equipment and materials for construction	388,589	1,741,465	135,180
Other non-current non-financial assets	276	391	44
Non-current financial assets	68	-	12,226
Total non-current assets	**388,933**	**1,741,856**	**147,450**
Cash and cash equivalents	8,660	29,297	1,409
Other current financial assets	17,484	19,793	2,550
Current non-financial assets	948	16,994	321
Total current assets	**27,092**	**66,084**	**4,280**
Non-current financial liabilities	(125,663)	(1,484,498)	(20,970)
Non-current non-financial liabilities	(42,218)	(38,705)	(23,149)
Total non-current liabilities	**(167,881)**	**(1,523,203)**	**(44,119)**
Trade payables and accrued liabilities	(24,919)	(26,946)	(693)
Other current financial liabilities	(29,647)	(5,294)	(3,881)
Current non-financial liabilities	(12,948)	(112)	(2,000)
Total current liabilities	**(67,514)**	**(32,352)**	**(6,574)**
Net assets	**180,630**	**252,385**	**101,037**

(*) – at 31 December 2017, combined data for the Group's joint ventures Arcticgas, SeverEnergia and Yamal Development after mutual balances elimination.

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

The summarized statements of comprehensive income (loss) of the Group's principal joint ventures are presented below:

For the year ended 31 December 2018	Arcticgas(*)	Yamal LNG	Nortgas
Revenues	195,066	181,835	23,339
Depreciation, depletion and amortization	(21,219)	(31,253)	(7,288)
Profit from operations	108,904	129,722	6,623
Change in fair value of non-commodity financial instruments	-	(24,624)	-
Foreign exchange gain (loss), net	(7)	(216,255)	-
Profit (loss) before income tax	102,971	(174,202)	5,162
Income tax benefit (expense)	(17,056)	16,477	(1,059)
Profit (loss), net of income tax	**85,915**	**(157,725)**	**4,103**
Other comprehensive loss	(95)	(798)	(11)
Total comprehensive income (loss)	**85,820**	**(158,523)**	**4,092**

For the year ended 31 December 2017			
Revenues	147,207	3,613	23,087
Depreciation, depletion and amortization	(22,903)	(895)	(6,914)
Profit from operations	66,724	528	5,581
Change in fair value of non-commodity financial instruments	-	27,110	-
Foreign exchange gain (loss), net	1	(26,089)	-
Profit before income tax	47,557	1,505	4,400
Income tax expense	(7,348)	(4,589)	(950)
Profit (loss), net of income tax	**40,209**	**(3,084)**	**3,450**
Other comprehensive loss	(66)	(94)	(91)
Total comprehensive income (loss)	**40,143**	**(3,178)**	**3,359**

(*) – for the year ended 31 December 2017, combined data for the Group's joint ventures Arcticgas, SeverEnergia and Yamal Development after mutual transactions elimination.

The information above reflects the amounts presented in the financial statements of the joint ventures adjusted for differences in accounting policies between the Group and the joint ventures.

Reconciliation of the summarized financial information presented to the Group's share in net assets of the joint ventures:

As at and for the year ended 31 December 2018	Arcticgas	Yamal LNG	Nortgas
Net assets at 1 January 2018	**180,630**	**252,385**	**101,037**
Profit (loss), net of income tax	85,915	(157,725)	4,103
Other comprehensive loss	(95)	(798)	(11)
Restructuring (see Note 5)	26,813	-	-
Other equity movements	-	2,752	-
Dividends	-	-	(17,001)
Net assets at 31 December 2018	**293,263**	**96,614**	**88,128**
Ownership	50%	50.1%	50%
Group's share in net assets	**146,631**	**48,378**	**44,064**

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

As at and for the year ended 31 December 2017	Arcticgas	Yamal LNG	Nortgas
Net assets at 1 January 2017	**140,487**	**252,870**	**102,444**
Profit (loss), net of income tax	40,209	(3,084)	3,450
Other comprehensive loss	(66)	(94)	(91)
Other equity movements	-	2,693	-
Dividends	-	-	(4,766)
Net assets at 31 December 2017	**180,630**	**252,385**	**101,037**
Ownership	53.3%, 50%	50.1%	50%
Group's share in net assets	**101,539**	**126,377**	**50,519**

8 LONG-TERM LOANS AND RECEIVABLES

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

	At 31 December 2018	At 31 December 2017
Long-term loans receivable	272,901	212,363
Other long-term receivables	407	429
Total	**273,308**	**212,792**
Less: current portion of long-term loans receivable	(40,386)	(891)
Total long-term loans and receivables	**232,922**	**211,901**

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

	At 31 December 2018	At 31 December 2017
OAO Yamal LNG	265,606	204,596
OOO Cryogas-Vysotsk	6,012	5,313
ZAO Terneftegas	1,283	2,454
Total long-term loans receivable	**272,901**	**212,363**

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

OOO 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. In accordance with the Shareholders' agreement, the Group provided US dollar denominated loans to Terneftegas, the Group's joint venture. The loans interest rate is set based on market interest rates and interest rates on borrowings of shareholders. The repayment schedule is linked to free cash flows of the joint venture.

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

8 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

For the years ended 31 December 2018 and 2017, Terneftegas repaid to the Group a part of the loans and accrued interest in the total amount of RR 1,673 million and RR 910 million, respectively.

No provisions for impairment of long-term loans and receivables were recognized at 31 December 2018 and 2017. The carrying values of long-term loans and receivables approximate their respective fair values.

9 OTHER NON-CURRENT ASSETS

	At 31 December 2018	At 31 December 2017
Financial assets		
Commodity derivatives	2,397	1,705
Other financial assets	7	10
Non-financial assets		
Long-term advances	15,289	20,228
Materials for construction	10,852	2,694
Deferred income tax assets	6,486	6,898
Intangible assets, net	2,119	1,665
Other non-financial assets	277	248
Total other non-current assets	**37,427**	**33,448**

At 31 December 2018 and 2017, the long-term advances represented advances to OAO Russian Railways. The advances were paid in accordance with the Strategic Partnership Agreement signed with Russian Railways in 2012.

10 INVENTORIES

	At 31 December 2018	At 31 December 2017
Natural gas and liquid hydrocarbons	14,465	8,711
Materials and supplies (net of provision of RR 4 million at 31 December 2018 and 2017)	2,760	2,337
Other inventories	26	36
Total inventories	**17,251**	**11,084**

No inventories were pledged as security for the Group's borrowings or payables at both dates.

11 TRADE AND OTHER RECEIVABLES

	At 31 December 2018	At 31 December 2017
Trade receivables (net of provision of RR 349 million and RR 284 million at 31 December 2018 and 2017, respectively)	52,882	43,387
Other receivables (net of provision of RR 323 million and RR 19 million at 31 December 2018 and 2017, respectively)	1,551	1,116
Total trade and other receivables	**54,433**	**44,503**

Trade receivables in the amount RR 12,413 million and RR 8,921 million at 31 December 2018 and 2017, respectively, are secured by letters of credit, issued by banks with investment grade rating. The Group does not hold any other collateral as security for trade and other receivables (see Note 27 for credit risk disclosures).

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

11 TRADE AND OTHER RECEIVABLES (CONTINUED)

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 27.

Movements in the Group's provision for impairment of trade receivables are as follows:

	Year ended 31 December:	
	2018	2017
At 1 January	**284**	**196**
Additional provision recorded	42	55
Acquisition of subsidiaries	107	55
Receivables written off as uncollectible	(26)	(15)
Provision reversed	(58)	(7)
At 31 December	**349**	**284**

The provision for impaired trade and other receivables has been included in the consolidated statement of income in net impairment expenses.

12 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December 2018	At 31 December 2017
Financial assets		
Current portion of long-term loans receivable (see Note 8)	40,386	891
Commodity derivatives	9,313	2,117
Non-financial assets		
Value-added tax receivable	12,646	8,057
Recoverable value-added tax	8,467	7,284
Prepayments and advances to suppliers	7,066	6,326
Deferred transportation expenses for natural gas	3,963	1,965
Deferred export duties for liquid hydrocarbons	3,210	1,829
Deferred transportation expenses for liquid hydrocarbons	3,100	2,140
Prepaid customs duties	604	561
Other non-financial assets	890	693
Total prepayments and other current assets	**89,645**	**31,863**

13 CASH AND CASH EQUIVALENTS

	At 31 December 2018	At 31 December 2017
Cash at current bank accounts	30,196	28,994
Bank deposits with original maturity of three months or less	11,276	36,949
Total cash and cash equivalents	**41,472**	**65,943**

All deposits are readily convertible to known amounts of cash and are not subject to significant risk of change in value (see Note 27 for credit risk disclosures).

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

14 LONG-TERM DEBT

	At 31 December 2018	At 31 December 2017
Corporate bonds		
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	69,359	57,481
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	45,094	37,364
Bank loans		
Syndicated term credit line facility	-	13,280
Other bank loans	8,953	6,887
Other borrowings		
Loan from Silk Road Fund	48,757	39,716
Other loans	-	1,022
Total	**172,163**	**155,750**
Less: current portion of long-term debt	(2,120)	(14,302)
Total long-term debt	**170,043**	**141,448**

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

In February 2011, the Group issued US dollar denominated Eurobonds in the amount of USD 650 million. The US dollar denominated Eurobonds were issued with an annual coupon rate of 6.604 percent, payable semi-annually. The Eurobonds have a ten-year tenor and are repayable in February 2021.

Syndicated term credit line facility. In June 2013, the Group obtained a USD 1.5 billion unsecured syndicated term credit line facility from a range of international banks and withdrew the full amount under the facility by June 2014. The loan was repayable until July 2018 by quarterly equal installments starting from June 2015. The facility included the maintenance of certain restrictive financial covenants. In February 2018, the credit line facility was fully repaid ahead of its maturity schedule.

Other bank loans. In December 2016, the Group obtained EUR 100 million under a revolving credit line facility from the Russian subsidiary of a foreign bank. The loan is repayable in April 2020 and includes the maintenance of certain restrictive financial covenants.

In February 2018, the Group acquired a 100 percent participation interest in AO Geotransgas (see Note 5) and consolidated RUR 1,007 million credit line facility obtained by AO Geotransgas from a Russian bank repayable in December 2020.

Loan from Silk Road Fund**.** In December 2015, the Group obtained a loan from China’s investment fund Silk Road Fund which is repayable until December 2030 by semi-annual equal installments starting from December 2019 and includes the maintenance of certain restrictive financial covenants.

Other loans. At 31 December 2017, other loans represented Russian rouble denominated loans, which were provided to one of the Group’s subsidiaries by its non-controlling shareholder. The loans were initially repayable until the end of 2017, which was subsequently extended to the end of 2018. In July 2018, the loans were fully repaid.

The fair value of long-term debt including its current portion was RR 176,984 million and RR 167,760 million at 31 December 2018 and 2017, 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 27). 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 27).

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

14 LONG-TERM DEBT (CONTINUED)

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

Maturity period:	**At 31 December 2018**
1 January 2020 to 31 December 2020	13,193
1 January 2021 to 31 December 2021	49,334
1 January 2022 to 31 December 2022	73,599
1 January 2023 to 31 December 2023	4,240
After 31 December 2023	29,677
Total long-term debt	**170,043**

Available credit line facilities. In addition to disclosed above, at 31 December 2018, the Group had available long-term credit line facilities from banks with credit limits in the amounts of RR 50 billion, the equivalent of USD 750 million, and EUR 50 million. The facilities include the maintenance of certain restrictive financial covenants.

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

At 31 December 2018 and 2017, short-term debt and current portion of long-term debt consisted only of current portion of long-term debt in the amount of RR 2,120 million and RR 14,302 million, respectively.

Loans with original maturity three months or less. During 2018 and 2017, the Group had available revolving credit line facilities under which the obtained loans with original maturities of three months or less to finance trade activities were secured by cash revenues from specifically determined liquid hydrocarbons export sales contracts. At 31 December 2018 and 2017, these loans were repaid.

Available credit line facilities. At 31 December 2018, the Group had available short-term revolving credit line facilities from Russian banks, with credit limits in the total amount of RR 70 billion. Subsequent to the balance sheet date, in February 2019, the Group extended one of its short-term revolving credit line facilities in the amount of RR 50 billion to 2022.

16 PENSION OBLIGATIONS

Defined contribution plan. For the years ended 31 December 2018 and 2017, 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 2,608 million and RR 2,111 million, respectively.

Defined benefit plan. The Group operates a post-employment benefit program for its retired employees. Under the current terms of pension program, employees who are employed by the Group for more than five years and retire from the Group on or after the statutory retirement age will receive a lump sum retirement benefit and monthly payments from NOVATEK for life unless they are actively employed. The amounts of payments to be disbursed depend on the employee's average salary, duration and location of employment.

The program represents an unfunded defined benefit plan and is accounted for as such under provisions of IAS 19, *Employee Benefits*. The present value of the defined benefit obligation is included in other non-current liabilities in the consolidated statement of financial position. The impact of the program on the consolidated financial statements is disclosed below.

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

16 PENSION OBLIGATIONS (CONTINUED)

The movements in the present value of the defined benefit obligation are as follows:

	Year ended 31 December:	
	2018	**2017**
At 1 January	**3,198**	**2,249**
Interest cost	217	197
Current service cost	254	181
Past service cost	(80)	(35)
Benefits paid	(138)	(118)
Actuarial gains (losses) arising from:		
- changes in financial assumptions	180	345
- changes in demographic assumptions	(15)	122
- experience adjustments	560	257
Reclassification to liabilities associated with assets held for sale	(2)	-
At 31 December	**4,174**	**3,198**
Defined benefit plan (benefits) costs were recognized in:		
Materials, services and other (as employee compensation)	206	225
General and administrative expenses (as employee compensation)	185	153
Other operating income (loss)	-	(35)
Other comprehensive loss	725	724

The principal actuarial assumptions used are as follows:

	At 31 December 2018	At 31 December 2017
Weighted average discount rate	7.7%	6.9%
Projected annual increase in employee compensation	5.0%	4.0%
Expected increases to pension benefits	5.0%	4.3%

The discount rate was determined by reference to Russian rouble denominated bonds issued by the Government of the Russian Federation chosen to match the duration of the post-employment benefit obligations.

The assumed average salary and pension payment increases for Group employees have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy of the Group.

Mortality assumptions are based on the Russian mortality tables published by the Federal State Statistics Service from the year 2014 adjusted for estimates of mortality improvements in the future periods.

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)

17 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December 2018	At 31 December 2017
Financial liabilities		
Trade payables	52,314	30,936
Commodity derivatives	8,492	3,333
Interest payable	1,451	1,221
Dividends payable to non-controlling interest	-	1,633
Other payables	2,017	775
Non-financial liabilities		
Advances from customers	5,447	4,474
Salary payables	837	472
Other liabilities and accruals	8,683	6,157
Total trade payables and accrued liabilities	**79,241**	**49,001**

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 27.

During the years ended 31 December 2018 and 2017, advances from customers in the amount of RR 4,394 million and RR 2,422 million, respectively, remained at the beginning of the respective period were recognized as revenue.

18 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 2018 and 2017. 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 2018 and 2017, the Group purchased 2.7 million and 2.1 million ordinary shares at a total cost of RR 2,092 million and RR 1,440 million, respectively. At 31 December 2018 and 2017, the Group held in total 23.4 million and 20.7 million ordinary shares at a total cost of RR 10,445 million and RR 8,353 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:	
	2018	2017
Dividends payable at 1 January	1	1
Dividends declared (*)	51,979	42,075
Dividends paid (*)	(51,980)	(42,075)
Dividends payable at 31 December	**-**	**1**
Dividends per share declared during the year (in Russian roubles)	17.25	13.95
Dividends per GDR declared during the year (in Russian roubles)	172.50	139.50

(*) – excluding treasury shares.

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

18 SHAREHOLDERS' EQUITY (CONTINUED)

The Group declares and pays dividends in Russian roubles. Dividends declared in 2018 and 2017 were as follows:

Final for 2017: RR 8.00 per share or RR 80.00 per GDR declared in April 2018	24,291
Interim for 2018: RR 9.25 per share or RR 92.50 per GDR declared in September 2018	28,086
Total dividends declared in 2018	**52,377**
Final for 2016: RR 7.00 per share or RR 70.00 per GDR declared in April 2017	21,254
Interim for 2017: RR 6.95 per share or RR 69.50 per GDR declared in September 2017	21,102
Total dividends declared in 2017	**42,356**

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 2018 and 2017, NOVATEK's closing balances of the accumulated profit including the respective year's net statutory profit totaled RR 551,913 million and RR 445,104 million, respectively.

19 OIL AND GAS SALES

	Year ended 31 December:	
	2018	**2017**
Natural gas	375,198	247,663
Naphtha	149,770	111,979
Crude oil	106,257	77,102
Other gas and gas condensate refined products	89,686	69,066
Liquefied petroleum gas	56,243	40,016
Stable gas condensate	48,607	33,993
Total oil and gas sales	**825,761**	**579,819**

20 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Year ended 31 December:	
	2018	**2017**
Unstable gas condensate	155,360	107,082
Natural gas	150,811	51,053
Other liquid hydrocarbons	13,819	3,308
Total purchases of natural gas and liquid hydrocarbons	**319,990**	**161,443**

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, commencing December 2017, some volumes of liquefied natural gas produced by its joint venture OAO Yamal LNG (see Note 30).

The Group purchases all volumes of unstable gas condensate produced by its joint ventures Nortgas, Arcticgas and Terneftegas at ex-field prices based on benchmark reference crude oil prices, as well as some volumes of stable gas condensate produced by its joint venture OAO Yamal LNG (see Note 30).

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

21 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2018	**2017**
Natural gas transportation by trunk and low-pressure pipelines	96,146	93,686
Stable gas condensate and liquefied petroleum gas transportation by rail	30,643	29,832
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	10,145	5,980
Crude oil transportation by trunk pipelines	8,557	7,622
Other	173	72
Total transportation expenses	**145,664**	**137,192**

22 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:	
	2018	**2017**
Unified natural resources production tax	54,644	45,459
Property tax	3,595	3,673
Other taxes	529	362
Total taxes other than income tax	**58,768**	**49,494**

23 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2018	**2017**
Employee compensation	9,815	9,032
Repair and maintenance	2,948	2,853
Complex of services for preparation, transportation and processing of hydrocarbons	2,009	1,914
Materials and supplies	1,963	1,966
Electricity and fuel	1,311	1,221
Liquefied petroleum gas volumes reservation expenses	1,155	918
Fire safety and security expenses	976	749
Transportation services	822	727
Rent expenses	416	308
Insurance expenses	340	307
Other	920	773
Total materials, services and other	**22,675**	**20,768**

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

24 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2018	2017
Employee compensation	15,807	11,065
Social expenses and compensatory payments	2,484	2,735
Legal, audit, and consulting services	1,122	839
Business travel expense	621	560
Fire safety and security expenses	471	419
Advertising expenses	465	410
Repair and maintenance expenses	229	231
Rent expenses	176	90
Other	907	821
Total general and administrative expenses	**22,282**	**17,170**

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:	
	2018	2017
Audits of PAO NOVATEK (audit of the Group's consolidated financial statements and audit of statutory financial statements of PAO NOVATEK)	34	34
Other services	8	9
Total auditor's fees and services	**42**	**43**

25 FINANCE INCOME (EXPENSE)

	Year ended 31 December:	
Interest expense (including transaction costs)	2018	2017
Interest expense on fixed rate debt	8,615	8,234
Interest expense on variable rate debt	87	2,001
Subtotal	**8,702**	**10,235**
Less: capitalized interest	(5,032)	(3,391)
Interest expense on debt	**3,670**	**6,844**
Provisions for asset retirement obligations: effect of the present value discount unwinding	602	749
Interest expense on lease liabilities	474	119
Total interest expense	**4,746**	**7,712**

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

25 FINANCE INCOME (EXPENSE) (CONTINUED)

	Year ended 31 December:	
Interest income	2018	2017
Interest income on loans receivable classified as at amortised cost	653	641
Interest income on loans receivable classified as at fair value through profit or loss	11,940	13,106
Interest income on cash, cash equivalents and deposits	1,410	2,125
Total interest income	**14,003**	**15,872**

	Year ended 31 December:	
Foreign exchange gains (losses)	2018	2017
Gains	70,704	48,322
Losses	(44,845)	(34,646)
Total foreign exchange gain (loss), net	**25,859**	**13,676**

26 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:	
	2018	2017
Profit before income tax	228,534	200,839
Theoretical income tax expense at applicable rates of the Group's entities	38,878	38,056
Increase (decrease) due to:		
Non-deductible differences in respect of the Group's share of loss (profit) of joint ventures	6,977	(4,592)
Non-deductible differences in respect of net gain on disposal of interests in joint ventures	(329)	-
Other differences	61	905
Total income tax expense	**45,587**	**34,369**

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

26 INCOME TAX (CONTINUED)

Domestic and foreign components of current income tax expense were:

	Year ended 31 December:	
	2018	**2017**
Russian Federation income tax	42,968	34,811
Foreign income tax	1,575	416
Total current income tax expense	**44,543**	**35,227**

Effective income tax rate. The Russian statutory income tax rate for 2018 and 2017 was 20 percent. A number of the Group's investment projects were included by the government authorities in the list of priority projects, in respect of them the Group was able to apply a reduced income tax rate. Profits of the Group's foreign subsidiaries are taxed at rates applicable in accordance with legislation of the respective jurisdiction.

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

Without the effect of net profit (loss) and dividends from joint ventures the effective income tax rate for the years ended 31 December 2018 and 2017 was 17.3 percent and 19.3 percent, respectively.

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 3).

Deferred income tax. Differences between IFRS and Russian statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

Deferred income tax balances are presented in the consolidated statement of financial position as follows:

	At 31 December 2018	**At 31 December 2017**
Long-term deferred income tax asset (other non-current assets)	6,486	6,898
Long-term deferred income tax liability	(29,927)	(26,167)
Net deferred income tax liability	**(23,441)**	**(19,269)**

Deferred income tax assets expected to be realized within twelve months as of 31 December 2018 and 2017 were RR 3,768 million and RR 3,902 million, respectively. Deferred tax liabilities expected to be reversed within twelve months of 31 December 2018 and 2017 were RR 1,113 million and RR 936 million, respectively.

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

26 INCOME TAX (CONTINUED)

Movements in deferred income tax assets and liabilities during the years ended 31 December 2018 and 2017 are as follows:

	At 31 December 2017	Statement of Income effect	Statement of Comprehensive Income effect	Acquisition of subsidiaries	Reclassification to assets and liabilities held for sale	At 31 December 2018
Property, plant and equipment	(31,983)	(2,550)	(2)	(5,210)	2,850	(36,895)
Intangible assets	(346)	(24)	-	-	-	(370)
Inventories	(297)	(32)	-	(3)	-	(332)
Other	(639)	(149)	22	-	(15)	(781)
Deferred income tax liabilities	**(33,265)**	**(2,755)**	**20**	**(5,213)**	**2,835**	**(38,378)**
Less: deferred tax assets offset	*7,098*	*669*	-	*684*	-	*8,451*
Total deferred income tax liabilities	**(26,167)**	**(2,086)**	**20**	**(4,529)**	**2,835**	**(29,927)**
Tax losses carried forward	3,607	2,253	-	23	(940)	4,943
Property, plant and equipment	3,102	754	-	27	(374)	3,509
Inventories	2,438	(648)	(2)	516	-	2,304
Asset retirement obligations	1,389	351	-	110	(142)	1,708
Trade payables and accrued liabilities	1,237	(2)	9	-	(10)	1,234
Loans receivable	1,996	(987)	-	-	-	1,009
Other	227	(10)	7	6	-	230
Deferred income tax assets	**13,996**	**1,711**	**14**	**682**	**(1,466)**	**14,937**
Less: deferred tax liabilities offset	*(7,098)*	*(669)*	-	*(684)*	-	*(8,451)*
Total deferred income tax assets	**6,898**	**1,042**	**14**	**(2)**	**(1,466)**	**6,486**
Net deferred income tax liabilities	**(19,269)**	**(1,044)**	**34**	**(4,531)**	**1,369**	**(23,441)**

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

26 INCOME TAX (CONTINUED)

	At 31 December 2016	Statement of Income effect	Statement of Comprehensive Income effect	Acquisition of subsidiaries	At 31 December 2017
Property, plant and equipment	(28,747)	(1,614)	15	(1,637)	(31,983)
Intangible assets	(313)	62	2	(97)	(346)
Inventories	(250)	(23)	(17)	(7)	(297)
Other	(451)	(212)	24	-	(639)
Deferred income tax liabilities	**(29,761)**	**(1,787)**	**24**	**(1,741)**	**(33,265)**
Less: deferred tax assets offset	*5,105*	*1,110*	-	*883*	*7,098*
Total deferred income tax liabilities	**(24,656)**	**(677)**	**24**	**(858)**	**(26,167)**
Tax losses carried forward	2,542	504	12	549	3,607
Property, plant and equipment	1,068	1,085	-	949	3,102
Inventories	2,153	279	6	-	2,438
Loans receivable	1,346	650	-	-	1,996
Asset retirement obligations	1,464	(122)	(5)	52	1,389
Trade payables and accrued liabilities	913	318	6	-	1,237
Other	290	(69)	(7)	13	227
Deferred income tax assets	**9,776**	**2,645**	**12**	**1,563**	**13,996**
Less: deferred tax liabilities offset	*(5,105)*	*(1,110)*	-	*(883)*	*(7,098)*
Total deferred income tax assets	**4,671**	**1,535**	**12**	**680**	**6,898**
Net deferred income tax liabilities	**(19,985)**	**858**	**36**	**(178)**	**(19,269)**

At 31 December 2018, the Group had recognized deferred income tax assets of RR 4,943 million (31 December 2017: RR 3,607 million) in respect of unused tax loss carry forwards of RR 25,029 million (31 December 2017: RR 18,373 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 2020 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.

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

27 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 2018		At 31 December 2017	
Financial assets	**Non-current**	**Current**	**Non-current**	**Current**
At amortised cost				
Long-term loans receivable	9,556	-	5,313	-
Trade and other receivables	407	54,433	429	44,503
Short-term bank deposits with original maturity more than three months	-	27,788	-	-
Cash and cash equivalents	-	41,472	-	65,943
Other	7	-	10	-
At fair value through profit or loss				
Long-term loans receivable	222,959	40,386	206,159	891
Commodity derivatives	2,397	9,313	1,705	2,117
Total financial assets	**235,326**	**173,392**	**213,616**	**113,454**
Financial liabilities				
At amortised cost				
Long-term debt	170,043	2,120	141,448	14,302
Long-term lease liabilities	7,473	2,325	5,776	1,520
Trade and other payables	-	55,782	-	32,932
Dividends payable to non-controlling interest	-	-	-	1,633
At fair value through profit or loss				
Commodity derivatives	2,403	8,492	649	3,333
Total financial liabilities	**179,919**	**68,719**	**147,873**	**53,720**

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

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

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

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

Commodity derivatives	**At 31 December 2018**	**At 31 December 2017**
Within other non-current and current assets	11,710	3,822
Within other non-current and current liabilities	(10,895)	(3,982)

	Year ended 31 December:	
Included in other operating income (loss)	**2018**	**2017**
Operating income (loss) from natural gas foreign trading	(2,278)	289
Change in fair value	(450)	(9)

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

	Year ended 31 December:	
Effect on the fair value	**2018**	**2017**
Increase by ten percent	(2,021)	(1,572)
Decrease by ten percent	2,021	1,572

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 and ZAO Terneftegas contain certain financial (benchmark interest rates adjusted for the borrower credit risk) and non-financial (actual interest rates on the borrowings of shareholders, expected free cash flows of the borrower and expected maturities) variables and in accordance with the Group's accounting policy were classified as financial assets at fair value through profit or loss.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	Year ended 31 December:	
	2018	**2017**
At 1 January	**207,051**	**198,454**
Repayment of the loans and accrued interest	(1,673)	(910)
Subsequent remeasurement at fair value recognized in profit (loss) as follows:		
– Interest income (using the effective interest rate method)	11,940	13,106
– Foreign exchange gain (loss), net	42,535	3,579
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	3,492	(7,178)
At 31 December	**263,345**	**207,051**

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	**2018**	**2017**
Increase by one percent	(10,036)	(11,560)
Decrease by one percent	10,650	12,536

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

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

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

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

(a) Foreign exchange risk

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

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

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

At 31 December 2018	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	6,012	107,713	118,790	-	232,515
Trade and other receivables	342	2	-	63	407
Commodity derivatives	-	-	2,397	-	2,397
Other	-	-	-	7	7
Current					
Trade and other receivables	21,379	13,577	18,393	1,084	54,433
Current portion of long-term loans receivable	-	20,694	19,692	-	40,386
Commodity derivatives	-	-	9,313	-	9,313
Short-term bank deposits with original maturity more than three months	-	27,788	-	-	27,788
Cash and cash equivalents	6,804	11,194	22,588	886	41,472
Financial liabilities					
Non-current					
Long-term debt	(1,007)	(161,090)	(7,946)	-	(170,043)
Long-term lease liabilities	(337)	(7,043)	(1)	(92)	(7,473)
Commodity derivatives	-	-	(2,403)	-	(2,403)
Current					
Short-term debt and current portion of long-term debt	-	(2,120)	-	-	(2,120)
Current portion of long-term lease liabilities	(20)	(2,222)	(2)	(81)	(2,325)
Trade and other payables	(35,341)	(4,489)	(15,709)	(243)	(55,782)
Commodity derivatives	-	-	(8,492)	-	(8,492)
Net exposure	**(2,168)**	**4,004**	**156,620**	**1,624**	**160,080**

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2017	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	5,313	96,686	109,473	-	211,472
Trade and other receivables	425	4	-	-	429
Commodity derivatives	-	-	1,705	-	1,705
Other	-	-	-	10	10
Current					
Trade and other receivables	21,822	16,360	3,730	2,591	44,503
Current portion of long-term loans receivable	-	891	-	-	891
Commodity derivatives	-	-	2,117	-	2,117
Cash and cash equivalents	16,392	36,449	12,745	357	65,943
Financial liabilities					
Non-current					
Long-term debt	-	(134,561)	(6,887)	-	(141,448)
Long-term lease liabilities	(340)	(5,360)	(3)	(73)	(5,776)
Commodity derivatives	-	-	(649)	-	(649)
Current					
Short-term debt and current portion of long-term debt	(1,022)	(13,280)	-	-	(14,302)
Current portion of long-term lease liabilities	(116)	(1,349)	(2)	(53)	(1,520)
Trade and other payables	(25,651)	(3,563)	(3,505)	(213)	(32,932)
Dividends payable to non-controlling interest	(1,633)	-	-	-	(1,633)
Commodity derivatives	-	-	(3,333)	-	(3,333)
Net exposure	**15,190**	**(7,723)**	**115,391**	**2,619**	**125,477**

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 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 2018 and 2017, respectively:

		Year ended 31 December:	
Effect on profit before income tax	Increase in exchange rate	2018	2017
RUB / USD	10%	400	(772)
RUB / EUR	10%	15,662	11,539

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.

27 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.

There were no changes in regulated wholesale natural gas prices on the domestic market (excluding residential customers) in the first half of 2017. From 1 July 2017, regulated wholesale natural gas prices were increased by 3.9 percent, and from 21 August 2018 by 3.4 percent.

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

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

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

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

Natural gas foreign trading activities and respective foreign derivative instruments are executed by Novatek Gas & Power GmbH, the Group's wholly owned subsidiary, and are managed within the Group's integrated trading function.

Liquid hydrocarbons supplies. The Group sells its crude oil, stable gas condensate and gas condensate refined products under spot contracts. Naphtha and stable gas condensate volumes sold to the Asian-Pacific Region, European and North American markets are primarily based on benchmark crude oil prices of Brent IPE 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 dated, or Dubai, plus a premium or a discount, and on a transaction-by-transaction basis or based on benchmark crude oil prices of Brent and Urals or a combination thereof for volumes sold domestically.

As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to fluctuations in the crude oil and gas condensate refined products benchmark prices. The Group's liquid hydrocarbons purchase and sales contracts are entered to meet supply requirements to fulfil contract obligations or for own consumption and are not within the scope of *IFRS 9, Financial Instruments*.

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

27 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 were as follows:

	At 31 December 2018		At 31 December 2017	
	RR million	Percent	RR million	Percent
At fixed rate	172,163	*100%*	141,448	*91%*
At variable rate	-	-	14,302	*9%*
Total debt	**172,163**	***100%***	**155,750**	***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 change 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	**2018**	**2017**
Increase by 100 basis points	-	143

The effect of a corresponding 100 basis points decrease in interest rate is approximately equal and opposite.

The Group is examining various ways to manage its cash flow interest rate risk by using a combination of floating and fixed interest rates. No swaps or other similar instruments were in place at 31 December 2018 and 2017, or during the years then ended.

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, including short-term deposits with banks, as well as credit exposures to customers, including outstanding trade receivables and committed transactions. Cash and cash equivalents are deposited 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.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

The table below highlights the Group's trade and other receivables to published credit ratings of its counterparties and/or their parent companies:

Moody's, Fitch and/or Standard & Poor's	At 31 December 2018	At 31 December 2017
Investment grade rating	30,285	14,676
Non-investment grade rating	2,438	12,661
No external rating	21,710	17,166
Total trade and other receivables	**54,433**	**44,503**

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 2018	At 31 December 2017
Investment grade rating	40,759	49,857
Non-investment grade rating	28,462	15,916
No external rating	39	170
Total cash, cash equivalents and short-term bank deposits with original maturity more than three months	**69,260**	**65,943**

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 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.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

At 31 December 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal	2,416	13,786	129,124	33,831	179,157
Interest	8,775	8,494	13,371	5,739	36,379
Lease liabilities	2,408	2,396	6,294	-	11,098
Trade and other payables	55,782	-	-	-	55,782
Total financial liabilities	**69,381**	**24,676**	**148,789**	**39,570**	**282,416**
At 31 December 2017					
Debt at fixed rate					
Principal	-	8,890	107,061	32,055	148,006
Interest	7,272	7,272	16,655	6,163	37,362
Debt at variable rate					
Principal	14,314	-	-	-	14,314
Interest	168	-	-	-	168
Lease liabilities	1,606	1,494	4,393	937	8,430
Trade and other payables	32,932	-	-	-	32,932
Dividends payable to non-controlling interest	1,633	-	-	-	1,633
Total financial liabilities	**57,925**	**17,656**	**128,109**	**39,155**	**242,845**

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

At 31 December 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
Cash inflow	133,167	47,403	42,251	222,821
Cash outflow	(132,409)	(47,367)	(42,292)	(222,068)
Net cash flows	**758**	**36**	**(41)**	**753**
At 31 December 2017				
Cash inflow	45,120	29,028	54,785	128,933
Cash outflow	(46,422)	(28,182)	(54,572)	(129,176)
Net cash flows	**(1,302)**	**846**	**213**	**(243)**

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 payables	Long-term lease liabilities	Total
At 1 January 2017	**218,586**	**256**	**218,842**
Cash flows	(63,144)	(567)	(63,711)
Non-cash movements			
Non-cash additions	-	7,623	7,623
Interest accrued	10,235	119	10,354
Foreign exchange movements	(8,706)	(135)	(8,841)
At 31 December 2017	**156,971**	**7,296**	**164,267**
Cash flows	(22,313)	(2,192)	(24,505)
Non-cash movements			
Non-cash additions	249	2,480	2,729
Interest accrued	8,702	474	9,176
Foreign exchange movements	28,995	1,758	30,753
Acquisition of subsidiaries	1,010	-	1,010
Reclassification to assets held for sale (see Note 5)	-	(18)	(18)
At 31 December 2018	**173,614**	**9,798**	**183,412**

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 the reporting date, the Group had investment grade ratings of BBB by Standard & Poor's, BBB by Fitch Ratings and Baa3 by Moody's Investors Service. Subsequent to the balance sheet date, in February 2019, the Group's credit rating was upgraded to Baa2 by Moody's Investors Service. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings.

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

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

The Group defines the term "capital" as equity attributable to PAO NOVATEK shareholders plus net debt (total debt less cash and cash equivalents and bank deposits with maturity more than three months). There were no changes to the Group's approach to capital management during 2018. At 31 December 2018 and 2017, the Group's capital totaled RR 971,157 million and RR 847,646 million, respectively.

28 CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

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

Contractual commitments. At 31 December 2018, the Group had contractual capital expenditures commitments aggregating approximately RR 376 billion (at 31 December 2017: RR 49 billion) mainly for construction of infrastructure for future LNG projects (through 2028) and for development at the North-Russkoye (through 2021), the Salmanovskoye (Utrenneye) (through 2023), the Yarudeyskoye (through 2020), the East-Tarkosalinskoye (through 2021) and the Yurkharovskoye (through 2019) fields all in accordance with duly signed agreements. These amounts at 31 December 2018 included RR 266 billion related to the Arctic LNG 2 project, which assets were classified as held for sale (at 31 December 2017: RR 11 billion).

In September 2016, the Group and Eni S.p.A. (hereinafter referred to as the "Concessionaries") formed a joint operation with a 50 percent participation interest held by each Concessionary under a Concession Contract with the State of Montenegro for the exploration and production of hydrocarbons on four offshore blocks located in the Adriatic Sea. The Group's commitments with regard to this joint operation relate to performance obligations of the Concessionaries to conduct mandatory work program exploration activities as stipulated by the Concession Contract. The maximum amount to be paid to the State of Montenegro by the Group in case of non-performance during the first exploration period of up to four years ending in 2020 is EUR 42.5 million. The outflow of resources embodying economic benefits required to settle this contingent liability is not probable; therefore, no provision for this liability was recognized in the consolidated financial statements.

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

The Group's commitments with regard to its joint operation in Lebanon relate to performance obligations of the Right holders to conduct minimum work commitment exploration activities as stipulated by the Exploration and Production Agreements (see Note 1). The maximum amount to be paid to the Republic of Lebanon by the Group in case of non-performance during the first exploration period of up to three years ending in 2021 (may be extended for a period not exceeding one year) is EUR 13.5 million. The outflow of resources embodying economic benefits required to settle this contingent liability is not probable; therefore, no provision for this liability was recognized in the consolidated financial statements.

Non-financial guarantees. The aggregated amount of non-financial guarantees in respect of the Yamal LNG project issued by the Group to a number of third parties (the Ministry of Finance of the Russian Federation, Russian and foreign banks, LNG-vessels owners, LNG-terminal owners) in favor of the Group's joint venture OAO Yamal LNG and its subsidiary totaled USD 1.4 billion and EUR 7.2 billion at 31 December 2018 (at 31 December 2017: USD 3.0 billion and EUR 6.6 billion). These non-financial guarantees have various terms depending mostly on the successful project completion (finalization of the LNG plant construction and achievement of its full production capacity). For certain factors as stipulated in the project financing agreements, the Group plans to issue in the future non-financial guarantees covering the project post-completion period.

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

The aggregated amount of non-financial guarantees issued by the Group to a Russian bank in favor of the Group's joint venture Cryogas-Vysotsk totaled EUR 232 million at 31 December 2018 (at 31 December 2017: EUR 49 million).

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

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

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

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

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

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

The majority 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:	
Salmanovskoye (Utrenneye)	OOO Arctic LNG 2	2120
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
Upper-Tiuteyskoye and West-Seyakhinskoye	OOO NOVATEK-Yurkharovneftegas	2044
West-Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2029
East-Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
North-Russkoye	OOO NOVATEK-Tarkosaleneftegas	2031
Kharbeyskoye	OOO NOVATEK-Tarkosaleneftegas	2036
Urengoyskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
East-Tazovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Dorogovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
North-Khancheyskoye + Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2029
Dobrovolskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
South-Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2031
Geofizicheskoye	OOO Arctic LNG 1	2034
Gydanskoye	OOO Arctic LNG 1	2044
Yarudeyskoye	OOO Yargeo	2029
East-Urengoiskoye + North-Esetinskoye (within the West Yaro Yakhinsky license area)	OOO Severneft Urengoy	2025
Beregovoe	AO NOVATEK-Pur	2070
Urengoyskoe (within the Ust-Yamsoveyskiy license area)	OOO Urengoyskaya gasovaya companiya	2024
	Joint ventures:	
South-Tambeyskoye	OAO Yamal LNG	2045
Urengoyskoye (within the Samburgskiy and Yevo-Yakhinskiy license areas)	AO Arcticgas	2034
Yaro-Yakhinskoye	AO Arcticgas	2034
Samburgskoye	AO Arcticgas	2034
North-Chaselskoye	AO Arcticgas	Life of field
Yevo-Yakhinskoye	AO Arcticgas	2034
North-Urengoyskoye	ZAO Nortgas	2038
Termokarstovoye	ZAO Terneftegas	2097

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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.

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.

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

29 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 2018 and 2017 are set out below:

	Ownership percent at 31 December:		Country of incorporation	Principal activities
	2018	2017		
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 (formerly AO Geotransgas)	100	-	Russia	Exploration and production
OOO Arctic LNG 1	100	100	Russia	Exploration and development
OOO Arctic LNG 2	100	100	Russia	Exploration and development, construction of LNG plant
OOO Arctic LNG 3	100	100	Russia	Exploration and development
OOO NOVATEK-NTC	100	100	Russia	Scientific and technical support of exploration and development
OOO NOVATEK-Murmansk	100	100	Russia	Construction of large-scale offshore structures
OOO NOVATEK-Purovsky ZPK	100	100	Russia	Gas Condensate Processing Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVATEK-Ust-Luga	100	100	Russia	Fractionation and Transshipment Complex
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK-Chelyabinsk	100	100	Russia	Trading and marketing
OOO NOVATEK-Kostroma	100	100	Russia	Trading and marketing
OOO NOVATEK-Perm	100	100	Russia	Trading and marketing
OOO NOVATEK Moscow Region	100	100	Russia	Trading and marketing
Novatek Gas & Power GmbH	100	100	Switzerland	Trading and marketing
Novatek Gas & Power Asia PTE. Ltd	100	100	Singapore	Trading and marketing
Novatek Polska Sp. z o.o.	100	100	Poland	Trading and marketing
Joint ventures:				
OAO Yamal LNG	50.1	50.1	Russia	Exploration and development, production of LNG
AO Articgas (see Note 7)	50	53.3	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	Construction of medium-scale LNG plant
Rostock LNG GmbH	49	-	Germany	Construction of medium-scale LNG transshipment terminal

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

30 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.

	Year ended 31 December:	
Related parties – joint ventures	**2018**	**2017**
Transactions		
Other revenues	3,258	1,481
Purchases of natural gas and liquid hydrocarbons	(280,570)	(137,784)
Materials, services and other	(133)	(193)
Other operating income (loss)	119	-
Interest income on loans issued	12,511	13,640
Dividends declared	8,500	2,383

Related parties – joint ventures	**At 31 December 2018**	**At 31 December 2017**
Balances		
Long-term loans receivable	232,515	211,472
Current portion of long-term loans receivable	40,386	891
Trade receivables	330	246
Trade payables and accrued liabilities	26,194	19,785

The terms and conditions of the loans receivable from the joint ventures are disclosed in Note 8.

The Group issued non-financial guarantees in favor of its joint ventures as described in Note 28.

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

	Year ended 31 December:	
Related parties – entities with significant influence and their subsidiaries	**2018**	**2017**
Transactions		
Revenue from oil and gas sales	16,511	-
Other operating income (loss)	(459)	-

Related parties – entities with significant influence and their subsidiaries	**At 31 December 2018**	**At 31 December 2017**
Balances		
Trade and other receivables	2,271	-
Trade payables and accrued liabilities	350	-

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

30 RELATED PARTY TRANSACTIONS (CONTINUED)

	Year ended 31 December:	
Related parties – entities under control of key management personnel	**2018**	**2017**
Transactions		
Purchases of construction services (capitalized within property, plant and equipment)	(7,107)	(661)
Liquid hydrocarbons transportation by rail	(9,449)	(9,496)
Materials, services and other	(4)	(16)

Related parties – entities under control of key management personnel	**At 31 December 2018**	**At 31 December 2017**
Balances		
Advances for construction	3,704	195
Prepayments and other current assets	715	565
Trade payables and accrued liabilities	2,104	504

Transactions with related parties also included loans, which were provided to one of the Group's subsidiaries by its non-controlling shareholder (see Note 14).

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:

	Year ended 31 December:	
Related parties – members of the key management personnel	**2018**	**2017**
Board of Directors	128	133
Management Committee	3,151	2,138
Total compensation	**3,279**	**2,271**

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)

31 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 6).

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

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

Geographical information of oil and gas sales for the years ended 31 December 2018 and 2017 is as follows:

	Year ended 31 December:	
	2018	**2017**
Russia	406,621	351,318
Europe	278,367	152,439
Asia-Pacific region	138,992	77,204
North America	26,867	25,962
The Middle East	11,742	-
Latin America	4,786	-
Less: export duties	(41,614)	(27,104)
Total outside Russia	419,140	228,501
Total oil and gas sales	**825,761**	**579,819**

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 2018 and 2017, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 14 percent (RR 115.4 billion) and 19 percent (RR 110.3 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

32 NEW ACCOUNTING PRONOUNCEMENTS

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019, and which the Group has not early adopted:

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

Amendments to IFRS 3, Business combinations (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020, early adoption is permitted). These amendments revise the definition of a business with the aim to make its application less complicated. In addition, they introduce an optional "concentration test" that, if met, eliminates the need for further assessment. Under this concentration test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. The Group will apply the new definition of a business in accounting for future transactions starting from 1 January 2020.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In the absence of specific IFRS guidance for the oil and gas industry, the Group has reverted to other relevant disclosure standards, mainly US GAAP, that are consistent with norms established for companies in the oil and gas industry. While not required under IFRS, this section provides unaudited supplemental information on oil and gas exploration and production activities but excludes disclosures regarding the standardized measures of discounted cash flows related to oil and gas activities.

The Group's exploration and production activities are mainly within the Russian Federation; therefore, majority of the information provided in this section pertains to this country. The Group operates through various oil and gas production subsidiaries, and also has an interest in oil and gas companies that are accounted for under the equity method.

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense, and are presented comprising amounts classified as assets held for sale and amounts allocated to fair values of the identified assets in acquisitions of subsidiaries (see Note 5). These costs do not include LNG liquefaction and transportation operations (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2018	**2017**
Costs incurred in exploration and development activities		
Acquisition of unproved properties	66	1,040
Acquisition of proved properties	17,633	10,594
Exploration costs	12,379	7,958
Development costs	59,946	16,481
Total costs incurred in exploration and development activities	**90,024**	**36,073**
The Group's share in joint ventures' cost incurred in exploration and development activities	29,401	19,214

	At 31 December 2018	At 31 December 2017
Capitalized costs relating to oil and gas producing activities		
Proved and unproved properties	91,496	70,327
Wells, related equipment and facilities	279,361	265,308
Support equipment and facilities	126,970	101,861
Uncompleted wells, related equipment and facilities	78,843	27,312
Total capitalized costs relating to oil and gas producing activities	**576,670**	**464,808**
Less: accumulated depreciation, depletion and amortization	(193,834)	(159,677)
Net capitalized costs relating to oil and gas producing activities	**382,836**	**305,131**
The Group's share in joint ventures' capitalized costs relating to oil and gas producing activities	456,277	452,403

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:	
	2018	**2017**
Subsidiaries		
Revenues from oil and gas sales (less transportation)	242,078	200,331
Lifting costs	(14,938)	(13,161)
Taxes other than income tax	(57,821)	(48,611)
Depreciation, depletion and amortization	(27,051)	(30,077)
Exploration expenses	(7,012)	(1,819)
Social expenses and charity [1]	(1,171)	(1,526)
Other operating expenses [2]	(388)	(488)
Total operating expenses	**(108,381)**	**(95,682)**
Results of operations for oil and gas producing activities before income tax	**133,697**	**104,649**
Less: related income tax expenses	(25,123)	(20,048)
Results of operations for oil and gas producing activities of the Group's subsidiaries	**108,574**	**84,601**
Group's share in joint ventures		
Revenues from oil and gas sales (less transportation)	193,396	98,432
Lifting costs	(5,527)	(4,570)
Taxes other than income tax	(37,306)	(34,533)
Depreciation, depletion and amortization	(19,786)	(17,512)
Exploration expenses	(332)	(261)
Social expenses and charity [1]	(106)	(791)
Total operating expenses	**(63,057)**	**(57,667)**
Results of operations for oil and gas producing activities before income tax	**130,339**	**40,765**
Less: related income tax expenses	(21,738)	(6,889)
Group's share in results of operations for oil and gas producing activities of joint ventures	**108,601**	**33,876**
Total results of operations for oil and gas producing activities of the Group's subsidiaries and joint ventures	**217,175**	**118,477**

(1) Represent social expenses and compensatory payments related mainly to continued support of charities and social programs in the regions where we perform our production and development activities.

(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 2018 and 2017.

The Group estimates its oil and gas reserves in accordance with rules promulgated by the Securities and Exchange Commission (SEC) for proved reserves.

The Group's oil and gas reserves estimation and reporting process involves an annual independent third party reserve appraisal as well as internal technical appraisals of reserves. The Group maintains its own internal reserve estimates that are calculated by qualified engineers and technical staff working directly with the oil and gas properties. The Group's technical staff periodically updates reserve estimates during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The oil and gas reserve estimates reported below are determined by the Group's independent petroleum reservoir engineers, DeGolyer and MacNaughton ("D&M"). The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for the reserve determination. The Group's and D&M's technical staffs meet to review and discuss the information provided, and upon completion of this process, senior management reviews and approves the final reserve estimates issued by D&M.

The following reserve estimates were prepared using standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The principal licenses of the Group for exploration and production expire between 2029 and 2120. Legislation of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Management intends to extend its licenses for properties expected to produce beyond the license expiry dates.

Proved reserves are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Proved developed reserves are those reserves which are expected to be recovered through existing wells with existing equipment and operating methods. Undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells, to re-complete existing wells and/or install facilities to collect and deliver the production.

Net reserves exclude quantities due to others when produced. The reserve quantities below include 100 percent of the net proved reserve quantities attributable to the Group's consolidated subsidiaries and the Group's ownership percentage of the net proved reserves quantities of the joint ventures including volumes of natural gas consumed in hydrocarbons production and development activities. Production and reserves of the South-Tambeyskoye field of Yamal LNG are reported at 60 percent including an additional 9.9 percent interest not owned by the Group, since the Group assumes certain economic and operational risks related to this interest.

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 2016	**36,985**	**1,047**	**28,285**	**801**	**65,270**	**1,848**
Changes attributable to:						
Revisions of previous estimates	(76)	(2)	374	10	298	8
Extension and discoveries	1,485	42	1,154	33	2,639	75
Acquisitions [(1)]	8,117	230	-	-	8,117	230
Production	(1,523)	(43)	(716)	(20)	(2,239)	(63)
At 31 December 2017	**44,988**	**1,274**	**29,097**	**824**	**74,085**	**2,098**
Changes attributable to:						
Revisions of previous estimates	288	8	433	13	721	21
Extension and discoveries	483	14	1,294	36	1,777	50
Acquisitions [(2)]	3,426	97	-	-	3,426	97
Disposals [(3)]	-	-	(699)	(20)	(699)	(20)
Production	(1,478)	(42)	(951)	(27)	(2,429)	(69)
At 31 December 2018	**47,707**	**1,351**	**29,174**	**826**	**76,881**	**2,177**
Net proved developed reserves (included above)						
At 31 December 2016	14,399	407	8,487	240	22,886	647
At 31 December 2017	12,685	359	12,820	363	25,505	722
At 31 December 2018	12,187	345	14,103	399	26,290	744
Net proved undeveloped reserves (included above)						
At 31 December 2016	22,586	640	19,798	561	42,384	1,201
At 31 December 2017	32,303	915	16,277	461	48,580	1,376
At 31 December 2018	35,520	1,006	15,071	427	50,591	1,433

(1) In 2017, the Group acquired oil and gas exploration and production licenses for the Upper-Tiuteyskoye, the West-Seyakhinskoye and the Gydanskoye fields and 100 percent ownership interests in OOO Severneft-Urengoy (merged into OOO NOVATEK-Yurkharovneftegas in January 2019), AO Eurotek and AO South-Khadyryakhinskoye (merged into OOO NOVATEK-Tarkosaleneftegas in May 2018), which held exploration and production licenses for the West-Yaroyakhiskiy, the Syskonsyninskiy and the South-Khadyryakhinskiy license areas, respectively.

(2) In 2018, the Group acquired 100 percent ownership interests in AO Geotransgas (renamed to AO NOVATEK-Pur in November 2018) and OOO Urengoyskaya gasovaya companiya (merging into OOO NOVATEK-Yurkharovneftegas in January 2019), exploration and production license holders of the the Beregovoy and the Ust-Yamsoveyskiy license areas, respectively.

(3) In the first quarter of 2018, the Group and PAO Gazprom Neft completed the final stage of the previously commenced restructuring procedures. As a result of the transaction, the Group's effective interest in AO Arcticgas decreased from 53.3 to 50 percent.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The net proved reserves of natural gas reported in the table above included reserves attributable to a non-controlling interest in a Group's subsidiary of 238 billion cubic feet (seven billion cubic meters) and 167 billion cubic feet (five billion cubic meters) at 31 December 2018 and 2017, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 2,471 billion cubic feet (70 billion cubic meters) and 2,386 billion cubic feet (68 billion cubic meters) at 31 December 2018 and 2017, respectively.

Net proved reserves of crude oil, gas condensate and natural gas liquids are presented below.

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
At 31 December 2016	**623**	**73**	**691**	**81**	**1,314**	**154**
Changes attributable to:						
Revisions of previous estimates	33	4	(12)	(2)	21	2
Extension and discoveries	61	8	62	7	123	15
Acquisitions (1)	40	5	-	-	40	5
Production	(55)	(7)	(43)	(5)	(98)	(12)
At 31 December 2017	**702**	**83**	**698**	**81**	**1,400**	**164**
Changes attributable to:						
Revisions of previous estimates	31	4	50	5	81	9
Extension and discoveries	35	4	88	11	123	15
Acquisitions (2)	77	9	-	-	77	9
Disposals (3)	-	-	(31)	(4)	(31)	(4)
Production	(53)	(7)	(46)	(5)	(99)	(12)
At 31 December 2018	**792**	**93**	**759**	**88**	**1,551**	**181**
Net proved developed reserves (included above)						
At 31 December 2016	275	33	326	37	601	70
At 31 December 2017	307	38	359	41	666	79
At 31 December 2018	340	42	387	44	727	86
Net proved undeveloped reserves (included above)						
At 31 December 2016	348	40	365	44	713	84
At 31 December 2017	395	45	339	40	734	85
At 31 December 2018	452	51	372	44	824	95

(1) In 2017, the Group acquired oil and gas exploration and production licenses for the Upper-Tiuteyskoye, the West-Seyakhinskoye and the Gydanskoye fields and 100 percent ownership interests in OOO Severneft-Urengoy (merged into OOO NOVATEK-Yurkharovneftegas in January 2019), AO Eurotek and AO South-Khadyryakhinskoye (merged into OOO NOVATEK-Tarkosaleneftegas in May 2018), which held exploration and production licenses for the West-Yaroyakhiskiy, the Syskonsyninskiy and the South-Khadyryakhinskiy license areas, respectively.

(2) In 2018, the Group acquired 100 percent ownership interests in AO Geotransgas (renamed to AO NOVATEK-Pur in November 2018) and OOO Urengoyskaya gasovaya companiya (merging into OOO NOVATEK-Yurkharovneftegas in January 2019), exploration and production license holders of the the Beregovoy and the Ust-Yamsoveyskiy license areas, respectively.

(3) In the first quarter of 2018, the Group and PAO Gazprom Neft completed the final stage of the previously commenced restructuring procedures. As a result of the transaction, the Group's effective interest in AO Arcticgas decreased from 53.3 to 50 percent.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The net proved reserves of crude oil, gas condensate and natural gas liquids reported in the table above included reserves attributable to a non-controlling interest in a Group’s subsidiary of 82 million barrels (11 million metric tons) and 65 million barrels (eight million metric tons) at 31 December 2018 and 2017, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 22 million barrels (two million metric tons) and 17 million barrels (two million metric tons) at 31 December 2018 and 2017, 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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