

**PAO NOVATEK**

**DISCLOSABLE CONSOLIDATED INTERIM CONDENSED  
FINANCIAL STATEMENTS (UNAUDITED)**

**AS OF AND FOR THE THREE AND  
SIX MONTHS ENDED 30 JUNE 2023**

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# Report on Review of Disclosable Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors of Joint Stock Company "NOVATEK":

## Introduction

We have reviewed the accompanying disclosable consolidated interim condensed statement of financial position of Joint Stock Company "NOVATEK" and its subsidiaries (together – the "Group") as at 30 June 2023 and the related disclosable consolidated interim condensed statements of income and of comprehensive income for the three-month and six-month periods then ended, disclosable consolidated interim condensed statements of cash flows and of changes in equity for the six-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these disclosable consolidated interim condensed financial statements in accordance with the basis of preparation described in Note 2 to the disclosable consolidated interim condensed financial statements. Our responsibility is to express a conclusion on these disclosable consolidated interim condensed financial statements based on our review.

## Scope of review

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

## Basis for qualified conclusion

The management of the Group has not presented any comparative information in the disclosable consolidated interim condensed financial statements for the three-month and six-month periods ended 30 June 2023, as stated in Note 2 to the disclosable consolidated interim condensed financial statements. Exclusion of comparative information is not provided by the regulations of the Russian Federation referred to in the basis of preparation described in Note 2 to the disclosable consolidated interim condensed financial statements, based on which the management of the Group has decided on preparation of the disclosable consolidated interim condensed financial statements and on composition of the information, disclosure of which can cause damage to the Group and (or) its counterparties. The comparative information not presented by the management of the Group is unduly voluminous in relation to this report on review of disclosable consolidated interim condensed financial statements, therefore inclusion of such unrepresented information in this report on review of disclosable consolidated interim condensed financial statements is not practicable.

## Qualified conclusion

Based on our review, except for the effects of the matter described in the Basis for qualified conclusion section, nothing has come to our attention that causes us to believe that the accompanying disclosable consolidated interim condensed financial statements are not prepared, in all material respects, in accordance with the basis of preparation described in Note 2 to the disclosable consolidated interim condensed financial statements.

## Emphasis of matter – Basis of preparation

We draw attention to Note 2 to the disclosable consolidated interim condensed financial statements, which describes the basis of preparation. The disclosable consolidated interim condensed financial statements are prepared to present consolidated financial position and consolidated financial results of the Group, disclosure of which does not cause damage to the Group and (or) its counterparties. As a result, the disclosable consolidated interim condensed financial statements may not be suitable for another purpose.

Disclosable consolidated interim condensed financial statements do not comprise interim financial report prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") since the disclosable consolidated interim condensed financial statements, prepared with exclusion of certain information, do not contain all information which is required to be disclosed in accordance with IAS 34.

Our conclusion is not modified in respect of this matter. Though we draw attention to the matter described in the Basis for qualified conclusion section.

#### Other matter

The Group has prepared a separate set of consolidated interim condensed financial statements for the three-month and six-month periods ended 30 June 2023 in accordance with IAS 34, on which we issued a separate report on review to the Shareholders and Board of Directors of Joint Stock Company "NOVATEK" dated 25 July 2023.

25 July 2023

Moscow, Russian Federation



E.N. Kriventsev is authorised to sign on behalf of the general director of Joint-Stock Company "Technologies of Trust – Audit" (Principal Registration Number of the Record in the Register of Auditors and Audit Organizations (PRNR) – 12006020338), certified auditor (PRNR – 21906099944)

**PAO NOVATEK****Disclosable Consolidated Interim Condensed Statement of Financial Position (unaudited)**


(in millions of Russian roubles)

	Notes	At 30 June 2023
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	3	1,110,326
Investments in joint ventures		531,734
Long-term loans and receivables		570,183
Other non-current assets		160,622
<b>Total non-current assets</b>		<b>2,372,865</b>
<b>Current assets</b>		
Inventories		30,459
Current income tax prepayments		3,103
Trade and other receivables		233,905
Prepayments and other current assets		83,851
Cash and cash equivalents		174,853
<b>Total current assets</b>		<b>526,171</b>
<b>Total assets</b>		<b>2,899,036</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Non-current liabilities</b>		
Long-term debt	4	147,952
Long-term lease liabilities		5,577
Deferred income tax liabilities		96,017
Asset retirement obligations		3,778
Other non-current liabilities		8,809
<b>Total non-current liabilities</b>		<b>262,133</b>
<b>Current liabilities</b>		
Current portion of long-term debt		972
Current portion of long-term lease liabilities		9,355
Trade payables and accrued liabilities		181,556
Current income tax payable		7,361
Other taxes payable		31,013
<b>Total current liabilities</b>		<b>230,257</b>
<b>Total liabilities</b>		<b>492,390</b>
Equity attributable to PAO NOVATEK shareholders		2,387,458
Non-controlling interest		19,188
<b>Total equity</b>		<b>2,406,646</b>
<b>Total liabilities and equity</b>		<b>2,899,036</b>

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



L.V. Mikhelson  
Chairman of the Management Board



V.N. Belyakov  
Deputy Chairman of the Management Board  
for Economics and Finance

25 July 2023

**PAO NOVATEK**
**Disclosable Consolidated Interim Condensed Statement of Income (unaudited)**

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

	Notes	Three months ended 30 June 2023	Six months ended 30 June 2023
<b>Revenues</b>			
Sales of hydrocarbons		307,046	627,522
Other revenues		7,720	15,453
<b>Total revenues</b>		<b>314,766</b>	<b>642,975</b>
<b>Operating expenses</b>			
Purchases of hydrocarbons		(124,295)	(255,963)
Transportation expenses		(46,135)	(97,640)
Taxes other than income tax		(32,248)	(60,995)
Depreciation, depletion and amortization		(18,172)	(35,717)
Materials, services and other		(12,165)	(22,986)
General and administrative expenses		(9,576)	(22,231)
Exploration expenses		(2,333)	(5,484)
Impairment (expenses) reversals, net		125	10
Changes in natural gas, liquid hydrocarbons and work-in-progress		5,766	567
<b>Total operating expenses</b>		<b>(239,033)</b>	<b>(500,439)</b>
Other operating income (loss), net		540	427
<b>Profit from operations</b>		<b>76,273</b>	<b>142,963</b>
<b>Finance income (expense)</b>			
Interest expense	5	(282)	(685)
Interest income		10,282	19,314
Change in fair value of non-commodity financial instruments		25,548	32,257
Foreign exchange gain (loss), net	5	88,825	156,834
<b>Total finance income (expense)</b>		<b>124,373</b>	<b>207,720</b>
Share of profit (loss) of joint ventures, net of income tax		(101,285)	(130,229)
<b>Profit before income tax</b>		<b>99,361</b>	<b>220,454</b>
<b>Income tax expense</b>			
Current income tax expense		(16,252)	(33,543)
Deferred income tax benefit (expense), net		(19,036)	(28,739)
<b>Total income tax expense</b>	6	<b>(35,288)</b>	<b>(62,282)</b>
<b>Profit</b>		<b>64,073</b>	<b>158,172</b>
Profit attributable to:			
Non-controlling interest		1,388	2,528
Shareholders of PAO NOVATEK		62,685	155,644
Basic and diluted earnings per share (in Russian roubles)		20.98	52.08
<i>Weighted average number of shares outstanding (in millions)</i>		<i>2,988.3</i>	<i>2,988.3</i>

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

**PAO NOVATEK****Consolidated Interim Condensed Statement of Comprehensive Income (unaudited)**

(in millions of Russian roubles)

	Three months ended 30 June 2023	Six months ended 30 June 2023
<b>Profit</b>	<b>64,073</b>	<b>158,172</b>
<b>Other comprehensive income (loss)</b>		
<b>Items that will not be     reclassified subsequently to profit (loss)</b>		
Remeasurement of pension obligations	(206)	(600)
Share of remeasurement of pension obligations of joint ventures	3	7
	<b>(203)</b>	<b>(593)</b>
<b>Items that may be     reclassified subsequently to profit (loss)</b>		
Currency translation differences	9,065	12,048
Share of currency translation differences of joint ventures	(5,892)	(9,250)
	<b>3,173</b>	<b>2,798</b>
<b>Other comprehensive income (loss)</b>	<b>2,970</b>	<b>2,205</b>
<b>Total comprehensive income</b>	<b>67,043</b>	<b>160,377</b>
Total comprehensive income attributable to:		
Non-controlling interest	1,388	2,528
Shareholders of PAO NOVATEK	65,655	157,849

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

**PAO NOVATEK****Disclosable Consolidated Interim Condensed Statement of Cash Flows (unaudited)**

(in millions of Russian roubles)

	Six months ended 30 June 2023
<b>Cash and cash equivalents at the beginning of the period</b>	<b>165,495</b>
<b>Change in cash and cash equivalents for the period</b>	
Net cash provided by operating activities	184,236
Net cash used for investing activities	(81,422)
Net cash used for financing activities	(116,067)
Net effect of exchange rate changes on cash and cash equivalents	22,611
<b>Net increase in cash and cash equivalents</b>	<b>9,358</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>174,853</b>

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

**PAO NOVATEK****Disclosable Consolidated Interim Condensed Statement of Changes in Equity (unaudited)**

(in millions of Russian roubles)

<i>For the six months ended 30 June 2023</i>	<b>Equity attributable to PAO NOVATEK shareholders</b>	<b>Non-controlling interest</b>	<b>Total equity</b>
<b>At 1 January 2023</b>	<b>2,409,992</b>	<b>18,473</b>	<b>2,428,465</b>
Profit	155,644	2,528	158,172
Other comprehensive income	2,205	-	2,205
<b>Total comprehensive income</b>	<b>157,849</b>	<b>2,528</b>	<b>160,377</b>
Other equity movements	(180,383)	(1,813)	(182,196)
<b>At 30 June 2023</b>	<b>2,387,458</b>	<b>19,188</b>	<b>2,406,646</b>

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

## **1 ORGANIZATION AND PRINCIPAL ACTIVITIES**

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

The Group’s activities are considered by the chief operating decision maker (hereinafter referred to as “CODM”, represented by the Management Board 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 International Financial Reporting Standards (“IFRS”). The CODM assesses reporting segment performance based on profit comprising among others revenues, depreciation, depletion and amortization, interest income and expense, income tax expenses and other items as presented in the Group’s consolidated interim condensed 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 3).

## **2 BASIS OF PREPARATION**

These disclosable consolidated interim condensed financial statements have been prepared by the Group’s management based on the consolidated interim condensed financial statements as of and for the three and six months ended 30 June 2023 prepared in accordance with (IAS) 34, *Interim Financial Reporting*, (hereinafter referred to as “IAS 34”) by excluding (inter alia, through the aggregation method) information that can cause damage to the Group and/or its counterparties (hereinafter referred to as “sensitive information”) and by adding information on the accounting policies applied and critical accounting estimates and judgments. Disclosable consolidated interim condensed financial statements do not comprise interim financial report prepared in accordance with IAS 34 since the disclosable consolidated interim condensed financial statements prepared with exclusion of certain information do not contain all information which is required to be disclosed in accordance with IAS 34.

The decisions on the disclosable consolidated interim condensed financial statements preparation and sensitive information scope were made by the Group’s management based on part 8 article 7 of Federal Law dated 27 July 2010 № 208-FZ “On consolidated financial statements” and Resolutions of the Russian Federation Government dated 5 March 2020 № 232 “On specific aspects of consolidated financial statements disclosure” and dated 4 July 2023 № 1102 “On specific aspects of disclosure and (or) provision of information, subject to disclosure and (or) provision in accordance with the requirements of the Federal Law “On Joint Stock Companies” and the Federal Law “On the Securities Market”. Also, the Group’s management decided not to disclose comparative information for 2022 in these disclosable consolidated interim condensed financial statements, since this information was assessed by the Group’s management as sensitive information and was not published earlier in accordance with Resolution of the Russian Federation Government dated 18 March 2022 № 395 “On specific aspects of access to the information contained in the state accounting (financial) statements information resource, and consolidated financial statements disclosure”, and also based on systematic and historical interpretation of legislation.

These disclosable consolidated interim condensed financial statements have been prepared to present consolidated financial position and consolidated financial results of the Group, the disclosure of which does not cause damage to the Group and (or) its counterparties. Therefore, these disclosable consolidated interim condensed financial statements may not be suitable for another purpose.

**Accounting policies.** These disclosable consolidated interim condensed financial statements are prepared based on the basis described above and accounting policies which are based on the provisions and principles of IFRS, which were effective at 1 January 2023, and 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 Group disclosed material accounting policy information in Note 7.

The disclosable consolidated interim condensed financial statements are presented in Russian roubles, the Group’s presentation currency and the functional currency for the majority of the Group’s subsidiaries.

**PAO NOVATEK****Notes to the Disclosable Consolidated Interim Condensed Financial Statements (unaudited)**

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

**3 PROPERTY, PLANT AND EQUIPMENT**

Movements in property, plant and equipment are as follows:

<i>For the six months ended 30 June 2023</i>	<b>Oil and gas properties and equipment</b>	<b>Assets under construction and advances for construction</b>	<b>Other</b>	<b>Total</b>
Cost	1,166,365	231,888	52,591	1,450,844
Accumulated depreciation, depletion and amortization	(404,848)	-	(10,285)	(415,133)
<b>Net book value at 1 January 2023</b>	<b>761,517</b>	<b>231,888</b>	<b>42,306</b>	<b>1,035,711</b>
Additions	235	96,591	-	96,826
Transfers	27,246	(36,439)	9,193	-
Change in asset retirement costs	173	348	-	521
Depreciation, depletion and amortization	(34,293)	-	(1,536)	(35,829)
Disposals, net	(124)	(38)	(20)	(182)
Currency translation differences	2,868	10,370	41	13,279
Cost	1,196,961	302,720	61,880	1,561,561
Accumulated depreciation, depletion and amortization	(439,339)	-	(11,896)	(451,235)
<b>Net book value at 30 June 2023</b>	<b>757,622</b>	<b>302,720</b>	<b>49,984</b>	<b>1,110,326</b>

For the six months ended 30 June 2023, the Group's cash used for purchase of property, plant and equipment amounted to RR 92,191 million.

**4 LONG-TERM DEBT**

	<b>At 30 June 2023</b>
Eurobonds	-
Bonds – Three -Year Tenor (par value RUB 30 billion, repayable in 2026)	29,934
Bank loans	118,990
<b>Total</b>	<b>148,924</b>
Less: current portion of long-term debt	(972)
<b>Total long-term debt</b>	<b>147,952</b>

**Eurobonds.** In January 2023, within the allowed by the Eurobonds documentation timeframe, the Group transferred funds to the account of the issuer of Eurobonds ("Novatek Finance Designated Activity Company"), which were credited to its account and redirected to the international clearing systems for distribution to the holders of Eurobonds in February 2023. Thus, the Group fulfilled all its obligations in relation to Eurobonds. At 30 June 2023, the Group's Eurobonds have been fully redeemed.

**Bonds.** In May 2023, the Group issued Bonds denominated in Russian rouble in the amount of RUB 30 billion with an annual coupon rate of 9.1 percent, payable quarterly. The Bonds have a three-year tenor and are repayable in May 2026.

**Fair value.** At 30 June 2023, the fair value of long-term debt including its current portion was RR 145,521 million. The fair value of long-term debt was determined based on future cash flows discounted at the estimated risk-adjusted discount rate (Level 3 in the fair value measurement hierarchy), except for the fair value of Bonds, which was determined based on available active market quote prices (Level 1 in the fair value measurement hierarchy).

**PAO NOVATEK****Notes to the Disclosable Consolidated Interim Condensed Financial Statements (unaudited)**

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

**5 FINANCE INCOME (EXPENSE)**

	Three months ended 30 June 2023	Six months ended 30 June 2023
<i>Interest expense (including transaction costs)</i>		
Interest expense	2,206	3,993
Less: capitalized interest	(2,206)	(3,993)
<b>Interest expense on debt</b>	<b>-</b>	<b>-</b>
Interest expense on lease liabilities	181	502
Provisions for asset retirement obligations: effect of the present value discount unwinding	101	183
<b>Total interest expense</b>	<b>282</b>	<b>685</b>
	Three months ended 30 June 2023	Six months ended 30 June 2023
<i>Foreign exchange gain (loss)</i>		
Gains	124,136	195,650
Losses	(35,311)	(38,816)
<b>Total foreign exchange gain (loss), net</b>	<b>88,825</b>	<b>156,834</b>

**6 INCOME TAX**

**Effective income tax rate.** The Russian statutory income tax rate for 2023 for the Company was 20 percent.

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

For the six months ended 30 June 2023, the Group made cash payments for income tax in the amount of RR 64,340 million.

Without the effect of profit (loss) from joint ventures and the effects from change in perimeter of consolidation, the effective income tax rate for the three and six months ended 30 June 2023 was 17.7 percent.

**7 MATERIAL ACCOUNTING POLICY INFORMATION**

**Principles of consolidation.** These disclosable consolidated interim condensed 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 disclosable consolidated interim condensed financial statements on a line-by-line basis.

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**7 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**

Under the equity method, an investment in a joint venture is initially recognized at cost.

Post-acquisition changes in the Group's share of net assets of a joint venture are recognized as follows: (a) the Group's share of profits or losses is recorded in the consolidated profit or loss for the year as share of financial result of joint ventures; (b) the Group's share of other comprehensive income or loss is recognized in other comprehensive income or loss and presented separately; (c) dividends received or receivable from a joint venture are recognized as a reduction in the carrying amount of the investment; (d) all other changes in the Group's share of the carrying value of net assets of a joint venture are recognized within retained earnings in the consolidated statement of changes in equity.

After application of the equity method, including recognizing the joint venture's losses, the entire carrying amount of the investment is tested for impairment as a single asset whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. The interest in a joint venture is the carrying amount of the investment in the joint venture together with any long-term interests that, in substance, form part of the Group's net investment in the joint venture, including receivables and loans for which settlement is neither planned nor likely to occur in the foreseeable future.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in joint ventures; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Business combinations.** The acquisition method of accounting is used to account for acquisitions of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognized in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

**Disposals of subsidiaries, associates or joint ventures.** When the Group ceases to control a subsidiary as a result of its contribution to a joint venture, a joint operation or an associate, the subsidiary is deconsolidated and the retained interest in the entity is remeasured to its fair value only to the extent of the unrelated investors' interest in the joint venture, the joint operation or the associate, with the change in carrying amount recognized in profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained or replaced with significant influence, the Group continues to apply the equity method and does not remeasure the retained interest.

**Functional and presentation currency.** Transactions denominated in foreign currencies are converted into the functional currency of each Group's entity at the exchange rates prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency of each Group's entity by applying the year end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies valued at historical cost are converted into the functional currency of each Group's 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.

**7 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**

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.

**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, whereas exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of non-proven reserves and other expenditures relating to exploration activity), excluding exploratory drilling expenditures and exploration license acquisition costs, are recognized within operating expenses in the consolidated statement of income as incurred.

Exploration license acquisition costs and exploratory drilling costs are recognized as exploration assets within property, plant and equipment until it is determined whether proved reserves justifying their commercial development have been found. If no proved reserves are found, the relevant costs are charged to the consolidated statement of income. When proved reserves are determined, exploration license acquisition costs are reclassified to proved properties acquisition costs and exploratory drilling costs are reclassified to development expenditure categories within property, plant and equipment. Exploration license acquisition costs and exploratory drilling costs recognized as exploration assets are reviewed for impairment on an annual basis.

The costs of 3-D seismic surveys used to assist production, increase total recoverability and determine the desirability of drilling additional development wells within proved reservoirs are capitalized as development costs. All other seismic costs are expensed as incurred.

Production costs and overheads are charged to expense as incurred.

**Property, plant and equipment.** Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion, amortization and impairment.

The cost of self-constructed assets includes the cost of direct materials, direct employee related costs, a pro-rata portion of depreciation of assets used for construction and an allocation of the Group's overhead costs.

Depreciation, depletion and amortization of oil and gas properties and equipment is calculated using the unit-of-production method for each field based upon total proved reserves for costs associated with acquisitions of proved properties and common infrastructure facilities, and proved developed reserves for other development costs, including wells.

Where unit-of-production method does not reflect useful life and pattern of consumption of particular oil and gas assets, such as processing facilities serving several properties, those assets are depreciated on a straight-line basis.

Property, plant and equipment, other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Land and assets under construction are not depreciated.

The estimated useful lives of the Group's property, plant and equipment depreciated on a straight-line basis are as follows:

	<b>Years</b>
Machinery and equipment	5-15
Processing facilities	20-30
Buildings	25-50

**7 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**

At each reporting date management assesses whether there is any indication of impairment in respect of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less selling costs and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the reporting period. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

**Borrowing costs.** Interest costs on borrowings and exchange differences arising from foreign currency borrowings (to the extent that they are regarded as an adjustment to interest costs) used to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are recognized in the consolidated statement of income.

**Asset retirement obligations.** An asset retirement obligation is recognized when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment whose construction is substantially completed. The obligation is recognized when incurred at the present value of the estimated costs of dismantling the assets, including abandonment and site restoration costs, and are included within the carrying value of property, plant and equipment.

Changes in the asset retirement obligation relating to a change in the expected pattern of settlement of the obligation, or in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the current period. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability. Changes in the obligation resulting from the passage of time are recognized in the consolidated statement of income as interest expense.

**Leases.** A contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets are initially measured at cost and depreciated by the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The cost of right-of-use assets comprises initial measurement of the lease liability, any lease payments made before or at the commencement date and initial direct costs. After the commencement date, the right-of-use assets are carried at cost less accumulated depreciation and impairment losses in accordance with IAS 16, *Property, Plant and Equipment*.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and subsequently measured at amortised cost with the interest expense recognized within finance income (expense) in the consolidated statement of income.

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

Lease contracts where the Group acts as the lessor are classified as operating leases when substantially all the risks and rewards incidental to ownership do not transfer to the lessee. Lease payments under such contracts are recognized on a straight-line basis within other revenue in the consolidated statement of income.

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

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

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

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**7 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**

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

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

**Financial instruments.** Financial assets are classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income.

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.

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

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

The Group's non-derivative financial liabilities are measured at amortised cost. Derivatives are classified as at fair value through profit or loss. The Group does not apply hedge accounting.

Where there is an active market for a commodity, commodity contracts are accounted for as derivatives except for contracts that were entered into 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.

An allowance for expected credit losses ("ECL") shall be recorded for financial assets classified as at amortised cost. Loss allowances are measured on either of the following bases: 12-month ECLs that result from possible default events within the 12 months after the reporting date; and lifetime ECLs that result from all possible default events over the expected life of a financial instrument.

**Guarantees issued.** The Group issued a number of guarantees, financial and non-financial, for the obligations of its joint ventures.

Non-financial guarantees contracts issued by the Group meet the definition of insurance contracts and are accounted in accordance with IFRS 17, *Insurance Contracts*. Recognition and measurement of groups of insurance contracts is performed at a risk-adjusted present value of the future cash flows to fulfill these contracts that is consistent with observable market information, plus an amount representing an unearned profit under these contracts (the contractual service margin).

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**7 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**

Financial guarantees contracts issued are initially recognized as a liability at fair value. They are subsequently measured at the higher of two amounts: the amount of the loss allowance determined in accordance with IFRS 9, *Financial Instruments*, and the amount initially recognized less, where applicable, the accumulated income recognized in accordance with IFRS 15, *Revenue from Contracts with Customers*.

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

The income tax charge or benefit comprises current tax and deferred tax and is recognized in the profit or loss 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.

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. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes balances relate to the same taxation authority and the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted with respect to individual companies of the Group or, if relevant, 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.

**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 sales of hydrocarbons 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.

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**7 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**

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.

**Reverse excise on raw oil.** The Group receives the reverse excise on raw oil (a mixture of hydrocarbons composed of one or more components of crude oil, stable gas condensate, vacuum gasoil, tar and fuel oil) based on volumes of stable gas condensate sent for processing to its Gas Condensate Fractionation and Transshipment Complex at Ust-Luga including the investment premium under an investment agreement for construction of a hydrocracker unit with the respective expansion of the Ust-Luga complex.

The Group assessed the requirements of IAS 20 and applied judgement in decision to account for the reverse excise on raw oil on an accruals basis in the consolidated statement of income, as a deduction to expense for purchases of hydrocarbons for the respective period, as most of unstable gas condensate volumes used to produce stable gas condensate the Group purchases from its joint ventures.

**Accounting for certain multiple arrangements as a single transaction.** The Group accounts for certain multiple arrangements as a single transaction considering their terms, conditions and economic effects. One or more of the following may indicate that multiple arrangements should be accounted as a single transaction: they are entered into at the same time or in contemplation of each other; they form a single transaction designed to achieve an overall commercial effect; the occurrence of one arrangement is dependent on the occurrence of at least one other arrangement; one arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements.

**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 easily 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.

**8 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

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

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

For commodity derivative contracts where observable information is not available, fair value estimations are determined using mark-to-market analysis and other acceptable valuation methods, for which the key inputs include future prices, volatility, price correlation, counterparty credit risk and market liquidity.

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.

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**8 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)**

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.

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

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

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

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

**Impairment of investments in joint ventures and property, plant and equipment.** Management assesses whether there are any indicators of possible impairment of investments in joint ventures and property, plant and equipment at each reporting date based on events or circumstances that indicate that the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

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

**8 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)**

The Group's management believes that due the absence or 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 revisions and changes in laws and regulations and their interpretation thereof. Estimating 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.

**PAO NOVATEK**  
**Contact Information**

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

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