PAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

AND INDEPENDENT AUDITOR'S REPORT

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# **Independent Auditor's Report**

To the Shareholders and Board of Directors of PAO NOVATEK:

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PAO NOVATEK (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2021, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- · the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

#### Basis for opinion

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

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

#### Independence

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



# 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

## Accounting for trading activities in Europe

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

These contracts include pricing terms that are based on a variety of commodities and indices, and/or volume flexibility options. Certain contracts involve the physical delivery of hydrocarbons.

The fair value of commodity derivative contracts is determined based on available futures quotes in the active market or valuation techniques and models.

We focused on this area because of the commodity price volatility that may have a significant impact on the Group's results from natural gas foreign trading and derivative instruments.

Information on the trading activities is disclosed in Note 26 of the consolidated financial statements.

## How our audit addressed the key audit matter

We updated our understanding of approach to measurement and recognition of commodity derivative contracts by the Group.

We assessed the appropriateness of the valuation methodology applied and the integrity of the models used

We ensured that all valid significant commodity derivative contracts were taken into account for the purpose of fair value measurement of commodity derivative contracts.

For significant commodity derivative contracts we identified the market data inputs used by the Group and tested these against independent data.

For significant commodity derivative contracts we tested the accuracy of the contractual inputs and the appropriateness of key valuation inputs to ensure that the resulting valuation is reasonable.

We reviewed the disclosures relating to commodity derivative contracts against requirements of IFRS 7 and IFRS 13.



Other matter – Materi	iality and Group audit scope
Overview	
Materiality	Overall Group materiality: Russian Roubles ("RUB") 13,500 million which represents 4% of adjusted profit before tax excluding currency exchange differences, net gain on disposal of interests in subsidiaries and joint ventures and the Group's share of joint ventures' currency exchange differences net of income tax.
Group scoping	<ul> <li>We conducted audit work covering all significant components in Russia, Switzerland, Singapore and Republic of Cyprus.</li> </ul>
	<ul> <li>Our audit scope addressed more than 99% of the Group's revenues and more than 99% of absolute value of income and</li> </ul>

#### Materiality

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.

expense items forming the Group's underlying profit before tax.

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 13,500 million
How we determined it	4% of adjusted profit before tax excluding currency exchange differences, net gain on disposal of interests in subsidiaries and joint ventures and share of joint ventures' currency exchange differences net of income tax.



# Rationale for the materiality benchmark applied

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The use of adjusted profit before tax mitigates the effect of volatility (that could be material) caused by non-recurring factors such as gains on disposals of assets and foreign exchange differences and provides a more stable basis for determining materiality, focusing on the underlying profitability of the Group.

We chose 4% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector and prior year approach.

#### How we tailored our Group audit scope

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

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

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

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

### Other information

Management is responsible for the other information. The other information comprises report "Management's discussion and analysis of financial condition and results of operations of PAO NOVATEK for the years ended 31 December 2021 and 2020" (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 "Securities Issuer's Report for the 12 months 2021" as well as "Annual Report of PAO NOVATEK for 2021", which are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read



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

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

When we read the "Annual Report of PAO NOVATEK for 2021" and "Securities Issuer's Report for the 12 months 2021", if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures
  that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the
  effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
   We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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.

M.E. Timchenko is authorised to sign on behalf of the general director of AO PricewaterhouseCoopers Audit (Principal Registration Number of the Record in the Register of Auditors and Audit Organizations

Price waterhouse Coopers Audit

(PRNR) – 12006020338), certified auditor (PRNR – 21906100451)

15 February 2022

Moscow, Russian Federation,

## **Consolidated Statement of Financial Position**

(in millions of Russian roubles)

	Notes	At 31 December 2021	At 31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	5	870,541	729,407
Investments in joint ventures	6	572,184	450,632
Long-term loans and receivables	7	310,001	391,053
Other non-current assets	8	127,871	125,152
Total non-current assets	·	1,880,597	1,696,244
Current assets			
Inventories	9	17,681	10,723
Current income tax prepayments		550	302
Trade and other receivables	10	129,499	71,255
Prepayments and other current assets	11	323,240	98,071
Short-term bank deposits			
with original maturity more than three months		60,177	62,876
Cash and cash equivalents	12	45,920	119,707
Total current assets	_	577,067	362,934
Total assets		2,457,664	2,059,178
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	13	67,014	168,988
Long-term lease liabilities	26	3,426	6,670
Deferred income tax liabilities	25	69,113	64,132
Asset retirement obligations		11,556	14,397
Other non-current liabilities		6,303	6,568
Total non-current liabilities	-	157,412	260,755
Current liabilities			
Short-term debt and current portion of long-term debt	14	113,029	53,152
Current portion of long-term lease liabilities	26	3,589	3,798
Trade payables and accrued liabilities	16	246,419	83,995
Current income tax payable		5,593	3,048
Other taxes payable		20,153	16,003
Total current liabilities	_	388,783	159,996
Total liabilities		546,195	420,751
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(33,293)	(20,386)
Additional paid-in capital		31,297	31,297
Currency translation differences		9,202	2,652
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		1,881,186	1,600,391
Total equity attributable to PAO NOVATEK shareholders	17	1,894,402	1,619,964
Non-controlling interest		17,067	18,463
<b>Total equity</b>		1,911,469	1,638,427
- com office,			

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

L.V. Mikhelson

Chairman of the Management Committee

V.N. Belyakov

Deputy Chairman of the Management Board for Economics and Finance

15 February 2022

## PAO NOVATEK

# **Consolidated Statement of Income**

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

		Year ended 31 Dec	ember:
	Notes	2021	2020
Revenues			
Oil and gas sales	18	1,135,206	699,750
Other revenues		21,518	12,062
Total revenues		1,156,724	711,812
Operating expenses			
Purchases of natural gas and liquid hydrocarbons	19	(497,282)	(235,224)
Transportation expenses	20	(161,506)	(154,757)
Taxes other than income tax	21	(88,506)	(54,501)
Depreciation, depletion and amortization	5	(56,599)	(39,238)
Materials, services and other	22	(34,442)	(29,577)
General and administrative expenses	23	(34,250)	(26,795)
Exploration expenses	5	(9,582)	(9,103)
Impairment expenses, net		(1,908)	(254)
Changes in natural gas,			
liquid hydrocarbons and work-in-progress		8,916	(2,613)
Total operating expenses		(875,159)	(552,062)
Gain on disposal of interests in subsidiaries, net	4	662	69
Other operating income (loss), net	26	(3,181)	(46,807)
Profit from operations		279,046	113,012
Finance income (expense)			
Interest expense	24	(8,464)	(4,939)
Interest income	24	16,000	25,440
Change in fair value of non-commodity financial instruments	26	19,600	(7,397)
Foreign exchange gain (loss), net	24	(37,255)	147,461
Total finance income (expense)		(10,119)	160,565
Share of profit (loss) of joint ventures, net of income tax	6	232,277	(143,981)
Profit before income tax		501,204	129,596
Income tax expense			
Current income tax expense		(44,731)	(52,016)
Deferred income tax benefit (expense), net		(4,852)	1,006
Total income tax expense	25	(49,583)	(51,010)
Profit		451,621	78,586
Profit attributable to:			
Non-controlling interest		18,694	10,754
Shareholders of PAO NOVATEK		432,927	67,832
Basic and diluted earnings per share (in Russian roubles)		144.23	22.58
Weighted average number of shares outstanding (in millions)		3,001.5	3,004.5

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

# PAO NOVATEK

# **Consolidated Statement of Comprehensive Income**

(in millions of Russian roubles)

		Year ended 31 De	ecember:
	Notes	2021	2020
Profit		451,621	78,586
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to profit (I	oss)		
Remeasurement of pension obligations Share of remeasurement	15	1,055	(92)
of pension obligations of joint ventures		212	(80)
		1,267	(172)
Items that may be reclassified subsequently to profit (loss	)		
Currency translation differences		6,442	(43)
Share of currency translation differences of joint ventures		108	(1,119)
		6,550	(1,162)
Other comprehensive income (loss)		7,817	(1,334)
Total comprehensive income		459,438	77,252
Total comprehensive income attributable to:			
Non-controlling interest		18,694	10,754
Shareholders of PAO NOVATEK		440,744	66,498

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

(in millions of Russian roubles)

		Year ended 31 Dec	
	Notes	2021	2020
Profit before income tax		501,204	129,596
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		56,599	39,238
Impairment expenses, net		1,908	254
Foreign exchange loss (gain), net		37,255	(147,461)
Gain on disposal of interests in subsidiaries, net	4	(662)	(69)
Interest expense		8,464	4,939
Interest income		(16,000)	(25,440)
Share of loss (profit) of joint ventures, net of income tax	6	(232,277)	143,981
Change in fair value of non-commodity financial instruments		(19,600)	7,397
Revaluation of commodity derivatives and contingent		, ,	ŕ
consideration through profit or loss	26	2,600	49,512
Other adjustments		1,678	1,940
Decrease (increase) in long-term advances given		3,536	6,013
Working capital changes		3,330	0,013
Decrease (increase) in trade and other receivables,			
prepayments and other current assets		(78,254)	(12.766)
Decrease (increase) in inventories			(13,766)
		(9,739)	2,565
Increase (decrease) in trade payables and accrued liabilities,		50.079	(0.615)
excluding interest and dividends payable		59,078	(8,615)
Increase (decrease) in taxes payable, other than income tax		4,193	2,927
Total effect of working capital changes		(24,722)	(16,889)
Dividends and cash received from joint ventures		118,786	11,420
Interest received		8,832	8,442
Income taxes paid excluding payments			
relating to disposal of interests in subsidiaries		(28,135)	(40,977)
Net cash provided by operating activities		419,466	171,896
Cash flows from investing activities			
Purchases of property, plant and equipment	5	(171,620)	(181,195)
Payments for mineral licenses	5	(14,182)	(434)
Purchases of materials for construction		(13,659)	(17,039)
Purchases of intangible assets		(804)	(1,264)
Capital contributions to joint ventures	6	(1,749)	-
Proceeds from disposal of interests in			
subsidiaries and joint ventures, net of cash disposed	6	806	195,479
Income tax payments relating to disposal			
of interests in subsidiaries	4, 25	(73)	(23)
Interest paid and capitalized	5	(5,972)	(6,343)
Net decrease (increase) in bank deposits		( ) )	( ) /
with original maturity more than three months		1,667	43,057
Payments for acquisition of joint ventures	4	(1,655)	-
Guarantee fees paid		-	(855)
Loans provided to/acquisition of loans of joint ventures	7	(103,445)	(120,798)
Repayments of loans provided to joint ventures	7	57,551	41,543
Net cash used for investing activities		(253,135)	(47,872)

## PAO NOVATEK

# **Consolidated Statement of Cash Flows**

(in millions of Russian roubles)

		Year ended 31 De	cember:
	Notes	2021	2020
Cash flows from financing activities			
Proceeds from long-term debt		24,919	45,395
Repayments of long-term debt	13	(76,184)	(5,935)
Proceeds from short-term debt			
with original maturity more than three months		-	441
Repayments of short-term debt			
with original maturity more than three months		-	(441)
Increase (decrease) in short-term debt			
with original maturity three months or less, net		6,545	36
Loan commitment fee		=	(534)
Interest on debt paid		(2,253)	(2,402)
Dividends paid to shareholders of PAO NOVATEK	17	(154,332)	(89,857)
Dividends paid to non-controlling interest		(19,943)	(11,858)
Payments of lease liabilities		(3,687)	(4,649)
Purchases of treasury shares	17	(12,963)	(8,271)
Net cash used for financing activities		(237,898)	(78,075)
Net effect of exchange rate changes on cash and cash equiv	valents	(2,220)	20,518
Net increase (decrease) in cash and cash equivalents		(73,787)	66,467
Cash and cash equivalents at the beginning of the period		119,707	53,240
Cash and cash equivalents at the end of the period		45,920	119,707

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	Equity attributable to PAO NOVATEK shareholders	Non- controlling interest	Total equity
At 1 January 2020	3,011.2	393	(12,308)	31,297	3,814	5,617	1,618,696	1,647,509	19,567	1,667,076
Profit Other comprehensive loss	1 1	1 1	1 1	1 1	<u>.</u> (1,162)	1 1	67,832 (172)	67,832 (1,334)	10,754	78,586 (1,334)
Total comprehensive income (loss)					(1,162)		67,660	66,498	10,754	77,252
Dividends (Note 17)	ı	1	1	'	1	,	(89,857)	(89,857)	(11,858)	(101,715)
Effect from other changes in joint ventures' net assets (Note 6) Purchase of treasury shares (Note 17)	- (8.4)	1 1	- (8,078)	1 1	1 1	1 1	3,892	3,892 (8,078)	1 1	3,892 (8,078)
At 31 December 2020	3,002.8	393	(20,386)	31,297	2,652	5,617	1,600,391	1,619,964	18,463	1,638,427
Profit Other comprehensive income (loss)	1 1	1 1	1 1	1 1	- 6,550	1 1	432,927 1,267	432,927 7,817	18,694	451,621 7,817
Total comprehensive income (loss)					6,550		434,194	440,744	18,694	459,438
Dividends (Note 17)	1	ı	ı	ı	1	ı	(154,332)	(154,332)	(20,090)	(174,422)
Effect from other changes in joint ventures' net assets (Note 6) Purchase of treasury shares (Note 17)	- (7.2)	1 1	. (12,907)	1 1	1 1	1 1	933	933 (12,907)	1 1	933 (12,907)
At 31 December 2021	2,995.6	393	(33,293)	31,297	9,202	5,617	1,881,186	1,894,402	17,067	1,911,469

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

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

#### 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

The Group sells its natural gas on the Russian domestic market mainly through trunk pipelines and regional distribution networks, as well as sells liquefied natural gas ("LNG"), mainly through its refueling complexes. LNG sold on the domestic market is produced at the Group's small-scale LNG plant in the Chelyabinsk region or purchased primarily from the Group's joint venture OOO Cryogas-Vysotsk.

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

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

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 Europe.

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 July 2021, the Group acquired from PAO Gazprom Neft a 49 percent participation interest in OOO Gazpromneft-Sakhalin, the holder of the license for exploration and development of the Severo-Wrangelevskiy license area located in the eastern part of the East Siberian Sea and the western part of the Chukchi Sea (see Note 4).

In July 2021, the Group sold a 10 percent participation interest in OOO Arctic Transshipment to TOTAL E&P Transshipment SAS, a subsidiary of TotalEnergies SE (see Note 4). OOO Arctic Transshipment operates two LNG transshipment terminals currently under construction in the Kamchatka and Murmansk regions.

#### 2 BASIS OF PREPARATION

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

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

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

#### 2 BASIS OF PREPARATION (CONTINUED)

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

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

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

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

	At 31 Deco	ember:	Average rate for the year ended 31 December:		
Russian roubles to one currency unit	2021	2020	2021	2020	
US dollar (USD)	74.29	73.88	73.65	72.15	
Euro (EUR)	84.07	90.68	87.19	82.45	
Polish zloty (PLN)	18.30	20.01	19.10	18.54	

*Significant accounting policies.* The principal accounting policies are disclosed in Note 31. In 2021, the Group adopted all IFRS, amendments and interpretations which are effective 1 January 2021 and relevant to its operations. None of them had material impact on the Group's consolidated financial statements. In addition, the following amendments to the standards were early adopted by the Group starting from 1 January 2021:

Amendments to IAS 16, *Property, Plant and Equipment* (issued in May 2020 and effective for annual periods beginning on 1 January 2022, early adoption permitted). These amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognized in profit or loss. The Group assessed that the adoption of these amendments did not have a material impact on the Group's consolidated financial position as at the date of their initial application.

#### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 set requirements to decommission such assets upon the completion of production, in accordance with which the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Group's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling costs and other data.

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

In accordance with the guidelines of IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities, the amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation where the Group's respective operating assets are located, and is subject to change because of modifications, revisions and changes in laws and regulations and their interpretation thereof. Estimating 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.

#### 4 ACQUISITIONS AND DISPOSALS

## Acquisition of a participation interest in OOO Gazpromneft-Sakhalin

In June 2021, the Group entered into an agreement for acquisition from PAO Gazprom Neft of a 49 percent participation interest in OOO Gazpromneft-Sakhalin for a cash consideration of RR 1,655 million. The transaction was closed in July 2021. OOO Gazpromneft-Sakhalin holds the license for exploration and development of the Severo-Wrangelevskiy license area located in the eastern part of the East Siberian Sea and the western part of the Chukchi Sea.

The Charter of Gazpromneft-Sakhalin stipulates that key financial and operating decisions regarding its business activities require effectively the unanimous approval by both participants. Therefore, the voting mechanism effectively establishes joint control over OOO Gazpromneft-Sakhalin and the Group accounts for the investment in this entity under the equity method.

In accordance with IFRS 11 "Joint Arrangements", the Group assessed fair values of the identified assets and liabilities of OOO Gazpromneft-Sakhalin at the acquisition date, which primarily related to the property, plant and equipment. Purchase consideration approximated fair value of the Group's share in net assets of OOO Gazpromneft-Sakhalin.

#### 4 ACQUISITIONS AND DISPOSALS (CONTINUED)

#### Disposal of a 10 percent participation interest in OOO Arctic Transshipment

In June 2021, the Group and TOTAL E&P Transshipment SAS, a subsidiary of TotalEnergies SE, entered into an agreement for acquisition by TOTAL E&P Transshipment SAS of a 10 percent participation interest in OOO Arctic Transshipment, the operator of two LNG transshipment terminals currently under construction in the Kamchatka and Murmansk regions. The transaction was closed in July 2021.

Consideration comprises the cash payment in the amount of RR 368 million (equivalent of USD 5 million) which was received in July 2021, as well as potential payments in the amount of up to USD 20 million equivalent subject to certain events in the future.

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

At 30 June 2021, the conditions for recognition of OOO Arctic Transshipment as an asset held for sale had been met in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*.

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

The gain on disposal of a 10 percent participation interest amounted to RR 662 million, before associated current income tax of RR 73 million.

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

KK million
3,137
62
137
1,211
(4,091)
(115)
(111)
230

## Disposal of OOO Chernichnoye

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

#### 5 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment are as follows:

	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	609,958	168,743	22,294	800,995
Accumulated depreciation,	,		,	
depletion and amortization	(238,633)	-	(5,564)	(244,197)
Net book value at 1 January 2020	371,325	168,743	16,730	556,798
Additions	3,267	206,770	_	210,037
Transfers	124,504	(130,369)	5,865	-
Disposal of subsidiary (see Note 4)	(613)	(19)	(1)	(633)
Change in asset retirement costs	1,352	-	-	1,352
Depreciation, depletion and amortization	(36,852)	-	(1,691)	(38,543)
Disposals, net	(5)	(1,739)	(108)	(1,852)
Currency translation differences	1,962	230	56	2,248
Cost	737,953	243,616	28,107	1,009,676
Accumulated depreciation,				
depletion and amortization	(273,013)	-	(7,256)	(280,269)
Net book value at 31 December 2020	464,940	243,616	20,851	729,407
Additions	16,590	189,576	-	206,166
Transfers	167,396	(171,811)	4,415	-
Change in asset retirement costs	(3,608)	-	-	(3,608)
Depreciation, depletion and amortization	(54,289)	-	(1,823)	(56,112)
Impairment	(229)	(347)	-	(576)
Reclassification to assets held for sale (see Note 3)	(1,263)	(1,863)	(11)	(3,137)
Disposals, net	(198)	(870)	(78)	(1,146)
Currency translation differences	(364)	(71)	(18)	(453)
Cost	915,098	258,230	32,169	1,205,497
Accumulated depreciation, depletion and amortization	(326,123)	-	(8,833)	(334,956)
Net book value at 31 December 2021	588,975	258,230	23,336	870,541

Included in additions to property, plant and equipment for the years ended 31 December 2021 and 2020 are capitalized interest and foreign exchange differences of RR 8,453 million and RR 10,624 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 65,307 million and RR 66,415 million at 31 December 2021 and 2020, respectively.

In September 2021, the Group purchased through auctions oil and gas exploration and production licenses for the Arkticheskoye and Neytinskoye license areas located on the Yamal peninsula in the YNAO for the total amount of RR 13,155 million, which was included within oil and gas properties and equipment.

In March 2021, the Group won an auction for an oil and gas exploration and production license for the North-Gydanskiy license area located in the YNAO on the Gydan peninsula and partly in the shallow waters of the Gydan Bay of the Kara Sea for a payment of RR 775 million, which was included within oil and gas properties and equipment.

#### 5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 2021	At 31 December 2020
Proved properties acquisition costs	118,738	103,002
Less: accumulated depreciation, depletion and		
amortization of proved properties acquisition costs	(23,509)	(21,856)
Unproved properties acquisition costs	11,837	10,924
Total acquisition costs	107,066	92,070

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

Reconciliation of depreciation, depletion and amortization (DDA):

	Year ended 31 December:		
	2021	2020	
Depreciation, depletion and amortization of property, plant and equipment	56,112	38,543	
Add: DDA of intangible assets	716	1,091	
Less: DDA capitalized in the course of intra-group construction services	(229)	(396)	
DDA as presented in the consolidated statement of income	56,599	39,238	

At 31 December 2021 and 2020, no property, plant and equipment were pledged as security for the Group's borrowings. In 2021, the Group recognized an impairment of property, plant and equipment in the amount of RR 576 million in respect of assets related to Yumantylskiy license area as a result of the decision to return the license in 2022. In 2020, no impairment of property, plant and equipment was recognized.

Capital commitments are disclosed in Note 27.

*Leases.* Included in property, plant and equipment at 31 December 2021 and 2020 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 2020	9,745	466	10,211
Additions	547	409	956
Depreciation, depletion and amortization	(2,864)	(264)	(3,128)
Other movements	1,755	45	1,800
Net book value at 31 December 2020	9,183	656	9,839
Additions	13	59	72
Depreciation, depletion and amortization	(2,901)	(215)	(3,116)
Disposals, net	-	(5)	(5)
Other movements	(148)	(17)	(165)
Net book value at 31 December 2021	6,147	478	6,625

The maturity analysis of lease liabilities is disclosed in Note 26.

#### 5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in property, plant and equipment at 31 December 2021 are the assets subject to operating lease agreements where the Group is a lessor with carrying value of RR 139,299 million and accumulated depreciation of RR 12,590 million (2020: RR 39,328 million and RR 1,415 million). These operating lease agreements primarily relate to leasing of facilities of the Group's the LNG construction center located in the Murmansk region, used for the construction of LNG plants, as soon as these facilities become ready for their intended use.

Income from operating lease is recognized in the line item "Other revenues" in the consolidated statement of income, and for the years ended 31 December 2021 and 2020 was RR 11,103 million and RR 5,668 million, respectively.

At 31 December 2021, future undiscounted lease payments to be received under operating lease agreements, where the Group is a lessor, for the period up to their maturity (primarily through 2024) amounted to RR 70 billion (2020: RR 73 billion).

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

_	Year ended 31 December		
_	2021	2020	
Net book value of assets at 1 January	15,310	20,382	
Additions	17,989	10,998	
Write off to exploration expenses	(405)	(1,372)	
Reclassification to proved properties and development expenditures	(17,437)	(14,698)	
Net book value of assets at 31 December	15,457	15,310	
Liabilities	842	190	
Cash flows used for operating activities	9,106	8,466	
Cash flows used for investing activities	16,837	10,453	

For the years ended 31 December 2021 and 2020, the Group has recognized exploration expenses within operating expenses in the amount of RR 9,582 million and RR 9,103 million, respectively. These expenses included employee compensations in the amount of RR 697 million and RR 621 million, respectively.

#### 6 INVESTMENTS IN JOINT VENTURES

	At 31 December 2021	At 31 December 2020
Joint ventures:		
OOO Arctic LNG 2	264,035	250,470
OAO Yamal LNG	132,505	· <u>-</u>
AO Arcticgas	118,387	151,886
ZAO Nortgas	43,701	43,805
ZAO Terneftegas	5,771	4,157
OOO Cryogas-Vysotsk	3,835	· <u>-</u>
OOO Gazpromneft-Sakhalin	3,288	_
OOO Arctic Transshipment	492	-
OOO SMART LNG	170	28
Rostock LNG GmbH	-	286
Total investments in joint ventures	572,184	450,632

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

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

#### 6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

**OOO** Arctic LNG 2. The Group holds a 60 percent ownership in OOO Arctic LNG 2, along with TotalEnergies SE (10 percent), CNPC (10 percent), CNOOC Limited (10 percent) and Japan Arctic LNG B.V. (10 percent). Arctic LNG 2 undertakes a project to construct a liquefied natural gas plant on the Gydan peninsula based on the hydrocarbon resources of the Salmanovskoye (Utrenneye) field (the "Arctic LNG 2 project"). The project will have an annual nameplate capacity of 19.8 million tons (three LNG trains of 6.6 million tons of LNG per annum each).

For the year ended 31 December 2020, the Group received cash transfers in the amount of RR 195,324 million (the equivalent of USD 2,800 million) from the sales of a 40 percent participation interest in OOO Arctic LNG 2 in 2019.

At 31 December 2021, the Group's 60 percent ownership in Arctic LNG 2 was pledged in connection with credit line facility agreements signed by Arctic LNG 2 to obtain external project financing.

*OAO Yamal LNG.* The Group holds a 50.1 percent ownership in Yamal LNG, along with TotalEnergies SE (20 percent), CNPC (20 percent) and Silk Road Fund Co. Ltd. (9.9 percent). Yamal LNG undertakes a project on natural gas production, liquefaction and shipping based on the feedstock resources of the South-Tambeyskoye field located in YNAO (the "Yamal LNG project"). Annual nameplate capacity of the liquefaction plant after the launch of the fourth LNG train in May 2021 is 17.4 million tons of LNG (5.5 million tons for the first three trains and 0.9 million tons for the fourth train).

At 31 December 2021 and 2020, the Group's 50.1 percent ownership in Yamal LNG was pledged in connection with credit line facility agreements signed by Yamal LNG with a number of Russian and foreign banks to obtain external project financing.

The Group's investment in Yamal LNG at 31 December 2020 was valued at RR nil in the consolidated statement of financial position due to the Group's proportionate share of accumulated losses exceeding the Group's cost of investment in the amount of RR 27,763 million as a result of significant non-cash foreign exchange losses. For the year ended 31 December 2021, the Group's share of profit of Yamal LNG amounted to RR 175,756 million of which RR 27,763 million were not recognized in the consolidated statement of income as were offset against the previously unrecognized share of losses.

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

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

**ZAO Terneftegas.** The Group holds a 51 percent ownership in Terneftegas, its joint venture with TotalEnergies SE. Terneftegas operates the Termokarstovoye field, located in the YNAO.

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

At 31 December 2021 and 2020, the Group's 51 percent participation interest in Cryogas-Vysotsk was pledged in connection with credit line facility agreements signed by the joint venture to obtain project financing.

The Group's investment in Cryogas-Vysotsk at 31 December 2020 was valued at RR nil in the consolidated statement of financial position due to the Group's proportionate share of accumulated losses exceeding the Group's cost of investment in the amount RR 2,483 million as a result of significant non-cash foreign exchange losses. For the year ended 31 December 2021, the Group's share of profit in OOO Cryogas-Vysotsk amounted to RR 6,318 million of which RR 2,483 million were not recognized in the consolidated statement of income as were offset against the previously unrecognized share of losses.

*OOO Gazpromneft-Sakhalin.* The Group holds a 49 percent participation interest in OOO Gazpromneft-Sakhalin acquired in July 2021 (see Note 4). OOO Gazpromneft-Sakhalin is a joint venture with PAO Gazprom Neft (51 percent). The joint venture holds the license for exploration and development of the Severo-Wrangelevskiy license area located in the eastern part of the East Siberian Sea and the western part of the Chukchi Sea.

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

#### 6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

**OOO** Arctic Transshipment. In July 2021, the Group sold a 10 percent participation interest in OOO Arctic Transshipment, which was a Group's subsidiary at that time, to TOTAL E&P Transshipment SAS (see Note 4).

The Group retained a 90 percent participation interest in OOO Arctic Transshipment after closing the transaction and began to exercise joint control over the company. The Group determined Arctic Transshipment to be a joint venture and accounts for this investment under the equity method.

Arctic Transshipment operates two LNG transshipment terminals currently under construction in the Kamchatka and Murmansk regions.

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

At 31 December 2021, the Group's 50 percent participation interest in SMART LNG was pledged in connection with lease agreements for Arctic ice-class LNG tankers entered into by SMART LNG.

**Rostock LNG GmbH.** As at 31 December 2020, the Group held a 49 percent ownership interest in Rostock LNG GmbH, its joint venture with Fluxys Germany Holding GmbH. In September 2021, shareholders made a decision to liquidate Rostock LNG GmbH.

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

	Year ended 31 December:	
	2021	2020
At 1 January	450,632	585,340
Share of profit from operations	330,357	113,952
Share of finance income (expense)	(10,205)	(325,707)
Share of total income tax benefit (expense)	(57,630)	37,529
Unrecognized share of loss (profit) of joint ventures	(30,245)	30,245
Share of profit (loss) of joint ventures, net of income tax	232,277	(143,981)
Share of other comprehensive income (loss) of joint ventures	320	(1,198)
Dividends and cash from joint ventures	(118,786)	(10,920)
Effect from other changes in joint ventures' net assets	933	3,892
Capital contributions	1,794	-
Sale of interests in subsidiaries resulting in the recognition		
of investments in joint ventures (see Note 4)	525	(71)
Acquisitions of joint ventures (see Note 4)	1,655	· -
Effect from initial measurement of loans provided by the Group to joint		
ventures (see Note 26) net of deferred income tax	-	17,418
Group's costs capitalized in investments	-	1,173
Elimination of the Group's share in unrealized profits of joint ventures		
from balances of hydrocarbons purchased from joint ventures	2,834	(1,021)
At 31 December	572,184	450,632

For the years ended 31 December 2021 and 2020, Arcticgas declared and paid dividends in the total amount of RR 198.7 billion and RR 20.5 billion, respectively, of which RR 99.4 billion and RR 10.25 billion, respectively, were attributable to NOVATEK.

For the years ended 31 December 2021 and 2020, the Group received from Terneftegas cash and dividends distributed to the Group in the total amount of RR 3.7 billion and RR 0.67 billion, respectively.

For the year ended 31 December 2021, Yamal LNG declared and paid dividends in the total amount of RR 31.4 billion, of which RR 15.7 billion were attributable to NOVATEK.

#### 6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the year ended 31 December 2021, the capital of OOO Gazpromneft-Sakhalin was increased through proportional contributions by its participants totalling RR 3,351 million, of which RR 1,642 million were contributed by the Group.

In 2021, the participants of OOO SMART LNG made a decision to increase its capital through proportional contributions totaling RR 304 million, of which RR 152 million are attributable to the Group.

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

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

The Group eliminates its share in unrealized profits of joint ventures from the balances of natural gas and liquid hydrocarbons purchased from the joint ventures.

The summarized statements of financial position and statements of comprehensive income (loss) for the Group's principal joint ventures as at and for the year ended 31 December 2021 are as follows (100 percent base):

At 31 December 2021	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Property, plant and equipment				
and materials for construction	1,284,025	421,917	2,394,640	110,614
Other non-current non-financial assets	112	1	2,918	23
Non-current financial assets	-	53	-	18
Total non-current assets	1,284,137	421,971	2,397,558	110,655
Cash and cash equivalents	70,044	2,568	49,647	1,361
Other current financial assets	6,299	29,491	79,497	1,834
Current non-financial assets	23,120	4,232	38,683	449
Total current assets	99,463	36,291	167,827	3,644
Non-current financial liabilities	(739,346)	(120,000)	(1,842,965)	_
Non-current non-financial liabilities	(48,991)	(55,011)	(10,003)	(20,839)
Total non-current liabilities	(788,337)	(175,011)	(1,852,968)	(20,839)
Trade payables and accrued liabilities	(46,795)	(13,146)	(22,449)	(690)
Other current financial liabilities	(152,235)	(10,000)	(413,328)	(3,876)
Current non-financial liabilities	(1,119)	(23,331)	(12,016)	(1,493)
Total current liabilities	(200,149)	(46,477)	(447,793)	(6,059)
Net assets	395,114	236,774	264,624	87,401

## 6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the year ended 31 December 2021	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Revenues Depreciation, depletion and amortization	3,995 (131)	294,834 (26,546)	668,861 (115,859)	19,028 (9,673)
Profit (loss) from operations	(1,029)	163,383	477,471	212
Interest expense Change in fair value	(349)	(6,570)	(112,588)	(635)
of non-commodity financial instruments Foreign exchange gain (loss), net	(7,895) 41,423	- 27	(59,896) 119,290	-
Profit (loss) before income tax Income tax benefit (expense)	<b>32,460</b> (9,850)	<b>157,500</b> (25,865)	<b>424,315</b> (73,279)	( <b>357</b> ) 72
Profit (loss), net of income tax	22,610	131,635	351,036	(285)
Ownership	60%	50%	50.1%	50%
Total based on ownership interest	13,566	65,818	175,774	(143)
Elimination of the Group's share in unrealized profits of joint ventures from balances of hydrocarbons purchased from joint ventures	-	(2,389)	(18)	(139)
Unrecognized share of profit of joint ventures	-	-	(27,763)	-
Share of profit (loss) of joint ventures, net of income tax	13,566	63,429	147,993	(282)

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 2021	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Net assets at 1 January 2021	372,505	303,771	(55,446)	87,610
Profit (loss), net of income tax Other comprehensive income (loss) Dividends	22,610 (1)	131,635 117 (198,749)	351,036 453 (31,419)	(285) 76
Net assets at 31 December 2021	395,114	236,774	264,624	87,401
Ownership	60%	50%	50.1%	50%
Group's share in net assets	237,068	118,387	132,505	43,701
Future capital contributions	26,967	-	-	-
Investments in joint ventures	264,035	118,387	132,505	43,701

At 31 December 2021, the Group's investment in OOO Arctic LNG 2 totaled RR 264,035 million, which differed from its share in the net assets of Arctic LNG 2. This difference of RR 26,967 million related to the Group's share in the future cash payments in the form of capital contributions by other participants representing a part of the consideration for the disposal of a 40 percent interest in OOO Arctic LNG 2.

# 6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

The summarized statements of financial position and statements of comprehensive income (loss) for the Group's principal joint ventures as at and for the year ended 31 December 2020 are as follows (100 percent base):

At 31 December 2020	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Property, plant and equipment				
and materials for construction	802,388	411,279	2,470,727	120,307
Other non-current non-financial assets	118	6	27,561	28
Non-current financial assets	937	63	12,619	12
Total non-current assets	803,443	411,348	2,510,907	120,347
Cash and cash equivalents	2,001	6,123	22,812	81
Other current financial assets	1,551	22,581	24,813	1,699
Current non-financial assets	14,180	14,930	34,137	343
Total current assets	17,732	43,634	81,762	2,123
Non-current financial liabilities	(373,463)	(30,000)	(2,339,045)	(3,860)
Non-current non-financial liabilities	(40,436)	(55,991)	(4,421)	(23,057)
Total non-current liabilities	(413,899)	(85,991)	(2,343,466)	(26,917)
Trade payables and accrued liabilities	(29,934)	(14,479)	(13,795)	(975)
Other current financial liabilities	(4,359)	(36,151)	(290,541)	(5,821)
Current non-financial liabilities	(478)	(14,590)	(313)	(1,147)
Total current liabilities	(34,771)	(65,220)	(304,649)	(7,943)
Net assets	372,505	303,771	(55,446)	87,610
For the year ended 31 December 2020	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Revenues	-	171,076	328,640	15,296
Depreciation, depletion and amortization	(20)	(30,645)	(109,950)	(6,938)
Profit (loss) from operations	(2,015)	73,677	151,821	(485)
Interest expense	(103)	(3,061)	(162,618)	(980)
Change in fair value				
of non-commodity financial instruments	(681)	-	31,172	-
Foreign exchange gain (loss), net	(40,523)	(45)	(444,213)	-
Profit (loss) before income tax	(43,268)	70,923	(423,780)	(1,393)
Income tax benefit (expense)	13,343	(11,376)	66,976	260
Profit (loss), net of income tax	(29,925)	59,547	(356,804)	(1,133)
Ownership	60%	50%	50.1%	50%
Total based on ownership interest	(17,955)	29,774	(178,662)	(567)
Elimination of the Group's share in unrealized profits				
of joint ventures from balances of hydrocarbons				
purchased from joint ventures	-	819	(1)	107
Unrecognized share of loss of joint ventures	-	-	27,763	-
Share of profit (loss)				
of joint ventures, net of income tax	(17,955)	30,593	(150,900)	(460)

#### 6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

As at and for the year ended 31 December 2020	Arctic LNG 2	Arcticgas	Yamal LNG	Nortgas
Net assets at 1 January 2020	317,347	264,798	301,446	88,744
Profit (loss), net of income tax	(29,925)	59,547	(356,804)	(1,133)
Other comprehensive income (loss)	(11)	(74)	(2,430)	(1)
Capital contributions	57,647	-	-	-
Other equity movements	27,447	-	2,342	-
Dividends	-	(20,500)	-	-
Net assets at 31 December 2020	372,505	303,771	(55,446)	87,610
Ownership	60%	50%	50.1%	50%
Group's share in net assets	223,503	151,886	(27,763)	43,805
Unrecognized share of loss of joint ventures	-	-	27,763	-
Future capital contributions	26,967	-	-	-
Investments in joint ventures	250,470	151,886	-	43,805

At 31 December 2020, the Group's investment in OOO Arctic LNG 2 totaled RR 250,470 million, which differed from its share in the net assets of Arctic LNG 2. This difference of RR 26,967 million related to the Group's share in the future cash payments in the form of capital contributions by other participants representing a part of the consideration for the disposal of a 40 percent interest in OOO Arctic LNG 2.

#### 7 LONG-TERM LOANS AND RECEIVABLES

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

	At 31 December 2021	At 31 December 2020
Long-term loans receivable	472,872	431,880
Other long-term receivables	602	426
Total	473,474	432,306
Less: current portion of long-term loans receivable	(163,473)	(41,253)
Total long-term loans and receivables	310,001	391,053

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

	At 31 December 2021	At 31 December 2020
OOO Arctic LNG 2	296,195	215,336
OAO Yamal LNG	151,084	209,637
OOO Cryogas-Vysotsk	20,674	6,907
OOO Arctic Transshipment	4,919	-
Total long-term loans receivable	472,872	431,880

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

In 2021, Arctic LNG 2 signed agreements for bank project financing, and subsequent to the balance sheet date, in January 2022, repaid a part of the loans and accrued interest to the Group in the total amount of RR 84,765 million.

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

#### 7 LONG-TERM LOANS AND RECEIVABLES (CONTINUED)

**OAO Yamal LNG.** In prior years the Group provided US dollar and euro credit line facilities to Yamal LNG, the Group's joint venture. The loans interest rates are set based on market interest rates, interest rates on borrowings of shareholders and/or combination thereof. The repayment schedules are linked to free cash flows of the joint venture.

For the years ended 31 December 2021 and 2020, Yamal LNG repaid to the Group a part of the loans and accrued interest in the total amount of RR 61,221 million and RR 48,297 million, respectively. Subsequent to the balance sheet date, in January 2022, Yamal LNG repaid to the Group a part of the loans and accrued interest in the total amount of RR 31,538 million.

*OOO Cryogas-Vysotsk*. The Group provided Russian rouble denominated loans under agreed credit line facilities to Cryogas-Vysotsk, the Group's joint venture. In November 2021, the Group also acquired a portion in the project financing previously provided to OOO Cryogas-Vysotsk by the second participant in euros. The loans are repayable from 2021 to 2033 and bear variable interest rates.

For the year ended 31 December 2021, Cryogas-Vysotsk repaid to the Group a part of the loans and accrued interest in the total amount of RR 2,541 million.

**OOO** Arctic Transshipment. The Group provided euro credit line facilities to OOO Arctic Transshipment, the Group's joint venture. The repayment schedules are linked to free cash flows of the joint venture and bear variable interest rates.

No provisions for expected credit losses for long-term loans and receivables were recognized at 31 December 2021 and 2020. The carrying values of long-term loans and receivables approximate their respective fair values.

#### 8 OTHER NON-CURRENT ASSETS

	At 31 December 2021	At 31 December 2020
Financial assets		
Contingent consideration (see Note 26)	79,782 684 38 22,565 21,186 2,896	76,918
Commodity derivatives		13
Other financial assets		22,694 18,341 2,820
Non-financial assets		
Deferred income tax assets		
Materials for construction		
Intangible assets, net		
Long-term advances		3,536
Other non-financial assets		817
Total other non-current assets	127,871	125,152

At 31 December 2020, the "Long-term advances" line item represented advances to OAO Russian Railways. The advances were paid in accordance with the Strategic Partnership Agreement signed with Russian Railways in 2012.

#### 9 INVENTORIES

	At 31 December 2021	At 31 December 2020
Natural gas and liquid hydrocarbons	13,036	7,055
Materials and supplies (net of provision of		
RR 1 million and RR 4 million at 31 December 2021 and 2020)	4,519	3,609
Other inventories	126	59
Total inventories	17,681	10,723

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

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

#### 10 TRADE AND OTHER RECEIVABLES

	At 31 December 2021	At 31 December 2020
Trade receivables (net of provision for expected credit losses of RR 1,838 million and RR 506 million at 31 December 2021 and 2020, respectively)	104,576	64,073
Other receivables (net of provision for expected credit losses	•	•
of RR 293 million and RR 305 million at 31 December 2021 and 2020, respectively)	24,923	7,182
Total trade and other receivables	129,499	71,255

Credit risks attributable to trade and other receivables are described in Note 26.

At 31 December 2020, other receivables included RR 575 million of receivables in relation to the sale of OOO Chernichnoye (see Note 4). These receivables were fully paid in 2021.

The carrying values of trade and other receivables approximate their respective fair values. Trade and other receivables were categorized as Level 3 in the fair value measurement hierarchy described in Note 26.

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

	Year ended 31 December:	
	2021	2020
At 1 January	506	362
Additional provision for expected credit losses recorded	1,382	295
Receivables written off as uncollectible	(19)	(115)
Provision reversed	(31)	(36)
At 31 December	1,838	506

The provision for expected credit losses for trade and other receivables has been included in the consolidated statement of income in "Impairment expenses, net" line item.

#### 11 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December 2021	At 31 December 2020
Financial assets		
Current portion of long-term loans receivable (see Note 7)	163,473	41,253
Commodity derivatives (see Note 26)	113,467	13,041
Other financial assets	265	1,316
Non-financial assets		
Value-added tax receivable	22,589	15,703
Prepayments and advances to suppliers	9,159	9,088
Recoverable value-added tax	4,424	10,767
Deferred transportation expenses for liquid hydrocarbons	2,090	1,996
Deferred transportation expenses for natural gas	1,910	1,779
Prepaid customs duties	971	616
Deferred export duties for liquid hydrocarbons	871	649
Other non-financial assets	4,021	1,863
Total prepayments and other current assets	323,240	98,071

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

#### 12 CASH AND CASH EQUIVALENTS

	At 31 December 2021	At 31 December 2020
Cash at current bank accounts Bank deposits with original maturity of three months or less	32,290 13,630	41,247 78,460
Total cash and cash equivalents	45,920	119,707

Credit risks related to cash and cash equivalents are described in Note 26.

#### 13 LONG-TERM DEBT

	At 31 December 2021	At 31 December 2020
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	74,265	73,820
Eurobonds – Ten-Year Tenor (par value USD 650 million, repaid in 2021)	24.070	48,012
Loan from Silk Road Fund Bank loans	24,079 75,421	46,076 54,232
Total Less: current portion of long-term debt	<b>173,765</b> (106,751)	<b>222,140</b> (53,152)
Total long-term debt	67,014	168,988

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

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

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

In December 2021, the Group decided to repay the loan ahead of its maturity schedule by two equal instalments – in December 2021 and after the reporting date in February 2022. The amortized cost of the liability was recalculated based on the new repayment schedule, and the difference of RR 3,886 million was recognized in the consolidated statement of income within the "Interest expense" line item (see Note 24).

*Bank loans.* In December 2016, the Group obtained EUR 100 million under a revolving credit line facility from the Russian subsidiary of a foreign bank. The loan was initially repayable until April 2020. In March 2020, it was extended to March 2022. The loan includes the maintenance of certain restrictive financial covenants.

In June 2020, the Group obtained a credit line facility from a Russian bank in the amount up to EUR 1.5 billion with a variable interest rate available to withdraw until March 2022. Interest is paid on a quarterly basis. At the reporting date, EUR 800 million were withdrawn under the credit line facility, repayable until September 2025. The credit line facility includes the maintenance of certain restrictive financial covenants.

The fair value of long-term debt including its current portion was RR 176,198 million and RR 235,473 million at 31 December 2021 and 2020, respectively. The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 26). The fair value of other long-term loans was determined based on future cash flows discounted at the estimated risk-adjusted discount rate (Level 3 in the fair value measurement hierarchy described in Note 26).

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

#### 13 LONG-TERM DEBT (CONTINUED)

Scheduled maturities of long-term debt are disclosed in Note 26.

*Available credit line facilities.* In addition to disclosed above, at 31 December 2021, the Group had available long-term bank credit line facilities with credit limits for the total amount of RR 160 billion. The facilities include the maintenance of certain restrictive financial covenants.

#### 14 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	At 31 December 2021	At 31 December 2020
Loans with original maturity three months or less	6,278	-
Total	6,278	-
Add: current portion of long-term debt	106,751	53,152
Total short-term debt and current portion of long-term debt	113,029	53,152

*Available credit line facilities.* At 31 December 2021, the Group had available short-term bank credit line facilities with credit limits for the total amount of RR 20 billion and EUR 235 million. At 31 December 2021, EUR 75 million were withdrawn under these credit line facilities, which were repaid after the reporting date in January 2022.

Furthermore, at 31 December 2021, the Group had available revolving credit line facilities under which the Group may obtain loans with original maturities of three months or less to finance trade activities, secured by cash revenues from specifically determined liquid hydrocarbons export sales contracts. At 31 December 2021, these loans were repaid.

#### 15 PENSION OBLIGATIONS

**Defined contribution plan.** For the years ended 31 December 2021 and 2020, total amounts recognized as an expense in respect of payments made by employer on behalf of employees to the Pension Fund of the Russian Federation were RR 3,802 million and RR 3,907 million, respectively.

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

The program represents an unfunded defined benefit plan and is accounted for as such under provisions of IAS 19, *Employee Benefits*. The present value of the defined benefit obligation is included in "Other non-current liabilities" line item 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)

#### 15 PENSION OBLIGATIONS (CONTINUED)

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

	Year ended 31 December:	
	2021	2020
At 1 January	5,687	5,111
Interest cost	358	242
Current service cost	515	423
Past service cost Benefits paid Actuarial gains (losses) arising from:	286 (170)	-
		(181)
- changes in financial assumptions	(1,095)	(238)
- changes in demographic assumptions	(73)	(91)
- experience adjustments	113	421
At 31 December	5,621	5,687

Defined benefit plan costs were recognized in:

	Year ended 31 December:	
	2021	2020
Materials, services and other (as employee compensation)	762	390
General and administrative expenses (as employee compensation)	397	275
Other comprehensive loss (income)	(1,055)	92

The principal actuarial assumptions used are as follows:

	At 31 December 2021	At 31 December 2020
Weighted average discount rate	8.4%	6.4%
Projected annual increase in employee compensation	6.5%	5.1%
Expected increases to pension benefits	5.0%	5.0%

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

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

Mortality assumptions are based on the Russian mortality tables published by the Federal State Statistics Service from the year 2018 adjusted for estimates of mortality improvements in the future periods.

The Group's management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statement of income or the consolidated statement of comprehensive income or the liability recognized in the consolidated statement of financial position.

#### 16 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December 2021	At 31 December 2020
Financial liabilities		
Commodity derivatives (see Note 26)	118,173	14,278
Trade payables	91,680	55,149
Interest payable	199	1,529
Dividends payable to non-controlling interest	147	-
Other payables	14,711	3,786
Non-financial liabilities		
Advances from customers	6,408	4,245
Salary payables	1,073	1,042
Other liabilities and accruals	14,028	3,966
Total trade payables and accrued liabilities	246,419	83,995

The carrying values of trade payables and accrued liabilities approximate their respective fair values. Trade and other payables were categorized as Level 3 in the fair value measurement hierarchy described in Note 26.

During the years ended 31 December 2021 and 2020, advances from customers in the amount of RR 4,177 million and RR 4,194 million, respectively, remained at the beginning of the respective period were recognized as revenue.

## 17 SHAREHOLDERS' EQUITY

*Ordinary share capital.* Share capital issued and paid in consisted of 3,036,306,000 ordinary shares with a par value of RR 0.1 each at 31 December 2021 and 2020. 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 2021 and 2020, the Group purchased 7.2 million and 8.4 million ordinary shares at a total cost of RR 12,907 million and RR 8,078 million, respectively. At 31 December 2021 and 2020, the Group held in total 40.7 million and 33.5 million ordinary shares at a total cost of RR 33,293 million and RR 20,386 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:	
	2021	2020
Dividends payable at 1 January	-	-
Dividends declared (*)	154,332	89,857
Dividends paid (*)	(154,332)	(89,857)
Dividends payable at 31 December	-	-
Dividends per share declared during the year (in Russian roubles)	51.41	29.92
Dividends per GDR declared during the year (in Russian roubles)	514.10	299.20

 $<sup>^{(*)}</sup>$  – Excluding treasury shares.

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

#### 17 SHAREHOLDERS' EQUITY (CONTINUED)

The Group declares and pays dividends in Russian roubles. Dividends declared in 2021 and 2020 were as follows:

Total dividends declared in 2020	90,846
Interim for 2020: RR 11.82 per share or RR 118.20 per GDR declared in September 2020	35,889
Final for 2019: RR 18.10 per share or RR 181.00 per GDR declared in April 2020	54,957
Total dividends declared in 2021	156,097
Interim for 2021: RR 27.67 per share or RR 276.70 per GDR declared in September 2021	84,015
Final for 2020: RR 23.74 per share or RR 237.40 per GDR declared in April 2021	72,082

**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 2021 and 2020, NOVATEK's closing balances of the accumulated profit including the respective year's net statutory profit totaled RR 1,142,851 million and RR 980,624 million, respectively.

#### 18 OIL AND GAS SALES

	Year ended 31 December:	
	2021	2020
Natural gas	524,071	359,040
Naphtha	208,713	112,963
Crude oil	123,179	78,381
Other gas and gas condensate refined products	100,170	58,913
Liquefied petroleum gas	99,142	48,725
Stable gas condensate	79,931	41,728
Total oil and gas sales	1,135,206	699,750

#### 19 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Year ended 31 December:	
	2021	2020
Natural gas	258,989	125,844
Unstable gas condensate	245,400	102,568
Other liquid hydrocarbons	10,764	12,221
Reverse excise	(17,871)	(5,409)
Total purchases of natural gas and liquid hydrocarbons	497,282	235,224

The Group purchases not less than 50 percent of the natural gas volumes produced by its joint venture ZAO Nortgas, some volumes of natural gas produced by its joint venture AO Arcticgas, all volumes of natural gas produced by its joint venture ZAO Terneftegas and some volumes of liquefied natural gas produced by its joint ventures OAO Yamal LNG and OOO Cryogas-Vysotsk (see Note 29).

The Group purchases all volumes of unstable gas condensate produced by its joint ventures Nortgas, Arcticgas and Terneftegas at ex-field prices primarily based on benchmark reference crude oil prices, as well as some volumes of stable gas condensate produced by its joint venture Yamal LNG (see Note 29).

In accordance with tax legislation, the Group obtains reverse excise on raw oil (blend of hydrocarbons comprised of one or more components of crude oil, stable gas condensate, vacuum gasoil, tar and fuel oil) sent for processing. The amount of reverse excise on raw oil is reported as a deduction to expense for purchases of hydrocarbons in the "Reverse excise" line item, as the Group obtains most of its raw oil from unstable gas condensate purchased from its joint ventures.

## 20 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2021	2020
Natural gas transportation by trunk and low-pressure pipelines	106,628	100,594
Stable gas condensate and liquefied petroleum gas transportation by rail	36,499	34,198
Stable gas condensate and refined products,		
crude oil and liquefied natural gas transportation by tankers	9,907	10,283
Crude oil transportation by trunk pipelines	6,754	8,042
Other	1,718	1,640
Total transportation expenses	161,506	154,757

## 21 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:	
	2021	2020
Unified natural resources production tax	83,281	50,204
Property tax	4,803	3,929
Other taxes	422	368
Total taxes other than income tax	88,506	54,501

# 22 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2021	2020
Employee compensation	17,033	14,027
Repair and maintenance	3,791	3,294
Materials and supplies	2,412	1,833
Preparation and processing of hydrocarbons	2,227	2,323
Electricity and fuel	1,818	1,702
Transportation services	1,304	1,140
Fire safety and security expenses	1,304	1,152
Liquefied petroleum gas volumes reservation expenses	1,205	1,205
Insurance expenses	634	462
Rent expenses	591	592
Labor safety expenses	565	703
Other	1,558	1,144
Total materials, services and other	34,442	29,577

# 23 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:		
	2021	2020	
Employee compensation	26,122	17,849	
Social expenses and compensatory payments	2,753	4,128	
Legal, audit, and consulting services	1,358	1,289	
Advertising expenses Repair and maintenance expenses	988 740	599	
		947	
Fire safety and security expenses	616	581	
Business travel expense	283	187	
Rent expenses	161	184	
Other	1,229	1,031	
Total general and administrative expenses	34,250	26,795	

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:		
	2021	2020	
Audits of PAO NOVATEK			
(audit of the Group's consolidated financial statements and			
audit of statutory financial statements of PAO NOVATEK)	38	37	
Other services	11	11	
Total auditor's fees and services	49	48	

# 24 FINANCE INCOME (EXPENSE)

	Year ended 31 De	cember:
Interest expense (including transaction costs)	2021	2020
Interest expense on fixed rate debt	6,849	9,879
Interest expense on variable rate debt	1,076	172
The effect from recalculating of the amortized cost of a financial		
liability due to a change in the repayment schedule (see Note 13)	3,886	-
Total	11,811	10,051
Less: capitalized interest	(4,768)	(6,641)
Interest expense on debt	7,043	3,410
Provisions for asset retirement obligations:		
effect of the present value discount unwinding	886	960
Interest expense on lease liabilities	426	566
Other interest expense	109	3
Total interest expense	8,464	4,939

## 24 FINANCE INCOME (EXPENSE) (CONTINUED)

	Year ended 31 De	ecember:
Interest income	2021	2020
Interest income on loans receivable classified		
as at amortized cost	1,113	936
Interest income on loans receivable classified		
as at fair value through profit or loss	10,935	20,329
Interest income on cash,		
cash equivalents, deposits and other assets	3,952	4,175
Total interest income	16,000	25,440

	Year ended 31 De	Year ended 31 December:		
Foreign exchange gain (loss)	2021	2020		
Gains	23,069	340,662		
Losses	(60,324)	(193,201)		
Total foreign exchange gain (loss), net	(37,255)	147,461		

### 25 INCOME TAX

**Reconciliation of income tax.** The table below reconciles actual income tax expense and theoretical income tax, determined based on the applicable rates for each of the Group's entities and their accounting profit before income tax.

	Year ended 31 December:		
	2021	2020	
Profit before income tax	501,204	129,596	
Theoretical income tax expense at applicable rate of the Group's entities	93,873	21,079	
Increase (decrease) due to:			
Permanent differences in respect of the Group's share of loss (profit) of joint ventures Other differences	(47,022) 2,732	29,000 931	
Total income tax expense	49,583	51,010	

Domestic and foreign components of current income tax expense were:

	Year ended 31 D	Year ended 31 December:		
	2021	2020		
Russian Federation income tax Foreign income tax	42,511 2,220	50,602 1,414		
Total current income tax expense	44,731	52,016		

*Effective income tax rate.* The Russian statutory income tax rate for 2021 and 2020 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.

## 25 INCOME TAX (CONTINUED)

For the years ended 31 December 2021 and 2020, the Group made cash payments for income tax in the amount of RR 28.2 billion and RR 41 billion, respectively, and offset other taxes by applying a refund against income tax in the amount of RR 14.4 billion and RR 7.1 billion, respectively.

Without the effect of net profit (loss) from joint ventures and effects from disposal of interests in subsidiaries and joint ventures (initial recognition of gain on disposal and subsequent non-monetary revaluation of contingent consideration), the effective income tax rate for the years ended 31 December 2021 and 2020 was 18.7 percent and 18.8 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 31).

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

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

Net deferred income tax liabilities	(46,548)	(41,438)
Long-term deferred income tax assets (other non-current assets)  Long-term deferred income tax liabilities	22,565 (69,113)	22,694 (64,132)
	At 31 December 2021	At 31 December 2020

Deferred income tax assets expected to be realized within twelve months as at 31 December 2021 and 2020 were RR 12,037 million and RR 6,194 million, respectively. Deferred tax liabilities expected to be reversed within twelve months as at 31 December 2021 and 2020 were RR 4,435 million and RR 1,420 million, respectively.

Movements in deferred income tax assets and liabilities during the years ended 31 December 2021 and 2020 were as follows:

	At 31 December 2020	Statement of Income effect	Other Comprehensive Income effect	Statement of Financial Position effect	At 31 December 2021
Property, plant and equipment	(54,290)	(5,027)	3	34	(59,280)
Contingent consideration	(15,383)	(573)	-	-	(15,956)
Other	(1,420)	(3,078)	4	59	(4,435)
Deferred income tax liabilities	(71,093)	(8,678)	7	93	(79,671)
Less: deferred tax assets offset	6,961	3,597	-	-	10,558
Total deferred income tax liabilities	(64,132)	(5,081)	7	93	(69,113)
Tax losses carried forward	10,922	4,151	-	(60)	15,013
Property, plant and equipment	3,844	(3,146)	-	2	700
Asset retirement obligations	2,895	(299)	-	16	2,612
Inventories	5,627	4,314	2	1	9,944
Trade payables and accrued liabilities	175	1,594	(4)	(18)	1,747
Loans receivable	5,800	(2,737)	(302)	-	2,761
Other	392	(51)	5	-	346
Deferred income tax assets	29,655	3,826	(299)	(59)	33,123
Less: deferred tax liabilities offset	(6,961)	(3,597)			(10,558)
Total deferred income tax assets	22,694	229	(299)	(59)	22,565
Net deferred income tax liabilities	(41,438)	(4,852)	(292)	34	(46,548)

## 25 INCOME TAX (CONTINUED)

	At 31 December 2019	Statement of Income effect	Other Comprehensive Income effect	Statement of Financial Position effect	At 31 December 2020
Property, plant and equipment	(44,931)	(9,345)	(4)	(10)	(54,290)
Contingent consideration	(20,278)	4,895	-	-	(15,383)
Other	(1,845)	510	(85)	-	(1,420)
Deferred income tax liabilities	(67,054)	(3,940)	(89)	(10)	(71,093)
Less: deferred tax assets offset	4,908	2,053	-	-	6,961
Total deferred income tax liabilities	(62,146)	(1,887)	(89)	(10)	(64,132)
Tax losses carried forward	8,241	2,686	2	(7)	10,922
Property, plant and equipment	3,545	299	-	-	3,844
Asset retirement obligations	2,542	352	-	1	2,895
Inventories	1,950	3,681	(4)	-	5,627
Trade payables and accrued liabilities	1,412	(1,257)	20	-	175
Loans receivable	1,349	(451)	2,414	2,488	5,800
Other	669	(364)	87	=	392
Deferred income tax assets	19,708	4,946	2,519	2,482	29,655
Less: deferred tax liabilities offset	(4,908)	(2,053)	-	-	(6,961)
Total deferred income tax assets	14,800	2,893	2,519	2,482	22,694
Net deferred income tax liabilities	(47,346)	1,006	2,430	2,472	(41,438)

At 31 December 2021, the Group had recognized deferred income tax assets of RR 15,013 million (31 December 2020: RR 10,922 million) in respect of unused tax loss carry forwards of RR 75,215 million (31 December 2020: RR 54,752 million). In accordance with the effective tax legislation of the Russian Federation, taxable profits can be reduced in the amount of tax losses carried forward for relief during unlimited period of time, and at the same time during the periods till the end of 2024 tax losses carried forward cannot exceed 50 percent of taxable profits. In determining future taxable profits and the amount of tax benefits that are probable in the future, the Group's management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

### 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

	At 31 Decemb	At 31 December 2021		At 31 December 2020	
Financial assets	Non-current	Current	Non-current	Current	
At amortised cost					
Long-term loans receivable	26,847	7,941	11,558	6,017	
Trade and other receivables	602	129,499	426	71,255	
Short-term bank deposits					
with original maturity more than three months	-	60,177	-	62,876	
Cash and cash equivalents	-	45,920	-	119,707	
Other	38	265	13	1,316	
At fair value through profit or loss					
Long-term loans receivable	282,552	155,532	379,069	35,236	
Contingent consideration	79,782	-	76,918	-	
Commodity derivatives	684	113,467	13	13,041	
Total financial assets	390,505	512,801	467,997	309,448	
Financial liabilities					
At amortised cost					
Long-term debt	67,014	106,751	168,988	53,152	
Long-term lease liabilities	3,426	3,589	6,670	3,798	
Short-term debt	-	6,278	-	-	
Interest payable	-	199	-	1,529	
Trade and other payables	-	106,391	-	58,935	
Dividends payable to non-controlling interest	-	147	-	-	
At fair value through profit or loss					
Commodity derivatives	682	118,173	880	14,278	
Total financial liabilities	71,122	341,528	176,538	131,692	

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

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

Commodity derivative instruments. The Group conducts natural gas foreign trading in active markets under long-term and short-term purchase and sales contracts, as well as purchases and sells various derivative instruments (with reference to the European natural gas hubs) for delivery optimization and to decrease exposure to the risk of negative impact of natural gas prices changes. In addition, from time to time, the Group enters into commodity derivative contracts to manage price risks relating to the Group's own use liquid hydrocarbons purchase agreements.

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

## 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

At 31 December 2021	Level 1	Level 2	Total
Within other non-current and current assets Within other non-current and current liabilities	67,384	46,767	114,151
	(63,275)	(55,580)	(118,855)
At 31 December 2020			
Within other non-current and current assets Within other non-current and current liabilities	2,751	10,303	13,054
	(2,542)	(12,616)	(15,158)

Year ended 31 De	cember:
2021	2020
(1,278) (2,600)	1,479 (1,689)
	2021 (1,278)

The fair value of commodity derivative contracts related to Level 1 is determined based on available quotes on an active market (mark-to-market analysis).

The fair value of commodity derivative contracts related to Level 2 is determined based on different valuation techniques and models (the mark-to-market and mark-to-model analysis), mainly based on input data directly or by implication observable on an active market.

The table below represents the effect on the fair value estimation of portfolio of commodity derivative contracts that would occur from hydrocarbon prices changes by ten percent:

	Year ended 31 De	ecember:
Effect on the fair value	2021	2020
Increase by ten percent	1,537	(285)
Decrease by ten percent	(1,537)	285

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 OOO Arctic LNG 2 contain certain financial (benchmark interest rates adjusted for the borrower credit risk) and non-financial (actual interest rates on the borrowings of shareholders, expected free cash flows of the borrower and expected maturities) variables and in accordance with the Group's accounting policy were classified as financial assets at fair value through profit or loss.

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

	Year ended 31 December:	
	2021	2020
At 1 January	414,305	268,024
Loans provided	86,931	120,552
Repayment of loans and accrued interest	(60,051)	(48,380)
Initial measurement at fair value allocated		
to increase the Group's investments in joint ventures (see Note 6)	-	(19,906)
Subsequent remeasurement		
at fair value recognized in profit or loss as follows:		
<ul> <li>Interest income (using the effective interest rate method)</li> </ul>	10,935	20,329
- Foreign exchange gain (loss), net	(33,636)	81,083
<ul> <li>Remaining effect from changes in fair value</li> </ul>		
(attributable to free cash flows of the borrowers and interest rates)	19,600	(7,397)
At 31 December	438,084	414,305

## 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

Fair value measurement of shareholders' loans to joint ventures is determined using benchmark interest rates adjusted for the borrower credit risk and internal free cash flows models based on the borrower's strategic plans approved by the shareholders of the joint ventures. Due to the assumptions underlying fair value estimation, shareholders' loans are categorized as Level 3 in the fair value hierarchy, described above.

The fair value of the shareholders' loans is sensitive to benchmark interest rates changes. The table below represents the effect on fair value of the shareholders' loans that would occur from one percent changes in the benchmark interest rates.

	Year ended 31 De	Year ended 31 December:		
Effect on the fair value	2021	2020		
Increase by one percent	(9,948)	(15,975)		
Decrease by one percent	10,399	16,909		

Contingent consideration. According to the terms of the transactions on the sale in 2019 of a 40 percent participation interest in OOO Arctic LNG 2, total consideration comprises, inter alia, contingent cash payments in total of up to USD 3,200 million equivalent depending on average crude oil benchmark prices level for the year preceding each payment. The contingent payments dates are linked to the dates of launching the Arctic LNG 2 project's LNG trains.

Under IFRS 9, *Financial Instruments*, this contingent consideration contains a commodity based embedded derivative and was classified as a financial asset measured at fair value through profit or loss. Interest income, foreign exchange differences and the remaining effect from fair value remeasurement of the contingent consideration (included in "Other operating income (loss)" line item) are disclosed separately in the consolidated statement of income.

The following table summarizes the movements in the carrying amounts of the contingent consideration:

	Year ended 31 De	ecember:
	2021	2020
At 1 January	76,918	101,391
Subsequent remeasurement		
at fair value recognized in profit or loss as follows:		
<ul> <li>Interest income (using the effective interest rate method)</li> </ul>	2,409	2,730
<ul> <li>Foreign exchange gain (loss), net</li> </ul>	455	20,620
<ul> <li>Remaining effect from changes in fair value</li> </ul>		
(attributable to crude oil benchmark prices forecast)	-	(47,823)
At 31 December	79,782	76,918

Fair value measurement of the contingent consideration is determined based on cash flow model using a discount rate, internal projections of the crude oil benchmark price dynamics and the Arctic LNG 2 project's realization schedule. Due to the assumptions underlying fair value estimation, the contingent consideration is categorized as Level 3 in the fair value hierarchy, described above.

The table below represents the effect on the fair value estimation of the contingent consideration that would occur from crude oil price changes throughout the valuation period:

	Year ended 31 De	Year ended 31 December:		
Effect on the fair value	2021	2020		
Increase by one percent	5,238	5,048		
Decrease by one percent	(5,522)	(5,321)		

**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.

### PAO NOVATEK

### Notes to the Consolidated Financial Statements

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

## 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

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

### (a) Foreign exchange risk

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

# 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

At 31 December 2021	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	5,408	-	303,991	-	309,399
Trade and other receivables	348	-	2	252	602
Contingent consideration	-	79,782	-	-	79,782
Commodity derivatives	-	-	684	-	684
Other	-	-	-	38	38
Current					
Current portion					
of long-term loans receivable	-	-	163,473	-	163,473
Trade and other receivables	35,191	35,588	56,980	1,740	129,499
Commodity derivatives	-	-	113,467	-	113,467
Short-term bank deposits with original					
maturity more than three months	-	60,177	-	-	60,177
Cash and cash equivalents	25,870	4,292	14,831	927	45,920
Other	-	-	265	-	265
Financial liabilities					
Non-current					
Long-term debt	-	-	(67,014)	-	(67,014)
Long-term lease liabilities	(124)	(1,851)	(1,251)	(200)	(3,426)
Commodity derivatives	-	-	(682)	-	(682)
Current					
Current portion of long-term debt	-	(98,343)	(8,408)	-	(106,751)
Short-term debt	-	-	(6,278)	-	(6,278)
Current portion					
of long-term lease liabilities	(115)	(2,235)	(1,089)	(150)	(3,589)
Interest payable	-	(198)	(1)	-	(199)
Trade and other payables	(55,208)	(4,976)	(45,762)	(445)	(106,391)
Dividends payable					
to non-controlling interest	(147)	-	-	-	(147)
Commodity derivatives	-	-	(118,173)	-	(118,173)
Net exposure	11,223	72,236	405,035	2,162	490,656

# 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2020	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	6,907	14,227	369,493	-	390,627
Trade and other receivables	348	-	-	78	426
Contingent consideration	-	76,918	-	-	76,918
Commodity derivatives	-	-	13	-	13
Other	-	-	-	13	13
Current					
Trade and other receivables	33,089	26,963	9,758	1,445	71,255
Current portion					
of long-term loans receivable	-	35,166	6,087	-	41,253
Commodity derivatives	-	-	13,041	-	13,041
Short-term bank deposits with original					
maturity more than three months	-	62,876	-	-	62,876
Cash and cash equivalents	13,056	78,812	26,519	1,320	119,707
Other	908	-	408	-	1,316
Financial liabilities					
Non-current					
Long-term debt	-	(114,755)	(54,233)	-	(168,988)
Long-term lease liabilities	(276)	(3,706)	(2,367)	(321)	(6,670)
Commodity derivatives	-	-	(880)	-	(880)
Current					
Current portion of long-term debt	-	(53,152)	-	-	(53,152)
Current portion					
of long-term lease liabilities	(260)	(2,220)	(1,162)	(156)	(3,798)
Interest payable	-	(1,528)	(1)	-	(1,529)
Trade and other payables	(47,568)	(4,487)	(6,500)	(380)	(58,935)
Commodity derivatives	-	-	(14,278)	-	(14,278)
Net exposure	6,204	115,114	345,898	1,999	469,215

The Group chooses to provide information about market risk and potential exposure to hypothetical loss from its use of financial instruments through sensitivity analysis disclosures in accordance with IFRS requirements.

The sensitivity analysis depicted in the table below reflects the hypothetical profit (loss) that would occur assuming a ten percent increase in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2021 and 2020, respectively:

		Year ended 31 December:		
Effect on profit before income tax	Increase in exchange rate	2021	2020	
RUB / USD RUB / EUR	10% 10%	7,224 40,504	11,511 34,590	

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.

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

## 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

Wholesale natural gas prices for sales to all customer categories on the domestic market were increased by the Federal Anti-Monopoly Service by 3 percent effective 1 August 2020 and remained unchanged through the end of the second quarter 2021. Effective 1 July 2021, the wholesale prices were increased by 3 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.** The Group sells liquefied natural gas purchased primarily from its joint ventures Yamal LNG and Cryogas-Vysotsk mainly on international markets under short- and long-term contracts at prices based on benchmark natural gas prices at the major natural gas hubs and benchmark crude oil prices. The Group sells liquefied natural gas produced at its small-scale LNG plant in the Chelyabinsk region mainly on the domestic market through its refueling complexes at prices depending on oil products prices on the domestic market. The Group's LNG purchase and sales contracts are not considered to meet the definition of a derivative and are not within the scope of IFRS 9, *Financial Instruments*.

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

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

Liquid hydrocarbons supplies. The Group sells its crude oil, stable gas condensate and gas condensate refined products under short-term contracts. Stable gas condensate and naphtha volumes sold to the Asia-Pacific Region, European and North American markets are primarily based on benchmark crude oil prices of Brent and/or naphtha prices, mainly of Naphtha Japan or Naphtha CIF NWE, plus a premium or a 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 premium or a discount, depending on current market situation. Crude oil sold internationally is based on benchmark crude oil prices of Brent or Dubai, plus a premium or a discount, and on a transaction-by-transaction basis or based on benchmark crude oil prices of Brent or Urals or a combination thereof for volumes sold domestically.

As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to fluctuations in the crude oil and gas condensate refined products benchmark prices. The Group's liquid hydrocarbons purchase and sales contracts are mainly concluded to meet supply requirements to fulfill contract obligations or for own consumption and are not within the scope of IFRS 9, *Financial Instruments*. From time to time, the Group also enters into commodity derivative contracts to manage price risks relating to the Group's own use liquid hydrocarbons purchase agreements. Such commodity derivative contracts are accounted for in accordance with IFRS 9, *Financial Instruments*.

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

# 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

## (c) Cash flow and fair value interest rate risk

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

The interest rate profiles of the Group's interest-bearing financial instruments are as follows:

	At 31 Decem	At 31 December 2021		ber 2020
	RR million	Percentage	RR million	Percentage
At fixed rate	113,029 63%	176,623	80%	
at variable rate	67,014	37%	45,517	20%
Total	180,043	100%	222,140	100%

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

The Group's financial results are sensitive to changes in interest rates on the floating rate portion of the Group's debt portfolio. If the interest rates applicable to floating rate debt were to increase by 100 basis points (one percent) at the reporting dates, assuming all other variables remain constant, it is estimated that the Group's profit before taxation would decrease by the amounts shown below:

	Year ended 31 December:		
Effect on profit before income tax	2021	2020	
Increase by 100 basis points	670	455	

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

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

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

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

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

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

## 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

Moody's, Fitch and/or Standard & Poor's	At 31 December 2021	At 31 December 2020
Trade and other receivables secured by letters of credit	51,059	14,568
Trade and other receivables not secured by letters of credit:		
<ul> <li>investment grade rating</li> </ul>	54,109	37,073
<ul> <li>non-investment grade rating</li> </ul>	984	205
– no external rating	23,347	19,409
Total trade and other receivables	129,499	71,255

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 2021	At 31 December 2020
Investment grade rating	106,020	182,542
Non-investment grade rating	45	34
No external rating	32	7
Total cash, cash equivalents and short-term bank		
deposits with original maturity more than three months	106,097	182,583

As at 31 December 2021, the Group's bank deposits with original maturity more than three months included financial instruments for the total amount of RR 37 billion, consisting of multiple arrangements, structured to be economically equivalent to a bank deposit, which in accordance with the Group's accounting policy were accounted as a single transaction (as a bank deposit at amortised cost).

Investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investors Service, and as AAA to BBB-for Fitch Ratings and Standard & Poor's.

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

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

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

# 26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

At 31 December 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt					
Principal	113,566	_	67,255	-	180,821
Interest	5,064	1,585	2,745	-	9,394
Lease liabilities	3,774	3,031	312	72	7,189
Trade and other payables	106,391	-	-	-	106,391
Dividends payable to non-controlling interest	147	-	-	-	147
Total financial liabilities	228,942	4,616	70,312	72	303,942
At 31 December 2020					
Debt					
Principal	53,159	88,083	60,758	25,696	227,696
Interest	8,322	6,416	7,690	3,194	25,622
Lease liabilities	3,949	3,819	3,436	71	11,275
Trade and other payables	58,935	-	-	-	58,935
Total financial liabilities	124,365	98,318	71,884	28,961	323,528

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

At 31 December 2021	Less than 1 year	Between 1 and 2 years	Total
Cash inflow	430,578	2,151	432,729
Cash outflow	(435,686)	(2,151)	(437,837)
Net cash flows	(5,108)	-	(5,108)
At 31 December 2020			
Cash inflow	155,732	18,975	174,707
Cash outflow	(156,944)	(19,843)	(176,787)
Net cash flows	(1,212)	(868)	(2,080)

## 26 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:

	Debt and interest payable	Long-term lease liabilities	Total
At 1 January 2020	153,389	10,463	163,852
Cash flows (*)	30,751	(3,849)	26,902
Non-cash movements			
Non-cash additions	-	956	956
Interest accrued	10,051	566	10,617
Foreign exchange movements	29,478	2,332	31,810
At 31 December 2020	223,669	10,468	234,137
Cash flows	(52,945)	(3,687)	(56,632)
Non-cash movements			
Non-cash additions	-	72	72
Interest accrued	11,811	426	12,237
Foreign exchange movements	(2,293)	(264)	(2,557)
At 31 December 2021	180,242	7,015	187,257

<sup>(\*) -</sup> Excluding prepayments under lease agreements, in respect of which lease liabilities were not recognized.

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

At 31 December 2021, the Group had investment grade ratings of BBB by Standard & Poor's, BBB by Fitch Ratings and Baa2 by Moody's Investors Service. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings.

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

The Group has a stated dividend policy that distributes not less than 50 percent of the Group's consolidated net profit determined according to IFRS, adjusted for one-off profits or losses (until December 2020, the minimum dividend payout level was set at 30 percent of the Group's adjusted consolidated net profit). The dividend payment for a specific year is determined after taking into consideration the Group's development strategy. Dividends are recommended by the Board of Directors of NOVATEK and approved by the NOVATEK's shareholders.

The Group defines the term "capital" as equity attributable to PAO NOVATEK shareholders plus net debt (total debt less cash and cash equivalents and bank deposits with maturity more than three months). There were no changes to the Group's approach to capital management during 2021. At 31 December 2021 and 2020, the Group's capital totaled RR 1,968 billion and RR 1,660 billion, respectively.

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

### 27 CONTINGENCIES AND COMMITMENTS

**Operating environment.** The Russian Federation continues to display some characteristics of an emerging market. In addition, the Russian economy is particularly sensitive to world oil and gas prices. The tax, currency and customs legislation is subject to varying interpretations and frequent changes. The Group's business operations are primarily located in the Russian Federation and are thus exposed to the economic and financial markets of the Russian Federation.

The spread of the COVID-19 virus in 2020 has caused financial and economic stress to the global markets that is out of the Group's management control. In particular, the COVID-19 pandemic has led to lower demand for crude oil, natural gas and oil products, which combined with the increase in the supply of crude oil due to the cancellation of the OPEC+ production agreement in March 2020 has led to a fall in global hydrocarbon commodity prices. From the second quarter 2020, global economic activity began a gradual recovery following the partial removals of restrictions aimed at preventing the epidemic spread, as well as a partial recovery in benchmark crude oil prices following the new OPEC+ production agreement reached in April 2020 and the compliance to the target cuts by its participants.

In 2021, the OPEC+ participants continued to restrict their production targets due to the ongoing instability caused by the spread of the COVID-19 virus and its variants, as well as stricter quarantine measures enforced by some countries. The maintenance of the restricted production targets as well as an increase in hydrocarbons consumption due to the severe cold weather in Europe, Asia and North America have led to a significant increase in benchmark hydrocarbons prices in the first quarter 2021.

Starting from May 2021, OPEC+ began to gradually lift the restrictions on crude oil production targets due to the increased mobility of population, signs of renewed economic activities and crude oil demand recovery in the major consumer countries. In July 2021, the OPEC+ participants made a decision to further increase crude oil production volumes and extended the agreement on production restrictions until the end of 2022. Nevertheless, the crude oil supply still lagged behind global demand due to faster than expected economic recovery resulting in further price increases in the second and third quarters 2021. In addition, actual crude oil production by OPEC+ was not consistent with the increased production plans due to accidents and repair works on oil facilities in a number of countries, which has led to a growth in a deficit in crude oil and an increase in benchmark prices in the fourth quarter. As a result, during 2021, benchmark crude oil prices returned to the pre-pandemic levels of 2019 and continued further growth.

The European and Asian natural gas markets in 2021 were impacted by faster than expected recovery of demand after it was hit by the COVID-19 pandemic, weather factors (cold winter and hot summer, low wind speeds in Europe and droughts in South America) and supply disruptions that have led to low storage levels in key consuming regions and a strong price rally in the second half of 2021.

Further developments surrounding the COVID-19 virus spread remain uncertain and may continue to influence our future earnings, cash flows and financial position.

The Group's management is taking necessary precautions to protect the safety and well-being of employees, contractors and their families against the infectious spread of COVID-19, while maintaining commitment to meet the energy needs of customers domestically and internationally. The Group's management continues to work closely with federal, regional and local authorities, as well as partners, to contain the spread of the coronavirus and to take appropriate actions, where necessary, to minimize the possible disruptions of the Group's business operations.

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

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

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

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

## 27 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Contractual commitments. At 31 December 2021, the Group had contractual capital expenditures commitments aggregating approximately RR 221 billion (at 31 December 2020: RR 248 billion) mainly for development of LNG projects (through 2025), and for development at the Kharbeyskoye (through 2023) and Geofizicheskoye (through 2022) fields, the Yevo-Yakhinskiy (through 2024) license area and the Gydanskoye (through 2023) field, all in accordance with duly signed agreements as well as for construction of a hydrocracker unit with related expansion of the Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea (through 2023).

At 31 December 2021 and 2020, the Group was a participant of joint operations on exploration and production in Montenegro (50 percent participation interest) and in Republic of Lebanon (20 percent participation interest) under the agreements concluded with the State of Montenegro and the Ministry of Energy and Water of Republic of Lebanon, respectively. Jointly with other participants of these agreements, the Group committed to conduct mandatory work program exploration activities during the established periods, as stipulated by these agreements. At the date of the issuance of these financial statements, the maximum amount to be paid by the Group in case of non-performance of work program exploration activities is EUR 6 million to the State of Montenegro and EUR 4.6 million to the Republic of Lebanon (at 31 December 2020: EUR 42.5 million and EUR 5.8 million, respectively).

The Group has entered into a number of marine tankers time charter agreements for the period from 12 to 29 years, under which provision of the services has not yet commenced. At 31 December 2021, the Group's future minimum payments under these charter agreements amounted to RR 201 billion (at 31 December 2020: RR 135 billion).

At 31 December 2020, OOO Arctic Transshipment, which was a Group's subsidiary at that time and starting from July 2021 became a Group's joint venture (see Note 4), entered into floating gas storage units bareboat charter agreements for the period of 20 years, under which provision of the services has not yet commenced. These floating gas storage units will become a part of the two LNG transshipment terminals currently under construction in the Kamchatka and Murmansk regions. In the second quarter 2021, OOO Arctic Transshipment signed a long-term take-or-pay agreement with the Group's joint venture OOO Arctic LNG 2 on the usage of these LNG terminals. At 31 December 2020, future minimum payments of OOO Arctic Transshipment under these bareboat charter agreements amounted to RR 99 billion.

Guarantees issued. In accordance with the project financing agreements of OAO Yamal LNG, the Group issued guarantees, financial and non-financial, which cover only limited specific risks of the project. Non-financial guarantees represent undertakings to provide repayable funds to the project to the extent necessary for the project to fulfil its obligations to creditors, upon occurrence of limited events, and may not exceed USD 5.9 billion at 31 December 2021 and 2020. Payments under financial guarantees may be claimed only upon Yamal LNG's default on its obligations to creditors, and the amount of these financial guarantees depends on macroeconomic factors (benchmark hydrocarbon prices and foreign exchange rates), but may not exceed USD 2.4 billion and EUR 1.0 billion at 31 December 2021 and 2020. Based on the current estimations and long-term macroeconomic forecasts of the Group's management, the likelihood of claims under these financial guarantees is remote.

The aggregated amount of non-financial guarantees in respect of the Arctic LNG 2 project issued by the Group to a number of third parties (LNG-vessels owners, LNG-terminals operators and banks) in favor of the Group's joint venture OOO Arctic LNG 2 totaled EUR 3.0 billion and USD 2.1 billion at 31 December 2021 (at 31 December 2020: USD 2.0 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).

### **PAO NOVATEK**

#### Notes to the Consolidated Financial Statements

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## 27 CONTINGENCIES AND COMMITMENTS (CONTINUED)

At 31 December 2020, the aggregated amount of non-financial guarantees issued by the Group to a Russian bank in respect of the Group's joint venture Cryogas-Vysotsk totaled EUR 276 million. In 2021, these guarantees have been withdrawn as all the conditions proving successful project completion have been met.

The Group also issued non-financial performance guarantees to OOO Arctic LNG 2 in respect of the obligations of the joint venture OOO SMART LNG relating to provision of services under long-term marine tankers time charter agreements, to the extent of the Group's participation interest in OOO SMART LNG.

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

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

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

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

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.

# 27 CONTINGENCIES AND COMMITMENTS (CONTINUED)

The principal licenses of the Group and its joint ventures and their expiry dates are:

Field	License holder	License expiry date
	Subsidiaries:	
Geofizicheskoye	OOO Arctic LNG 1	2034
Gydanskoye	OOO Arctic LNG 1	2044
Soletskoye+Khanaveyskoye	OOO Arctic LNG 1	2046
Verhnetiuteyskoye and West Seyakhinskoye	OOO Obskiy GCC	2044
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
Urengoyskoye (within the Yevo-Yakhinsky	_	
and Ust-Yamsoveysky license areas)	OOO NOVATEK-Yurkharovneftegas	2034/2198
North Chaselskoye	OOO NOVATEK-Yurkharovneftegas	Life of field
Beregovoye	OOO NOVATEK-Yurkharovneftegas	2070
Nyakhartinskoye	OOO NOVATEK-Yurkharovneftegas	2043
East Urengoyskoye+North Yesetinskoye (within the Yevo-Yakhinsky and		
West Yaro Yakhinsky license areas)	OOO NOVATEK-Yurkharovneftegas	2034/2025
West Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2029
Yevo-Yakhinskoye	OOO NOVATEK-Yurkharovneftegas	2034
Syskonsyninskoye	OOO NOVATEK Turkharovneftegas	2054
North Russkoye	OOO NOVATEK-Turknaroviichtegas	2031
East Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
Kharbeyskoye	OOO NOVATEK-Tarkosaleneftegas	2036
East Tazovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Urengoyskoye (within the	000 NOVATER-Tarkosaichenegas	2033
Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
Dorogovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
South Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2031
Dobrovolskoye (within the	o o o i i o i i i i i i i i i i i i i i	2001
Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
North Khancheyskoye+Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2076
Sterkhovoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
Yarudeyskoye	OOO Yargeo	2124
Arkticheskoye	OOO Yamal LNG Resource	2048
Neytinskoye	OOO Yamal LNG Resource	2048
	Joint ventures:	
South-Tambeyskoye	OAO Yamal LNG	2045
Salmanovskoye (Utrenneye)	OOO Arctic LNG 2	2120
Urengoyskoye		
(within the Samburgskiy license area)	AO Arcticgas	2130
Yaro-Yakhinskoye	AO Arcticgas	2119
Samburgskoye	C	
(within the Samburgskiy license area)	AO Arcticgas	2130
East Urengoyskoye+North Esetinskoye	Č	
(within the Samburgskiy license area)	AO Arcticgas	2130
North Urengoyskoye	ZAO Nortgas	2141
Termokarstovoye	ZAO Terneftegas	2097

Management believes the Group has the right to extend its licenses beyond the initial expiration date under the existing legislation and intends to exercise this right on all of its fields.

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# 27 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

# 28 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The principal subsidiaries and joint ventures of the Group and respective effective ownership in the ordinary share capital at 31 December 2021 and 2020 are set out below:

	Ownership percent at 31 December: Country of		Country of		
_	2021	2020	incorporation	Principal activities	
Subsidiaries:					
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production	
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production	
				Exploration, development	
OOO Yargeo	51	51	Russia	and production	
AO NOVATEK-Pur (merged with OOO NOVATEK-					
Yurkharovneftegas from August 2021)	-	100	Russia	Exploration and production	
OOO Arctic LNG 1	100	100	Russia	Exploration and development	
OOO Arctic LNG 3	100	100	Russia	Exploration and development	
				Scientific and	
				technical support of	
OOO NOVATEK-NTC	100	100	Russia	exploration and development	
	400	400		Construction of	
OOO NOVATEK-Murmansk	100	100	Russia	large-scale offshore structures	
OOO NOVATEV D	100	100	D	Gas Condensate	
OOO NOVATEK T			Russia	Processing Plant	
OOO NOVATEK-Transervice	100	100	Russia	Transportation services	
OOO NOVATEK-Ust-Luga	100	100	Russia	Fractionation and Transshipment Complex	
OOO NOVATEK-OSI-Luga OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading	
OOO NOVATEK-AZK OOO NOVATEK-Chelyabinsk	100	100	Russia	Trading and marketing	
OOO NOVATEK-Cheryaohisk	100	100	Russia	Trading and marketing  Trading and marketing	
	100	100	Russia		
OOO NOVATEK M				Trading and marketing	
OOO NOVATEK Moscow Region	100	100	Russia	Trading and marketing Preparation and undertaking	
OOO Obskiy GCC (before June 2021				of LNG and gas-chemical	
OOO Obskiy LNG)	100	100	Russia	projects	
Novatek Gas & Power GmbH	100	100	Switzerland	Trading and marketing	
Novatek Gas & Power Asia Pte. Ltd.	100	100	Singapore	Trading and marketing	
Novatek Green Energy Sp. z o.o. (before February 2020	100	100	Singapore	Trading and marketing	
Novatek Polska Sp. z o.o.)	100	100	Poland	Trading and marketing	

# 28 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES (CONTINUED)

		ip percent ecember:	Country of	
	2021	2020	incorporation	Principal activities
Joint ventures:				
OAO Yamal LNG	50.1	50.1	Russia	Exploration and development, production of LNG
OOO Arctic LNG 2	60	60	Russia	Exploration and development, construction of LNG plant
AO Arcticgas	50	50	Russia	Exploration and production
ZAO Nortgas	50	50	Russia	Exploration and production
ZAO Terneftegas	51	51	Russia	Exploration and production
				Operation of
OOO Cryogas-Vysotsk	51	51	Russia	medium-scale LNG plant
OOO SMART LNG	50	50	Russia	Leasing of LNG tankers
OOO Arctic Transshipment				Construction of LNG
(subsidiary until July 2021)	90	100	Russia	transshipment complexes
OOO Gazpromneft-Sakhalin	49	-	Russia	Exploration and development

### 29 RELATED PARTY TRANSACTIONS

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

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

	Year ended 31 De	cember:
Related parties – joint ventures	2021	2020
Transactions		
Revenues from oil and gas sales	5,586	4,136
Other revenues	17,960	7,375
Purchases of natural gas and liquid hydrocarbons	(473,208)	(214,228)
Transportation expenses	(76)	(283)
Materials, services and other	(158)	(214)
Materials, services and other		
(capitalized within property, plant and equipment)	(82)	(437)
General and administrative expenses	(25)	(9)
Purchases of property, plant and equipment		
and materials for construction	(330)	(316)
Gain on disposal of interests in subsidiaries, net	· · · · · · · · · · · · · · · · · · ·	69
Interest income on loans receivable	11,962	21,170
Dividends declared and cash received	118,786	10,920

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

# 29 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – joint ventures	At 31 December 2021	At 31 December 2020
Balances		
Long-term loans receivable	309,399	390,627
Current portion of long-term loans receivable	163,473	41,253
Trade and other receivables	4,398	2,974
Trade payables and accrued liabilities	62,858	27,532

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

The Group issued guarantees in favor of its joint ventures as described in Note 27.

	Year ended 31 December:			
Related parties – entities with significant influence and their subsidiaries	2021	2020		
Transactions				
Revenues from oil and gas sales	67,501	36,436		
Other revenues	171	-		
Purchases of natural gas and liquid hydrocarbons	(3,091)	(443)		
Gain on disposal of interests in subsidiaries, net	662	-		
Other operating income (loss), net	(707)	(10,789)		
Interest income	672	741		
Related parties – entities with significant influence and their subsidiaries	At 31 December 2021	At 31 December 2020		
Balances				
Contingent consideration	22,269	21,470		
Trade and other receivables	325	8,943		
Trade payables and accrued liabilities	621	114		
	Year ended 3	1 December:		
Related parties - parties under control of key management personnel	2021	2020		
Transactions				
Transportation expenses	(11,615)	(10,815)		
Purchases of construction services	, ,	( , ,		
(capitalized within property, plant and equipment)	(12,280)	(18,268)		
Related parties – parties under control of key management personnel	At 31 December 2021	At 31 December 2020		
Balances				
Advances for construction	5,799	4,768		
Prepayments and other current assets	685	585		
Trade payables and accrued liabilities	1,060	2,126		

**Key management personnel compensation.** The Group paid to key management personnel (members of the Board of Directors and the Management Committee) short-term compensation, including salary, bonuses and excluding dividends, in the following amounts:

Related parties – members of the key management personnel	Year ended 31 December:		
	2021	2020	
Board of Directors Management Committee	192 3,295	211 7,125	
Total compensation	3,487	7,336	

## 29 RELATED PARTY TRANSACTIONS (CONTINUED)

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.

### 30 SEGMENT INFORMATION

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

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

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

- Russian Federation exploration, development, production and processing of hydrocarbons, and sales of natural gas, stable gas condensate, other gas and gas condensate refined products, liquefied petroleum gas and crude oil;
- Countries of Europe (primarily, France, the Netherlands, the United Kingdom, Belgium, Spain, Poland, Norway, Latvia, Lithuania, Finland, Estonia, Denmark, Germany, Sweden, Italy and Montenegro) sales of natural gas, naphtha, stable gas condensate, gas condensate refined products, liquefied petroleum gas, crude oil and exploration activities within joint operations;
- Countries of the Asia-Pacific Region (primarily, China, including Taiwan, South Korea, Japan, Singapore, Malaysia, Philippines, Thailand and India) sales of naphtha, natural gas, crude oil and stable gas condensate;
- Countries of North America (primarily, the USA) sales of naphtha and stable gas condensate refined products;
- Countries of the Middle East (primarily, Saudi Arabia, the United Arab Emirates, Oman, Turkey and Lebanon) sales of naphtha, stable gas condensate, crude oil, natural gas and exploration activities within joint operations.

Geographical information of the Group's oil and gas sales for the year ended 31 December 2021 and 2020 is as follows:

	Year ended 31 December:			
	2021	2020		
Russia	533,492	393,358		
Europe Asia-Pacific Region North America	327,734 230,068 48,508 17,136	178,245 108,142 25,434 12,133		
			The Middle East	
			Other	
Less: export duties			(21,787)	(17,564)
Total outside Russia			601,714	306,392
Total oil and gas sales	1,135,206	699,750		

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.

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

## 30 SEGMENT INFORMATION (CONTINUED)

*Major customers.* For the year ended 31 December 2021 and 2020, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 11.9 percent (RR 138.1 billion) and 16 percent (RR 113.7 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

### 31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of consolidation.** These consolidated financial statements present the assets, liabilities, equity, income, expenses and cash flows of PAO "NOVATEK" and its subsidiaries as those of a single economic entity. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Accounting policies of the Group's subsidiaries have been changed where necessary to ensure consistency with the Group's policies.

**Joint arrangements.** The Group undertakes a number of business activities through joint arrangements, which exist when two or more parties have joint control. Joint arrangements are classified as either joint operations or joint ventures, based on the contractual rights and obligations between the parties to the arrangement.

Interests in joint ventures are accounted for using the equity method. With regard to joint operations, the Group records its share of assets, liabilities, revenues and expenses of its joint operations in the consolidated financial statements on a line-by-line basis.

Under the equity method, an investment in a joint venture is initially recognized at cost. The difference between the cost of an acquisition and the share of the fair value of the joint venture's identifiable net assets represents goodwill upon acquiring the joint venture.

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

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

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

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

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

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

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

## 31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

**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.

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

## 31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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

## 31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.** Financial assets are classified in the following measurement categories: those to be measured subsequently at amortised cost, those to be measured at fair value through profit or loss, and those to be measured at fair value through other comprehensive income. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. If a hybrid contract contains a host that is a financial asset, the classification requirements apply to the entire hybrid contract.

Financial assets are classified as at amortised cost only if both of the following criteria are met: the asset is held within a business model with the objective of collecting the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Certain shareholders' loans provided by the Group to its joint ventures include embedded derivatives that modify cash flows of the loans based on financial (market interest rates) and non-financial (interest rate on borrowings of the lender and free cash flows of the borrower) variables. The risks relating to these variables are interrelated; therefore, terms and conditions of each of these loans related to those variables were defined as a single compound embedded derivative. The Group classified these loans as financial assets at fair value through profit or loss (see Note 26).

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

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

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

Where there is an active market for a commodity, commodity contracts are accounted for as derivatives except for contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a commodity in accordance with the Group's expected purchase, sale or usage requirements. Gains or losses arising from changes in the fair value of commodity derivatives are recognized within other operating income (loss) in the consolidated statement of income (see Note 26).

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

For trade receivables, the Group measures loss allowances applying a simplified approach at an amount equal to lifetime ECLs. To measure the expected credit losses, expected loss rates are applied to trade receivables grouped based on the days past due. For other financial assets classified as at amortised cost, including some shareholders' loans provided, loss allowances are measured as 12-month ECLs unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the lifetime ECLs.

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

## 31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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

The Group also operates a non-contributory post-employment defined benefit plan based on employees' years of service and average salary (see Note 15).

The liability recognized in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the balance sheet date. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

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

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

Non-financial guarantees contracts issued by the Group meet the definition of insurance contracts and are accounted in accordance with IFRS 4, *Insurance Contracts*. Liabilities in respect of non-financial guarantee contracts are recognized when an outflow of funds (economic benefits) required to settle the liability is probable. Liabilities are recognized based on the best estimate of such an outflow.

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

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

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

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

## 31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

## 31 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reverse excise on raw oil. In 2019, with the commencement of the completion stage of the tax maneuver in the oil and gas industry in the Russian Federation, a 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) was introduced. This deduction was introduced to compensate economic losses of oil and gas refining companies arising from the tax maneuver and the transfer of tax burden from export duties to the UPT in the amount of full export duty rate for crude oil while export duties for oil products are paid at a discount to crude oil export duty rate. In 2021, an investment premium to the reverse excise on raw oil was also introduced for companies, which concluded an investment agreement with the Ministry of Energy of the Russian Federation prior to 1 October 2021 for construction or modernization of raw oil deep processing facilities.

The Group receives the reverse excise on raw oil based on volumes of stable gas condensate sent for processing to its Gas Condensate Fractionation and Transshipment Complex at Ust-Luga. Effective July 2021, the reverse excise the Group receives also includes 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.

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.

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.

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

Consolidated statement of cash flows. Cash and cash equivalents comprises cash on hand, cash deposits held with banks and short-term highly liquid investments which are 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.

### PAO NOVATEK

### **Notes to the Consolidated Financial Statements**

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

## 32 NEW ACCOUNTING PRONOUNCEMENTS

The following amendments to standards have been issued, which the Group has not early adopted:

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

### UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

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

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

### Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense, and are presented comprising amounts classified as assets held for sale and amounts allocated to fair values of the identified assets in acquisitions of subsidiaries (see Note 4), except for the effects from non-monetary transactions. These costs do not include LNG liquefaction and transportation operations (amounts in millions of Russian roubles).

	Year ended 31 December:		
	2021	2020	
Costs incurred in exploration and development activities			
Acquisition of unproved properties	775	317	
Acquisition of proved properties	13,348	58	
Exploration costs	27,200	21,156	
Development costs	85,805	112,213	
Total costs incurred in exploration and development activities	127,128	133,744	
The Group's share in joint ventures'			
cost incurred in exploration and development activities	49,898	52,630	
	At 31 December 2021	At 31 December 2020	
Capitalized costs relating to oil and gas producing activities			
Proved and unproved properties	130,575	113,926	
Wells, related equipment and facilities	396,203	348,900	
Support equipment and facilities	188,679	176,171	
Uncompleted wells, related equipment and facilities	145,199	106,086	
Total capitalized costs relating to oil and gas producing activities	860,656	745,083	
Less: accumulated depreciation, depletion and amortization	(283,101)	(246,111)	
Net capitalized costs relating to oil and gas producing activities	577,555	498,972	
The Group's share in joint ventures'			
capitalized costs relating to oil and gas producing activities	585,642	565,843	

# 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:	
	2021	2020
Subsidiaries		
Revenues from oil and gas sales (less transportation)	314,973	204,417
Lifting costs	(20,572)	(18,732)
Taxes other than income tax	(87,939)	(54,024)
Depreciation, depletion and amortization	(38,207)	(30,235)
Exploration expenses	(9,581)	(9,103)
Social expenses and charity (1)	(607)	(1,926)
Other operating expenses (2)	(574)	(537)
Total operating expenses	(157,480)	(114,557)
Results of operations for oil and gas		
producing activities before income tax	157,493	89,860
Less: related income tax expenses	(29,831)	(16,987)
Results of operations for oil and gas	127.77	72.072
producing activities of the Group's subsidiaries	127,662	72,873
Group's share in joint ventures		
Revenues from oil and gas sales (less transportation)	404,738	167,334
Lifting costs	(8,221)	(7,193)
Taxes other than income tax	(55,109)	(34,994)
Depreciation, depletion and amortization	(26,266)	(25,959)
Exploration expenses	(1,858)	(2,225)
Social expenses and charity (1)	(444)	(32)
Other operating expenses (2)	(553)	(433)
Total operating expenses	(92,451)	(70,836)
Results of operations for oil and gas		
producing activities before income tax	312,287	96,498
Less: related income tax expenses	(52,134)	(16,049)
Group's share in results of operations for oil and gas		
producing activities of joint ventures	260,153	80,449
Total results of operations for oil and gas producing activities of the Group's subsidiaries and joint ventures	387,815	153,322

<sup>(1)</sup> Represent social expenses and compensatory payments related mainly to continued support of charities and social programs in the regions where production and development activities are performed.

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.

<sup>(2)</sup> Represent mainly materials, services and other expenses, as well as administrative expenses being by nature operating expenses relating to fields in exploration and development stage.

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 2021 and 2020.

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 2198. 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.

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 2019	40,597	1,149	38,299	1,085	78,896	2,234
Changes attributable to: Revisions of						
previous estimates	471	13	(603)	(17)	(132)	(4)
Extension and discoveries	1,075	30	2,018	57	3,093	87
Acquisitions (*)	138	4	, =	=	138	4
Production	(1,435)	(40)	(1,297)	(37)	(2,732)	(77)
At 31 December 2020	40,846	1,156	38,417	1,088	79,263	2,244
Changes attributable to: Revisions of						
previous estimates	(566)	(15)	(311)	(9)	(877)	(24)
Extension and discoveries	2,891	82	1,377	39	4,268	121
Production	(1,515)	(43)	(1,306)	(37)	(2,821)	(80)
At 31 December 2021	41,656	1,180	38,177	1,081	79,833	2,261
Net proved developed reserves	(included abov	ve):				
At 31 December 2019	11,527	326	18,612	527	30,139	853
At 31 December 2020	12,128	343	17,922	508	30,050	851
At 31 December 2021	13,630	386	17,179	486	30,809	872
Net proved undeveloped reserv	ves (included a	bove):				
At 31 December 2019	29,070	823	19,687	558	48,757	1,381
At 31 December 2020	28,718	813	20,495	580	49,213	1,393
At 31 December 2021	28,026	794	20,998	595	49,024	1,389

<sup>(\*) –</sup> Relate to an additional 50 percent interest in reserves of the Yevo-Yakhinskiy license area acquired by the Group as a result of the reorganization of Arcticgas in 2019 (part of reserves was estimated in 2020).

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 311 billion cubic feet (9 billion cubic meters) and 337 billion cubic feet (10 billion cubic meters) at 31 December 2021 and 2020, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 2,294 billion cubic feet (65 billion cubic meters) and 2,341 billion cubic feet (66 billion cubic meters) at 31 December 2021 and 2020, 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 2019	822	98	832	95	1,654	193
Changes attributable to:						
Revisions of	20	2	(1.6)	(2)	1.4	1
previous estimates	30	3	(16)	(2)	14	1
Extension and discoveries	50	6	66	8	116	14
Acquisitions (*)	5	1	<del>-</del>	-	5	1
Production	(52)	(6)	(50)	(6)	(102)	(12)
At 31 December 2020	855	102	832	95	1,687	197
Changes attributable to:						
Revisions of						
previous estimates	(48)	(6)	(15)	(2)	(63)	(8)
Extension and discoveries	49	6	55	6	104	12
Production	(55)	(7)	(49)	(5)	(104)	(12)
At 31 December 2021	801	95	823	94	1,624	189
Net proved developed reserves	(included ab	ove):				
At 31 December 2019	335	42	457	52	792	94
At 31 December 2020	349	43	439	50	788	93
At 31 December 2021	350	42	422	49	772	91
Net proved undeveloped reserv	es (included	above):				
At 31 December 2019	487	56	375	43	862	99
At 31 December 2020	506	59	393	45	899	104
At 31 December 2021	451	53	401	45	852	98

<sup>(\*) –</sup> Relate to an additional 50 percent interest in reserves of the Yevo-Yakhinskiy license area acquired by the Group as a result of the reorganization of Arcticgas in 2019 (part of reserves was estimated in 2020).

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 72 million barrels (9 million metric tons) and 82 million barrels (11 million metric tons) at 31 December 2021 and 2020, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 18 million barrels (2 million metric tons) and 19 million barrels (2 million metric tons) at 31 December 2021 and 2020, respectively.

# **Contact Information**

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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