PAO NOVATEK

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF AND FOR THE THREE MONTHS ENDED 31 MARCH 2017

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Report on Review of Interim Financial Statements

To the Shareholders and Board of Directors of PAO NOVATEK:

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PAO NOVATEK and its subsidiaries (the "Group") as of 31 March 2017 and the related consolidated interim condensed statements of income, comprehensive income, cash flows and changes in equity for the three-month period then ended. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

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

Conclusion

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

AO PricewaterhouseCoopers Audit

25 April 2017

Moscow, Russian Federation

A.G. Yashkov, certified auditor (licence no. 01-001391), AO PricewaterhouseCoopers Audit

Audited entity: PAO NOVATEK

State registration certificate №1461/94, issued by the administration of Oktyabrskiy district of Samara on 16 August 1994.

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

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

Mailing address: 629850, Yamalo-Nenetski state, Purovsky region, Tarko-Sale, Pobedi str., 22 "a".

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

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

ORNZ 11603050547 in the register of auditors and audit organizations

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

	Notes	At 31 March 2017	At 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	5	328,332	331,795
Investments in joint ventures	6	303,692	259,650
Long-term loans and receivables	7	190,334	209,145
Other non-current assets	8	31,160	30,484
Total non-current assets		**853,518**	**831,074**
Current assets			
Inventories		8,250	9,044
Current income tax prepayments		763	581
Trade and other receivables	9	41,700	41,586
Prepayments and other current assets	10	25,853	33,248
Cash and cash equivalents		64,977	48,301
Total current assets		**141,543**	**132,760**
Total assets		**995,061**	**963,834**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	11	143,720	161,296
Long-term lease liabilities		89	-
Deferred income tax liabilities		24,999	24,656
Asset retirement obligations		8,450	7,605
Other non-current liabilities		2,901	3,766
Total non-current liabilities		**180,159**	**197,323**
Current liabilities			
Short-term debt and current portion of long-term debt	12	35,670	55,469
Current portion of long-term lease liabilities		136	-
Trade payables and accrued liabilities	13	33,341	38,462
Current income tax payable		736	747
Other taxes payable		15,370	14,113
Total current liabilities		**85,253**	**108,791**
Total liabilities		**265,412**	**306,114**
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(7,571)	(6,913)
Additional paid-in capital		31,297	31,297
Currency translation differences		(1,245)	(724)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		689,599	618,680
Total equity attributable to PAO NOVATEK shareholders	14	**718,090**	**648,350**
Non-controlling interest		**11,559**	**9,370**
Total equity		**729,649**	**657,720**
Total liabilities and equity		**995,061**	**963,834**

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

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

25 April 2017

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

	Notes	Three months ended 31 March: 2017	2016
Revenues			
Oil and gas sales	15	154,001	138,211
Other revenues		627	1,140
Total revenues		**154,628**	**139,351**
Operating expenses			
Purchases of natural gas and liquid hydrocarbons	16	(41,970)	(29,717)
Transportation expenses	17	(36,782)	(36,573)
Taxes other than income tax	18	(12,341)	(10,597)
Depreciation, depletion and amortization		(8,488)	(7,833)
Materials, services and other		(4,800)	(4,466)
General and administrative expenses		(3,993)	(4,012)
Exploration expenses		(388)	(210)
Net impairment expenses		-	(153)
Change in natural gas, liquid hydrocarbons and work-in-progress		(602)	(3,598)
Total operating expenses		**(109,364)**	**(97,159)**
Net gain on disposal of interests in joint ventures	4	-	73,072
Other operating income (loss), net		274	971
Profit from operations		**45,538**	**116,235**
Finance income (expense)			
Interest expense	19	(2,238)	(3,654)
Interest income	19	4,521	5,055
Change in fair value of non-commodity financial instruments	21	(7,110)	731
Foreign exchange gain (loss), net	19	(3,775)	(1,216)
Total finance income (expense)		**(8,602)**	**916**
Share of profit (loss) of joint ventures, net of income tax	6	43,626	23,381
Profit before income tax		**80,562**	**140,532**
Income tax expense			
Current income tax expense		(7,926)	(18,755)
Deferred income tax benefit (expense), net		571	(4,200)
Total income tax expense	20	**(7,355)**	**(22,955)**
Profit		**73,207**	**117,577**
Profit attributable to:			
Non-controlling interest		2,189	1,660
Shareholders of PAO NOVATEK		71,018	115,917
Basic and diluted earnings per share (in Russian roubles)		23.54	38.40
Weighted average number of shares outstanding (in millions)		*3,017.2*	*3,018.9*

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

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

	Three months ended 31 March:	
	2017	**2016**
Profit	**73,207**	**117,577**
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to profit (loss)		
Remeasurement of pension obligations	(98)	(78)
Share of remeasurement of pension obligations of joint ventures	(1)	-
	(99)	**(78)**
Items that may be reclassified subsequently to profit (loss)		
Currency translation differences	(527)	1,252
Share of currency translation differences of joint ventures	6	-
	(521)	**1,252**
Other comprehensive income (loss)	**(620)**	**1,174**
Total comprehensive income	**72,587**	**118,751**
Total comprehensive income attributable to:		
Non-controlling interest	2,189	1,660
Shareholders of PAO NOVATEK	70,398	117,091

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

PAO NOVATEK
Consolidated Interim Condensed Statement of Cash Flows (unaudited)
(in millions of Russian roubles)

	Notes	Three months ended 31 March: 2017	2016
Profit before income tax		**80,562**	**140,532**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		8,488	7,833
Impairment expenses (reversals), net		-	153
Foreign exchange loss (gain), net		3,775	1,216
Loss (gain) on disposal of assets, net		-	(73,068)
Interest expense		2,238	3,654
Interest income		(4,521)	(5,055)
Share of loss (profit) in joint ventures, net of income tax	6	(43,626)	(23,381)
Change in fair value of non-commodity financial instruments		7,110	(731)
Revaluation of commodity derivatives through loss (profit)		(211)	(326)
Increase in long-term advances given		(762)	(2,620)
Other adjustments		(13)	21
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		2,856	6,649
Decrease (increase) in inventories		699	3,792
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		(2,114)	1,338
Increase (decrease) in taxes payable, other than income tax		1,159	733
Total effect of working capital changes		**2,600**	**12,512**
Interest received		1,010	202
Income taxes paid		(7,808)	(6,518)
Net cash provided by operating activities		**48,842**	**54,424**
Cash flows from investing activities			
Purchases of property, plant and equipment		(3,460)	(7,228)
Payments for mineral licenses		(59)	(294)
Purchases of materials for construction		(388)	(27)
Payments for acquisition of subsidiaries net of cash acquired		-	(2,929)
Proceeds from disposal of stakes in joint ventures	4	-	84,978
Costs to sell stakes in joint ventures	4	-	(2,634)
Interest paid and capitalized		(890)	(1,721)
Guarantee fees paid		(327)	-
Loans provided to joint ventures	7	-	(6,645)
Repayments of loans provided to joint ventures	7	2,161	-
Net cash provided by (used for) investing activities		**(2,963)**	**63,500**

PAO NOVATEK
Consolidated Interim Condensed Statement of Cash Flows (unaudited)
(in millions of Russian roubles)

	Notes	Three months ended 31 March: 2017	2016
Cash flows from financing activities			
Repayments of long-term debt		(24,524)	(54,959)
Net increase (decrease) in short-term debt with original maturity three months or less		13	(436)
Interest on debt paid		(1,755)	(3,209)
Payments of lease liabilities		(34)	-
Purchase of treasury shares	14	(618)	(103)
Net cash used for financing activities		**(26,918)**	**(58,707)**
Net effect of exchange rate changes on cash and cash equivalents		(2,285)	(2,873)
Net increase in cash and cash equivalents		**16,676**	**56,344**
Cash and cash equivalents at the beginning of the period		48,301	29,187
Cash and cash equivalents at the end of the period		**64,977**	**85,531**

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

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

For the three months ended 31 March 2016	*Number of ordinary shares (in millions)*	Ordinary share capital	Treasury shares	Additional paid-in capital	Currency translation differences	Asset revaluation surplus on acquisitions	Retained earnings	Equity attributable to PAO NOVATEK shareholders	Non-controlling interest	Total equity
1 January 2016	***3,019.1***	**393**	**(5,997)**	**31,297**	**(5,092)**	**5,617**	**399,861**	**426,079**	**2,092**	**428,171**
Profit (loss)	-	-	-	-	-	-	115,917	115,917	1,660	117,577
Other comprehensive income (loss)	-	-	-	-	1,252	-	(78)	1,174	-	1,174
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**1,252**	**-**	**115,839**	**117,091**	**1,660**	**118,751**
Effect from other changes in joint ventures' net assets (Note 6)	-	-	-	-	-	-	2,819	2,819	-	2,819
Purchase of treasury shares (Note 14)	*(0.2)*	-	(103)	-	-	-	-	(103)	-	(103)
31 March 2016	***3,018.9***	**393**	**(6,100)**	**31,297**	**(3,840)**	**5,617**	**518,519**	**545,886**	**3,752**	**549,638**
For the three months ended 31 March 2017										
1 January 2017	***3,017.7***	**393**	**(6,913)**	**31,297**	**(724)**	**5,617**	**618,680**	**648,350**	**9,370**	**657,720**
Profit (loss)	-	-	-	-	-	-	71,018	71,018	2,189	73,207
Other comprehensive income (loss)	-	-	-	-	(521)	-	(99)	(620)	-	(620)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(521)**	**-**	**70,919**	**70,398**	**2,189**	**72,587**
Purchase of treasury shares (Note 14)	*(0.9)*	-	(658)	-	-	-	-	(658)	-	(658)
31 March 2017	***3,016.8***	**393**	**(7,571)**	**31,297**	**(1,245)**	**5,617**	**689,599**	**718,090**	**11,559**	**729,649**

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

The Group sells its natural gas on the Russian domestic market at unregulated market prices (except for deliveries to residential customers); however, the majority of natural gas sold on the Russian domestic market by all producers is sold at prices regulated by the governmental agency of the Russian Federation that carries out state regulation of prices and tariffs for goods and services of natural monopolies in energy, utilities and transportation. The Group's natural gas sales volumes 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 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.

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

2 BASIS OF PREPARATION

The consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting*, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards ("IFRS").

Use of estimates and judgments. The critical accounting estimates and judgments followed by the Group in the preparation of consolidated interim condensed financial statements are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2016. Estimates have principally been made in respect to fair values of assets and liabilities, deferred income taxes, estimation of oil and gas reserves, impairment provisions, pension obligations, asset retirement obligations and investments.

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

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

2 BASIS OF PREPARATION (CONTINUED)

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

			Average rate for the three months ended 31 March:	
Russian roubles to one currency unit	**At 31 March 2017**	**At 31 December 2016**	**2017**	**2016**
US dollar (USD)	56.38	60.66	58.84	74.63
Euro (EUR)	60.60	63.81	62.65	82.34
Polish zloty (PLN)	14.32	14.44	14.47	18.90

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

Reclassifications. Certain reclassifications have been made to the comparative figures to conform to the current period presentation with no effect on profit for the period or shareholder's equity. Namely, insurance expenses relating to production assets and major part of expenses of the Group's science and technology center for the three months ended 31 March 2016 in the total amount of RR 217 million were reclassified from general and administrative expenses to materials, services and other expenses and exploration expenses in the amount of RR 109 million and RR 108 million, respectively.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies and methods of computation followed by the Group are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2016, except for income tax expense and the effect of adopted new standards as described below.

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

The following new standards were early adopted by the Group starting from the annual period beginning on 1 January 2017:

IFRS 15, Revenue from Contracts with Customers. The standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any discounts on the contract price must generally be allocated to the separate elements of contracts with customers. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

In accordance with the transition provisions in IFRS 15, the Group elected to apply the new rules retrospectively to each prior period presented. The application of the standard had no material impact on the Group's consolidated interim condensed financial statements and therefore the comparative period was not restated.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 16, Leases. The standard requires lessees to recognize right-of-use assets and lease liabilities for most leases. A contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use assets are initially measured at cost and depreciated by the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The cost of right-of-use assets comprises of initial measurement of the lease liability, any lease payments made before or at the commencement date and initial direct costs. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and subsequently measured at amortized cost with the interest expense recognized within finance income (expense) in the consolidated statement of income.

In accordance with IFRS 16, the Group elected not to apply the standard to short-term leases and leases with underlying assets of low value.

In accordance with the transition provisions in IFRS 16, the Group chose to apply the new rules retrospectively with the cumulative effect of initially applying the standard recognized at 1 January 2017. The Group followed allowed practical expedients and did not apply the new standard to leases for which the lease term ends within twelve months of the date of transition.

As the result, at 1 January 2017, the Group recognized in the consolidated interim condensed statement of financial position right-of-use assets and lease liabilities in the amount of RR 256 million, with no effect on opening retained earnings. In the consolidated interim condensed statement of income for the three months ended 31 March 2017 the Group has recorded RR 21 million and RR 5 million in depreciation, depletion and amortization and interest expense, respectively, in relation to leases accounted for under IFRS 16.

If the previous standard, IAS 17, *Leases*, was applied, the Group would have recorded RR 21 million in general and administrative expenses and RR 1 million in materials, services and other expenses instead of the above mentioned depreciation, depletion and amortization and interest expenses.

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

4 ACQUISITIONS AND DISPOSALS

Disposal of an ownership interest in OAO Yamal LNG

In December 2015, the Group and China's investment fund Silk Road Fund Co. Ltd., signed the Share Purchase Agreement on the disposal of a 9.9 percent equity stake in Yamal LNG, the Group's joint venture, to the fund. The transaction contained a set of conditions precedent and, in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*, the Group's 9.9 percent equity stake in Yamal LNG has been classified as an asset held for sale at 31 December 2015. The asset's carrying amount of RR 7,987 million was determined based on the net assets of Yamal LNG on the date of the agreement.

In March 2016, the transaction was closed upon the completion of the conditions precedent, and the Group recognized the disposal of the 9.9 percent equity stake in Yamal LNG. The transaction included a cash payment and the provision of a 15-year tenor loan to the Group for the purpose of financing the Yamal LNG project (see Note 11). Concurrently, the Group committed to provide cash contributions to the capital of Yamal LNG with regard to the interest disposed on the same terms that were previously applied upon the entrance of TOTAL S.A. and China National Petroleum Corporation into the project.

The following table summarizes the consideration details and shows the gain on the sale of the ownership interest in Yamal LNG:

	RR million
Cash payment received (EUR 1,087 million at exchange rate of 78.18 to EUR 1.00)	84,978
Adjustment to fair value at initial recognition of the loan from Silk Road Fund, previously recorded as deferred income (see Note 11)	9,173
Less: 49.9 percent share in the Group's liability in relation to capital contributions to Yamal LNG [(*)] (USD 149 million at exchange rate of 70.15 to USD 1.00)	(10,458)
Less: carrying amount of the Group's disposed 9.9 percent interest in the equity investment previously classified as held for sale	(7,987)
Costs to sell	(2,634)
Gain on the sale of ownership interest before income tax	**73,072**

[(*)] – excluding the Group's 50.1 percent share in Yamal LNG's capital increase as a result of these contributions.

Consequently, the Group recognized a gain on the transaction of RR 57,677 million, net of associated income tax of RR 15,395 million.

As a result of this transaction, the Group's interest in Yamal LNG is 50.1 percent. The Group continues to exercise joint control over Yamal LNG and recognizes it as a joint venture, and, accordingly, accounts for this investment under the equity method.

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

5 PROPERTY, PLANT AND EQUIPMENT

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

For the three months ended 31 March 2016	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	348,268	64,778	15,195	428,241
Accumulated depreciation, depletion and amortization	(93,886)	-	(2,643)	(96,529)
Net book value at 1 January 2016	**254,382**	**64,778**	**12,552**	**331,712**
Additions	269	7,771	27	8,067
Transfers	13,029	(13,087)	58	-
Change in asset retirement costs	639	-	-	639
Depreciation, depletion and amortization	(7,559)	-	(151)	(7,710)
Disposals, net	(18)	(17)	(23)	(58)
Cost	362,179	59,445	15,248	436,872
Accumulated depreciation, depletion and amortization	(101,437)	-	(2,785)	(104,222)
Net book value at 31 March 2016	**260,742**	**59,445**	**12,463**	**332,650**
For the three months ended 31 March 2017				
Cost	412,352	34,776	15,402	462,530
Accumulated depreciation, depletion and amortization	(127,635)	-	(3,100)	(130,735)
Net book value at 31 December 2016	**284,717**	**34,776**	**12,302**	**331,795**
Effect of change in accounting policy (see Note 3)	16	-	240	256
Cost	412,368	34,776	15,642	462,786
Accumulated depreciation, depletion and amortization	(127,635)	-	(3,100)	(130,735)
Net book value at 1 January 2017	**284,733**	**34,776**	**12,542**	**332,051**
Additions	551	3,504	1	4,056
Transfers	7,168	(7,219)	51	-
Change in asset retirement costs	683	-	-	683
Depreciation, depletion and amortization	(8,278)	-	(155)	(8,433)
Disposals, net	(17)	(6)	(2)	(25)
Cost	420,746	31,055	15,675	467,476
Accumulated depreciation, depletion and amortization	(135,906)	-	(3,238)	(139,144)
Net book value at 31 March 2017	**284,840**	**31,055**	**12,437**	**328,332**

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

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in additions to property, plant and equipment for the three months ended 31 March 2017 and 2016 are capitalized interest and foreign exchange differences of RR 890 million and RR 1,721 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 1,771 million and RR 1,438 million at 31 March 2017 and 31 December 2016, respectively.

Included in property, plant and equipment at 31 March 2017 are the right-of-use assets with carrying value of RR 223 million primarily related to office buildings.

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

	At 31 March 2017	At 31 December 2016
Proved properties acquisition costs	47,743	47,243
Less: accumulated depreciation, depletion and amortization of proved properties acquisition costs	(17,097)	(16,782)
Unproved properties acquisition costs	10,125	10,069
Total acquisition costs	**40,771**	**40,530**

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

Capital commitments are disclosed in Note 22.

6 INVESTMENTS IN JOINT VENTURES

	At 31 March 2017	At 31 December 2016
Joint ventures:		
OAO Yamal LNG	164,231	126,688
OOO Yamal Development	59,406	55,228
ZAO Nortgas	51,796	51,222
Artic Russia B.V.	25,194	24,449
ZAO Terneftegas	3,065	2,063
Total investments in joint ventures	**303,692**	**259,650**

The Group considers that Yamal LNG, Yamal Development, Nortgas, Artic Russia and Terneftegas constitute jointly controlled entities on the basis of the existing contractual arrangements. The Charters and Shareholders' agreements of these entities stipulate that strategic and/or key decisions of a financial, operating and capital nature require effectively the unanimous approval by all shareholders or by a group of shareholders. The Group accounts its shares in joint ventures under the equity method.

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

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

6 INVESTMENTS IN JOINT VENTURES (CONTINUED)

At 31 March 2017 and 31 December 2016, the Group's 50.1 percent ownership in Yamal LNG was pledged in connection with credit line facility agreements signed by Yamal LNG with a number of Russian and foreign banks to obtain external project financing.

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

Artic Russia B.V. The Group holds a direct 13.6 percent participation interest in Artic Russia, domiciled in the Netherlands. Artic Russia holds a 49 percent participation interest in OOO SeverEnergia.

OOO Yamal Development. The Group holds a 50 percent participation interest in Yamal Development, its joint venture with PAO Gazprom Neft (50 percent). Yamal Development holds a 51 percent participation interest in SeverEnergia and an 86.4 percent ownership interest in Artic Russia.

OOO SeverEnergia. The Group holds an effective 53.3 percent participation interest in SeverEnergia through two of the Group's other joint ventures, Yamal Development and Artic Russia. SeverEnergia through its wholly owned subsidiary OAO Arcticgas operates the Samburgskoye, Urengoyskoye and Yaro-Yakhinskoye fields, located in the YNAO.

ZAO Terneftegas. The Group holds a 51 percent ownership in Terneftegas, its joint venture with TOTAL S.A. (49 percent). Terneftegas operates the Termokarstovoye field, located in the YNAO.

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

	Three months ended 31 March:	
	2017	**2016**
At 1 January	**259,650**	**154,725**
Share of profit from operations	9,906	5,660
Share of finance income (expense)	42,883	22,326
Share of total income tax expense	(9,163)	(4,605)
Share of profit (loss) of joint ventures, net of income tax	**43,626**	**23,381**
Share of other comprehensive income of joint ventures	5	-
Group's costs capitalized in investments	336	-
Effect from initial measurement of loans provided by the Group to joint ventures (see Note 21)	-	836
Effect from other changes in joint ventures' net assets	-	2,819
Elimination of the Group's share in profits of joint ventures from hydrocarbons balances purchased by the Group from joint ventures and not sold at the reporting date	75	(848)
At 31 March	**303,692**	**180,913**

For the three months ended 31 March 2017, the Group recorded commission fees in the amount of RR 336 million for the guarantee received from the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (see Note 22) as an increase to the investment in Yamal LNG.

For the three months ended 31 March 2016, the Group recorded an increase in equity in the amount of RR 2,819 million from the initial measurement of the disproportional loans provided to Yamal LNG by other shareholders.

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

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

7 LONG-TERM LOANS AND RECEIVABLES

	At 31 March 2017	At 31 December 2016
Long-term loans	164,792	184,621
Long-term interest receivable	25,259	24,390
Other long-term receivables	412	442
Total	**190,463**	**209,453**
Less: current portion of long-term loans	(129)	(308)
Total long-term loans and receivables	**190,334**	**209,145**

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

	At 31 March 2017	At 31 December 2016
OAO Yamal LNG	156,371	173,845
OOO Yamal Development	5,575	7,575
ZAO Terneftegas	2,846	3,201
Total long-term loans	**164,792**	**184,621**

OAO Yamal LNG. In accordance with the Shareholders' agreement, the Group provided US dollar and Euro credit line facilities to Yamal LNG, the Group's joint venture. Under the terms of these credit line facilities, the Group provided loans to Yamal LNG prior to obtaining external project financing. The loans interest rate is set based on market interest rates and interest rates on borrowings of shareholders. The repayment schedule is linked to free cash flows of the joint venture.

OOO Yamal Development. The Group provided Russian rouble denominated loans under agreed credit line facilities to Yamal Development, the Group's joint venture. The loans are repayable not later than 2021 and bear fixed interest rates.

During the three months ended 31 March 2017, Yamal Development repaid to the Group a part of the loans in the total amount of RR 2 billion ahead of the maturity schedule.

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

During the three months ended 31 March 2017, Terneftegas repaid to the Group a part of the loans and accrued interest in the total amount of RR 299 million.

No provisions for impairment of long-term loans and receivables were recognized at 31 March 2017 and 31 December 2016. The carrying values of long-term loans and receivables approximate their respective fair values.

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

8 OTHER NON-CURRENT ASSETS

	At 31 March 2017	At 31 December 2016
Financial assets		
Commodity derivatives	424	1,172
Other financial assets	11	13
Non-financial assets		
Long-term advances	21,644	20,882
Deferred income tax assets	5,341	4,671
Materials for construction	2,134	2,004
Intangible assets, net	1,375	1,510
Other non-financial assets	231	232
Total other non-current assets	**31,160**	**30,484**

At 31 March 2017 and 31 December 2016, the long-term advances represented advances to OAO Russian Railways. The advances were paid in accordance with the Strategic Partnership Agreement signed with Russian Railways in 2012.

9 TRADE AND OTHER RECEIVABLES

	At 31 March 2017	At 31 December 2016
Trade receivables (net of provision of RR 192 million and RR 196 million at 31 March 2017 and 31 December 2016, respectively)	39,953	40,606
Other receivables (net of provision of RR 22 million and RR 22 million at 31 March 2017 and 31 December 2016, respectively)	1,747	980
Total trade and other receivables	**41,700**	**41,586**

Trade receivables in the amount RR 2,892 million and RR 5,362 million at 31 March 2017 and 31 December 2016, respectively, are secured by letters of credit, issued by banks with investment grade rating. The Group does not hold any other collateral as security for trade and other receivables (see Note 21 for credit risk disclosures).

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

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

10 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 March 2017	At 31 December 2016
Financial assets		
Commodity derivatives	818	2,920
Current portion of long-term loans receivable (see Note 7)	129	308
Cash on special accounts	13	-
Non-financial assets		
Value-added tax receivable	9,515	10,456
Recoverable value-added tax	5,239	5,736
Prepayments and advances to suppliers	6,020	5,998
Deferred transportation expenses for natural gas	-	1,901
Deferred transportation expenses for liquid hydrocarbons	1,493	1,903
Prepaid customs duties	1,997	1,756
Deferred export duties for liquid hydrocarbons	23	1,643
Other non-financial assets	606	627
Total prepayments and other current assets	**25,853**	**33,248**

11 LONG-TERM DEBT

	At 31 March 2017	At 31 December 2016
Corporate bonds		
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	56,241	60,503
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	36,551	39,318
Eurobonds – Four-Year Tenor (par value RR 14 billion, repaid in 2017)	-	13,996
Bank loans		
Syndicated term credit line facility	32,462	41,906
Other bank loans	6,060	6,381
Other borrowings		
Loan from Silk Road Fund	38,376	41,125
Other loans	9,700	13,536
Total	**179,390**	**216,765**
Less: current portion of long-term debt	(35,670)	(55,469)
Total long-term debt	**143,720**	**161,296**

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

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

In February 2013, the Group issued four-year tenor Russian rouble denominated Eurobonds in the amount of RR 14 billion. The Russian rouble denominated Eurobonds were issued with an annual coupon rate of 7.75 percent, payable semi-annually. In February 2017, the four-year RR 14 billion Eurobonds were fully repaid at its maturity date.

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

11 LONG-TERM DEBT (CONTINUED)

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

Other bank loans. In December 2016, the Group obtained a EUR 100 million loan from a Russian subsidiary of a foreign bank. The loan is repayable in December 2019. The facility includes the maintenance of certain restrictive financial covenants.

Loan from Silk Road Fund. As part of the transaction for the sale of the Group's 9.9 percent equity stake in OAO Yamal LNG in December 2015, the Group obtained a loan from Silk Road Fund for financing of the Yamal LNG project (see Note 4).

The loan is repayable until December 2030 by semi-annual equal installments starting from December 2019 and includes the maintenance of certain restrictive financial covenants.

Other loans. At 31 March 2017 and 31 December 2016, other loans represented Russian rouble denominated loans, which were provided to one of the Group's subsidiaries by its non-controlling shareholder. The loans are repayable until the end of 2017. During the three months ended 31 March 2017, a portion of the loans and accrued interest in the amount of RR 4,237 million was repaid ahead of maturity schedule.

The fair value of long-term debt including its current portion was RR 188,457 million and RR 224,183 million at 31 March 2017 and 31 December 2016, respectively. The fair value of the corporate bonds was determined based on market quote prices (Level 1 in the fair value measurement hierarchy described in Note 21). The fair value of other long-term loans was determined based on future cash flows discounted at the estimated risk-adjusted discount rate (Level 3 in the fair value measurement hierarchy described in Note 21).

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

Maturity period:	**At 31 March 2017**
1 April 2018 to 31 March 2019	6,491
1 April 2019 to 31 March 2020	7,729
1 April 2020 to 31 March 2021	39,888
1 April 2021 to 31 March 2022	3,337
After 31 March 2022	86,275
Total long-term debt	**143,720**

Available credit line facilities. At 31 March 2017, the Group had available long-term credit line facilities from Russian banks with credit limits in the amount of RR 50 billion and the equivalent of USD 750 million. The facilities include the maintenance of certain restrictive financial covenants.

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

At 31 March 2017 and 31 December 2016, short-term debt and current portion of long-term debt consisted only of the current portion of long-term debt in the amount of RR 35,670 million and RR 55,469 million, respectively.

Loans with original maturity three months or less. During the three months ended 31 March 2017 and 2016, the Group had available revolving credit line facilities under which the obtained loans with original maturities of three months or less to finance trade activities were secured by cash revenues from specifically determined liquid hydrocarbons export sales contracts. At 31 March 2017 and 31 December 2016, these loans were repaid.

Available credit line facilities. At 31 March 2017, the Group had available short-term revolving credit line facilities from Russian banks, with total credit limits in the amount of RR 70 billion.

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

13 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 March 2017	At 31 December 2016
Financial liabilities		
Trade payables	22,243	25,828
Interest payable	1,881	1,821
Commodity derivatives	681	2,754
Other payables	543	463
Non-financial liabilities		
Advances from customers	2,185	2,483
Salary payables	360	338
Other liabilities and accruals	5,448	4,775
Total trade payables and accrued liabilities	**33,341**	**38,462**

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

14 SHAREHOLDERS' EQUITY

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

During the three months ended 31 March 2017 and 2016, the Group purchased 0.9 million and 0.2 million ordinary shares (in the form of GDRs) at a total cost of RR 658 million and RR 103 million, respectively. At 31 March 2017 and 31 December 2016, the Group held in total (both ordinary shares and GDRs) 19.5 million and 18.6 million ordinary shares at a total cost of RR 7,571 million and RR 6,913 million, respectively. The Group has decided that these shares do not vote.

Dividends. Subsequent to the balance sheet date, on 21 April 2017, the Annual General Meeting of Shareholders of PAO NOVATEK approved the final dividend of RR 7.00 per share or RR 70.0 per GDR based on the financial results for the year ended 31 December 2016 totaling RR 21,254 million (including treasury shares).

15 OIL AND GAS SALES

	Three months ended 31 March:	
	2017	2016
Natural gas	67,503	61,163
Naphtha	30,722	28,210
Other gas and gas condensate refined products	18,232	14,995
Crude oil	17,621	13,959
Liquefied petroleum gas	10,138	6,807
Stable gas condensate	9,785	13,077
Total oil and gas sales	**154,001**	**138,211**

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

16 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Three months ended 31 March:	
	2017	**2016**
Unstable gas condensate	26,691	19,147
Natural gas	14,610	10,126
Other hydrocarbons	669	444
Total purchases of natural gas and liquid hydrocarbons	**41,970**	**29,717**

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 OOO SeverEnergia (through its wholly owned subsidiary, OAO Arcticgas) and all volumes of natural gas produced by its joint venture ZAO Terneftegas (see Note 23).

The Group purchases all volumes of unstable gas condensate produced by its joint ventures Nortgas, SeverEnergia (through its wholly owned subsidiary, Arcticgas) and Terneftegas at ex-field prices based on benchmark crude oil prices (see Note 23).

17 TRANSPORTATION EXPENSES

	Three months ended 31 March:	
	2017	**2016**
Natural gas transportation by trunk and low-pressure pipelines	25,371	21,394
Stable gas condensate and liquefied petroleum gas transportation by rail	7,975	9,104
Gas condensate refined products, stable gas condensate and crude oil transportation by tankers	1,785	4,330
Crude oil transportation by trunk pipelines	1,636	1,703
Other	15	42
Total transportation expenses	**36,782**	**36,573**

18 TAXES OTHER THAN INCOME TAX

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

	Three months ended 31 March:	
	2017	**2016**
Unified natural resources production tax	11,458	9,876
Property tax	825	665
Other taxes	58	56
Total taxes other than income tax	**12,341**	**10,597**

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

19 FINANCE INCOME (EXPENSE)

	Three months ended 31 March:	
Interest expense (including transaction costs)	2017	2016
Interest expense on fixed rate debt	2,164	3,810
Interest expense on variable rate debt	794	1,443
Subtotal	**2,958**	**5,253**
Less: capitalized interest	(890)	(1,721)
Interest expense on debt	**2,068**	**3,532**
Provisions for asset retirement obligations: effect of the present value discount unwinding	165	122
Interest expense on lease liabilities	5	-
Total interest expense	**2,238**	**3,654**

	Three months ended 31 March:	
Interest income	2017	2016
Interest income on loans receivable	3,761	4,805
Interest income on cash, cash equivalents and deposits	760	250
Total interest income	**4,521**	**5,055**

	Three months ended 31 March:	
Foreign exchange gains (losses)	2017	2016
Gains	10,113	17,908
Losses	(13,888)	(19,124)
Total foreign exchange gain (loss), net	**(3,775)**	**(1,216)**

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

20 INCOME TAX

Effective income tax rate. The Group's Russian statutory income tax rate for 2017 and 2016 was 20 percent.

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

Without the effect of net profit (loss) and dividends from joint ventures, the effective income tax rate for the three months ended 31 March 2017 and 2016 was 20.0 percent and 19.8 percent, respectively.

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

	At 31 March 2017		At 31 December 2016	
Financial assets	**Non-current**	**Current**	**Non-current**	**Current**
Loans and receivables				
Long-term loans receivable	5,575	-	7,575	-
Trade and other receivables	25,671	41,700	24,832	41,586
Cash on special accounts	-	13	-	-
Cash and cash equivalents	-	64,977	-	48,301
Other	11	-	13	-
At fair value through profit or loss				
Long-term loans receivable	159,088	129	176,738	308
Commodity derivatives	424	818	1,172	2,920
Total financial assets	**190,769**	**107,637**	**210,330**	**93,115**
Financial liabilities				
At amortized cost				
Long-term debt	143,720	35,670	161,296	55,469
Long-term lease liabilities	89	136	-	-
Trade and other payables	-	24,667	-	28,112
At fair value through profit or loss				
Commodity derivatives	524	681	1,517	2,754
Total financial liabilities	**144,333**	**61,154**	**162,813**	**86,335**

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

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

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

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

These contracts include pricing terms that are based on a variety of commodities and indices, and/or volume flexibility options that collectively qualify them under the scope of IAS 39, *Financial instruments: recognition and measurement*, although the activity surrounding certain contracts involves the physical delivery of natural gas. All contracts mentioned above are recognized in the consolidated statement of financial position at fair value with movements in fair value recognized in the consolidated statement of income.

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

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

The amounts recognized by the Group in respect of the natural gas derivative contracts measured in accordance with IAS 39, *Financial instruments: recognition and measurement,* are as follows:

Commodity derivatives	**At 31 March 2017**	**At 31 December 2016**
Within other non-current and current assets	1,242	4,092
Within other non-current and current liabilities	(1,205)	(4,271)

	Three months ended 31 March:	
Included in other operating income (loss)	**2017**	**2016**
Operating income (loss) from natural gas foreign trading	(30)	704
Change in fair value	211	326

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

	Three months ended 31 March:	
Effect on the fair value (RR million)	**2017**	**2016**
Increase by ten percent	(1,410)	(1,286)
Decrease by ten percent	1,410	1,286

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

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

The following table summarizes the movements in the carrying amounts of shareholders' loans provided to Yamal LNG and Terneftegas and related interest receivable:

	Three months ended 31 March:	
	2017	**2016**
At 1 January	**198,454**	**216,136**
Loans provided	-	6,645
Repayment of the loans and accrued interest	(299)	-
Initial measurement at fair value allocated to increase the Group's investments in joint ventures (see Note 6)	-	(836)
Subsequent remeasurement at fair value recognized in profit (loss) as follows:		
– Interest income (using the effective interest rate method)	3,560	4,450
– Foreign exchange gain (loss), net	(13,364)	(14,885)
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	(7,110)	731
At 31 March	**181,241**	**212,241**

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

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

	Three months ended 31 March:	
Effect on the fair value (RR million)	**2017**	**2016**
Increase by one percent	(11,593)	(15,926)
Decrease by one percent	12,660	17,605

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

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

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

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

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

(a) Foreign exchange risk

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

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

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

At 31 March 2017	**Russian rouble**	**US dollar**	**Euro**	**Other**	**Total**
Financial assets					
Non-current					
Long-term loans receivable	5,575	75,786	83,302	-	164,663
Trade and other receivables	3,648	13,779	8,244	-	25,671
Commodity derivatives	-	-	424	-	424
Other	-	-	-	11	11
Current					
Trade and other receivables	23,882	14,063	3,079	676	41,700
Current portion of long-term loans receivable	-	129	-	-	129
Commodity derivatives	-	-	818	-	818
Cash on special accounts	-	-	13	-	13
Cash and cash equivalents	44,805	11,470	8,036	666	64,977
Financial liabilities					
Non-current					
Long-term debt	-	(137,660)	(6,060)	-	(143,720)
Long-term lease liabilities	(69)	-	-	(20)	(89)
Commodity derivatives	-	-	(524)	-	(524)
Current					
Current portion of long-term debt	(9,700)	(25,970)	-	-	(35,670)
Current portion of long-term lease liabilities	(109)	-	-	(27)	(136)
Trade and other payables	(19,156)	(2,770)	(2,619)	(122)	(24,667)
Commodity derivatives	-	-	(681)	-	(681)
Net exposure	**48,876**	**(51,173)**	**94,032**	**1,184**	**92,919**

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

At 31 December 2016	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	7,575	79,484	97,254	-	184,313
Trade and other receivables	3,530	13,815	7,487	-	24,832
Commodity derivatives	-	-	1,172	-	1,172
Other	-	-	-	13	13
Current					
Trade and other receivables	23,525	15,297	1,841	923	41,586
Current portion of long-term loans receivable	-	308	-	-	308
Commodity derivatives	-	-	2,920	-	2,920
Cash and cash equivalents	10,346	18,116	19,544	295	48,301
Financial liabilities					
Non-current					
Long-term debt	-	(154,915)	(6,381)	-	(161,296)
Commodity derivatives	-	-	(1,517)	-	(1,517)
Current					
Current portion of long-term debt	(27,532)	(27,937)	-	-	(55,469)
Trade and other payables	(23,593)	(2,319)	(2,064)	(136)	(28,112)
Commodity derivatives	-	-	(2,754)	-	(2,754)
Net exposure	**(6,149)**	**(58,151)**	**117,502**	**1,095**	**54,297**

(b) Commodity price risk

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

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

There were no changes in wholesale natural gas prices on the domestic market (excluding residential customers) in 2016 and during the three months ended 31 March 2017.

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. All of the Group's natural gas purchase and sales contracts in the domestic market are entered to meet supply requirements to fulfil contract obligations or for own consumption and are not within the scope of IAS 39, *Financial instruments: recognition and measurement*. 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.

Natural gas trading activities on the European and other foreign markets. The Group purchases and sells natural gas on the European and other foreign markets under long-term and short-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 reference prices.

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

LNG regasification activity in Poland. The Group purchases LNG in Poland at prices based on natural gas and LPG prices quoted in Poland and sells regasified LNG as natural gas on the Polish market based on the prices regulated by the Energy Regulatory Office through Blue Gaz Sp. z o.o., the Group's wholly owned subsidiary. These purchase and sales contracts are entered by the Group to meet supply requirements and are not within the scope of IAS 39, *Financial instruments: recognition and measurement*.

Liquid hydrocarbons. The Group sells its crude oil, stable gas condensate and gas condensate refined products under spot contracts. Naphtha and stable gas condensate volumes sold to the Asian-Pacific Region, European and North American markets are primarily based on benchmark reference crude oil prices of Brent IPE and Dubai and/or naphtha prices, mainly of Naphtha Japan and Naphtha CIF NWE or a combination thereof, plus a margin or discount, depending on current market situation. Other gas condensate refined products volumes sold mainly to the European market are based on benchmark reference jet fuel prices of Jet CIF NWE and gasoil prices of Gasoil 0.1 percent CIF NWE plus a margin or discount, depending on current market situation. Crude oil sold internationally is based on benchmark reference crude oil prices of Brent dated, minus a discount, or Dubai, plus a premium, and on a transaction-by-transaction basis or based on benchmark reference crude oil prices of Brent and Urals or a combination thereof for volumes sold domestically.

As a result, the Group's revenues from the sales of liquid hydrocarbons are subject to fluctuations in the crude oil and gas condensate refined products benchmark reference prices. All of the Group's liquid hydrocarbons purchase and sales contracts are entered to meet supply requirements to fulfill contract obligations or for own consumption and are not within the scope of IAS 39, *Financial instruments: recognition and measurement*.

(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 March 2017		At 31 December 2016	
	RR million	**Percentage**	**RR million**	**Percentage**
At fixed rate	137,228	*76%*	161,323	*74%*
At variable rate	42,162	*24%*	55,442	*26%*
Total debt	**179,390**	***100%***	**216,765**	***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.

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

Credit risk is managed on a Group level and arises from cash and cash equivalents, including short-term deposits with banks, as well as credit exposures to customers, including outstanding trade receivables and committed transactions. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit 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 liquid hydrocarbons sales are made to customers with independent external ratings; however, if the customer has a credit rating below BBB, the Group requires the collateral for the trade receivable to be in the form of letters of credit from banks with an investment grade rating. Most of domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis.

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

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

In addition, the Group provides long-term loans 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. The Group has entered into a number of short-term credit facilities. Such credit lines and overdraft facilities can be drawn down to meet short-term financing needs. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

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

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

At 31 March 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Debt at fixed rate					
Principal	-	-	52,510	91,675	144,185
Interest	7,101	7,101	18,111	10,077	42,390
Debt at variable rate					
Principal	35,721	6,505	-	-	42,226
Interest	667	48	-	-	715
Lease liabilities	134	94	17	-	245
Trade and other payables	24,667	-	-	-	24,667
Total financial liabilities	**68,290**	**13,748**	**70,638**	**101,752**	**254,428**
At 31 December 2016					
Debt at fixed rate					
Principal	14,000	-	56,358	98,633	168,991
Interest	8,179	7,636	20,823	10,841	47,479
Debt at variable rate					
Principal	41,532	13,998	-	-	55,530
Interest	866	144	-	-	1,010
Trade and other payables	28,112	-	-	-	28,112
Total financial liabilities	**92,689**	**21,778**	**77,181**	**109,474**	**301,122**

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

At 31 March 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
Cash inflow	30,974	22,845	53,729	7,712	115,260
Cash outflow	(30,836)	(23,126)	(53,560)	(7,696)	(115,218)
Net cash flows	**138**	**(281)**	**169**	**16**	**42**
At 31 December 2016					
Cash inflow	39,310	25,336	57,713	13,704	136,063
Cash outflow	(39,144)	(25,871)	(57,570)	(13,655)	(136,240)
Net cash flows	**166**	**(535)**	**143**	**49**	**(177)**

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.

Prior to 2015, the Group had investment grade credit ratings of Baa3 by Moody's Investors Service, BBB- by Fitch Ratings, and BBB- by Standard & Poor's. In February 2015, following the decrease of the sovereign credit rating of the Russian Federation by both Standard & Poor's and Moody's Investors Service, the Group's investment grade credit rating was also downgraded to noninvestment level BB+ and Ba1, respectively. In November 2016, the Group's credit rating was upgraded to investment level BBB- by Standard & Poor's. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain and increase its credit ratings.

21 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

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

The Group defines the term "capital" as equity attributable to PAO NOVATEK shareholders plus net debt (total debt less cash and cash equivalents). There were no changes to the Group's approach to capital management during the three months ended 31 March 2017. At 31 March 2017 and 31 December 2016, the Group's capital totalled RR 832,503 million and RR 816,814 million, respectively.

22 CONTINGENCIES AND COMMITMENTS

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

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

Developments in Ukraine during 2014 and 2015 and the subsequent negative reaction of the world community have had and may continue to have a negative impact on the Russian economy, including difficulties in obtaining international funding, devaluation of national currency and high inflation. These and other events, in case of escalation, may have a significant negative impact on the operating environment in the Russian Federation.

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

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

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

Contractual commitments. At 31 March 2017, the Group had contractual capital expenditures commitments aggregating approximately RR 17 billion (at 31 December 2016: RR 13 billion) mainly for development at the Yarudeyskoye (through 2017), the Salmanovskoye (Utrenneye) (through 2020), the North-Russkoye (through 2018), the Yurkharovskoye (through 2018) and the East-Tarkosalinskoye (through 2019) fields all in accordance with duly signed agreements.

22 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

The Group has entered into a number of agreements, maturing after the twelve months from the reporting date, relating to time chartering of marine tankers with service terms up to six years for transportation of liquid hydrocarbons. At 31 March 2017, the Group's future minimum payments under these time charter agreements amounted to RR 10.7 billion (at 31 December 2016: RR 11.5 billion). At 31 March 2017, provision of these services to the Group has not commenced.

Non-financial guarantees. The aggregated amount of non-financial guarantees in respect of the Yamal LNG project issued by the Group to a number of third parties (the Ministry of Finance of the Russian Federation, Russian and foreign banks, LNG-vessels owners, LNG-terminal owners) in favor of the Group's joint venture OAO Yamal LNG and its subsidiary totaled USD 3.0 billion and EUR 4.1 billion at 31 March 2017 (at 31 December 2016: USD 3.0 billion and EUR 3.1 billion). These non-financial guarantees have various terms depending mostly on the successful project completion (finalization of the LNG plant construction and achievement of its full production capacity). For certain factors as stipulated in the project financing agreements, the Group plans to issue in the future non-financial guarantees covering the project post-completion period.

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

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

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

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

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

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

22 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

23 RELATED PARTY TRANSACTIONS

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

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

	Three months ended 31 March:	
Related parties – joint ventures	**2017**	**2016**
Transactions		
OOO SeverEnergia and its subsidiary:		
Purchases of natural gas and liquid hydrocarbons	(27,348)	(17,735)
Other revenues	37	29
OOO Yamal Development:		
Interest income on loans issued	147	331
ZAO Nortgas:		
Purchases of natural gas and liquid hydrocarbons	(5,867)	(4,077)
Other revenues	31	9
ZAO Terneftegas:		
Purchases of natural gas and liquid hydrocarbons	(3,632)	(2,611)
Interest income on loans issued	36	75
Other revenues	23	22
OAO Yamal LNG:		
Interest income on loans issued	3,524	4,375
Other revenues	210	69
Materials, services and other	(51)	(12)

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

23 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties – joint ventures	**At 31 March 2017**	**At 31 December 2016**
Balances		
OOO SeverEnergia and its subsidiary:		
Trade payables and accrued liabilities	9,135	11,986
OOO Yamal Development:		
Long-term loans receivable	5,575	7,575
Interest on long-term loans receivable	3,236	3,088
ZAO Nortgas:		
Trade payables and accrued liabilities	2,237	1,829
ZAO Terneftegas:		
Long-term loans receivable	2,717	2,893
Current portion of long-term loans receivable	129	308
Interest on long-term loans receivable	1	106
Trade payables and accrued liabilities	1,427	1,589
OAO Yamal LNG:		
Long-term loans receivable	156,371	173,845
Interest on long-term loans receivable	22,023	21,302
Trade receivables	192	245

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

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

Related parties – parties under control of key management personnel	**Three months ended 31 March:**	
	2017	**2016**
Transactions		
OOO Transoil:		
Liquid hydrocarbons transportation by rail	(2,514)	(2,717)
OOO Nova:		
Purchases of construction services (capitalized within property, plant and equipment)	(8)	(174)

Related parties – parties under control of key management personnel	**At 31 March 2017**	**At 31 December 2016**
Balances		
OOO Transoil:		
Prepayments and other current assets	387	478
Trade payables and accrued liabilities	404	263

Transactions with related parties also included loans, which were provided to one of the Group’s subsidiaries by its non-controlling shareholder (see Note 11).

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

23 RELATED PARTY TRANSACTIONS (CONTINUED)

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 the following amounts:

	Three months ended 31 March:	
Related parties – members of the key management personnel	**2017**	**2016**
Board of Directors	25	20
Management Committee	747	733
Total compensation	**772**	**753**

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.

24 SEGMENT INFORMATION

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

Starting from 2017, the Group's management reviews financial information on the results of operations of the reporting segment prepared based on IFRS. Previously, the Group's internal reporting reviewed by CODM was prepared in accordance with Regulations on Accounting and Reporting of the Russian Federation ("RAR").

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 interim condensed statement of income. The CODM also reviews capital expenditures of the reporting segment for the period defined as additions to property, plant and equipment (see Note 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, liquefied petroleum gas, crude oil and gas condensate refined products;
- *Countries of Europe (primarily, the Netherlands, Belgium, Sweden, Denmark, Finland, Poland and Montenegro)* – exploration activities within joint operations, sales of naphtha, stable gas condensate, gas condensate refined products, crude oil, liquefied petroleum gas and regasified LNG (as natural gas);
- *Countries of the Asia-Pacific region (primarily, China, Taiwan, South Korea and Japan)* – sales of naphtha, stable gas condensate and crude oil;
- *Countries of the Middle East (primarily, Oman) and North America (primarily, the USA)* – sales of naphtha.

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

24 SEGMENT INFORMATION (CONTINUED)

Geographical information for the three months ended 31 March 2017 and 2016 is as follows:

For the three months ended 31 March 2017	Natural gas	Stable gas condensate and naphtha	Other gas and gas condensate refined products	Crude oil	Liquefied petroleum gas	Total oil and gas sales
Russia	67,496	6,826	778	12,960	6,463	94,523
Europe	7	16,169	19,236	3,102	3,675	42,189
The Asia-Pacific region	-	16,083	-	2,823	-	18,906
North America	-	5,141	-	-	-	5,141
Less: export duties	-	(3,712)	(1,782)	(1,264)	-	(6,758)
Total outside Russia	7	33,681	17,454	4,661	3,675	59,478
Total	**67,503**	**40,507**	**18,232**	**17,621**	**10,138**	**154,001**

For the three months ended 31 March 2016	Natural gas	Stable gas condensate and naphtha	Other gas and gas condensate refined products	Crude oil	Liquefied petroleum gas	Total oil and gas sales
Russia	61,163	4,617	657	9,008	3,687	79,132
Europe	-	17,918	15,849	3,549	3,120	40,436
The Asia-Pacific region	-	17,660	-	2,826	-	20,486
North America	-	1,843	-	-	-	1,843
The Middle East	-	4,333	-	-	-	4,333
Less: export duties	-	(5,084)	(1,511)	(1,424)	-	(8,019)
Total outside Russia	-	36,670	14,338	4,951	3,120	59,079
Total	**61,163**	**41,287**	**14,995**	**13,959**	**6,807**	**138,211**

Revenues are based on the geographical location of customers even though all revenues are generated from assets located in the Russian Federation. Substantially all of the Group's operating assets are located in the Russian Federation.

Major customers. For the three months ended 31 March 2017, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 17 percent (RR 26.7 billion) of total external revenues. For the three months ended 31 March 2016, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which on an individual basis represented 14 percent (RR 19.7 billion) of total external revenues. All of the Group's major customers reside within the Russian Federation.

25 NEW ACCOUNTING PRONOUNCEMENTS

The following new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018, and which the Group has not early adopted:

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

IFRS 9, *Financial Instruments: Classification and Measurement* (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018, early adoption is permitted). The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting. The Group is considering the implications of this standard for the Group's consolidated financial statements.

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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