PAO NOVATEK

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

AND INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF PAO NOVATEK:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PAO NOVATEK and its subsidiaries (together – the "Group") as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

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

Our audit approach

Overview

Materiality

Overall group materiality: 7,000 million Russian Roubles ("RUB") which represents 4% of adjusted profit before tax excluding currency exchange differences, net gain on disposal of interests in joint ventures and the Group's share of joint ventures' currency exchange differences net of income tax.

Audit scope

- We conducted audit work covering all significant components and balances in Russia, Switzerland, Singapore and Republic of Cyprus.
- The group engagement team visited all significant locations in Russia and Switzerland.
- Our audit scope addressed more than 99% of the Group's revenues and more than 99% of the Group's absolute value of underlying profit before tax.

Key audit matters

- Accounting for trading activities in Europe;
- Valuation of non-commodity financial derivatives.

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

Materiality

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

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

Overall group materiality	RUB 7,000 million
How we determined it	4% of adjusted profit before tax excluding currency differences, net gain on disposal of interests in joint ventures and share of joint ventures' currency differences net of income tax.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. The use of adjusted profit before tax mitigates the effect of volatility (that could be material) caused by non-recurring factors such as gains on disposals of assets and foreign exchange differences and provides a more stable basis for determining materiality, focusing on the underlying profitability of the Group. We chose 4% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this industry and prior year approach.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Accounting for trading activities in Europe	
The Group conducts natural gas foreign trading in active markets under long-term and short-term purchase and sales contracts. The Group also purchases and sells various derivative instruments (with reference of the delivery points to the European natural gas hubs) in order to increase delivery optimization and decrease exposure to the risk of negative changes in natural gas prices. 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. We focused on this area because of the complexity of	We critically evaluated the appropriateness and consistency of key valuation assumptions used for the measurement of the contracts to ensure that the resulting valuation is reasonable. We tested material valuations in detail and sought additional external evidence. We assessed the methodologies used, and the judgements and assumptions made. We identified the market data input used by the Group and tested them against independent data. We tested the appropriateness of the valuation methodology applied and the integrity of the models used, and noted no material issues. We also tested the accuracy of the contractual inputs and the appropriateness of key valuation inputs including price and discount rates, and noted no material

Key audit matter	How our audit addressed the Key audit matter
the models and because model parameters are inherently subject to judgement applied by management.	issues. Where the Group entered into new significant contracts in the year, we tested the contracts and assumptions used to assess whether the accounting treatment adopted is in accordance with International Accounting Standard 39. We also gained an understanding of the controls that are in place for these trading activities. We identified no material issues.
Valuation of non-commodity financial derivatives	
Certain shareholders' loans provided by the Group to its joint ventures include embedded derivatives that modify the cash flows of the loans based on financial and non-financial variables. The terms and conditions of each of these loans related to those variables were defined as a single compound embedded derivative. The Group designated these loans as financial assets at fair value through profit or loss. In accordance with IFRS, such loans are measured at fair value at each reporting date. We focused on this area because of the significant impact of the valuation results on the financial statements of the Group and the fact that the measurement of the fair value of these loans is based on judgement and estimates applied by management which can be highly subjective.	We evaluated the appropriateness and consistency of key valuation assumptions (such as expected free cash flows of the joint ventures, production volumes, and discount rates used) to ensure that the resulting valuation of the financial instruments is reasonable. Those assumptions mainly referred to the Group's projections of future expected free cash flows to be generated by the joint ventures and estimates of market interest rates applied in the valuation. We also tested the accuracy of the contractual inputs and analyzed the appropriateness of the valuation methodology. We identified no material issues.

How we tailored our group audit scope

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

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

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

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

Other information

Management is responsible for the other information. The other information comprises report "Management's discussion and analysis of financial condition and results of operations of PAO NOVATEK for the years ended 31 December 2017 and 2016" (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and "Quarterly Issuer's Report of PAO NOVATEK for the first quarter of 2018" as well as "Annual Report Review of PAO NOVATEK for 2017", which are expected to be made available to us after that date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The certified auditor responsible for the audit resulting in this independent auditor's report is A.G. Yashkov.

AO PricewaterhouseCoopers Audit

20 February 2018
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 Statement of Financial Position
(in millions of Russian roubles)

	Notes	At 31 December 2017	At 31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	6	360,051	331,795
Investments in joint ventures	7	285,326	259,650
Long-term loans and receivables	8	211,901	209,145
Other non-current assets	9	33,448	30,484
Total non-current assets		**890,726**	**831,074**
Current assets			
Inventories	10	11,084	9,044
Current income tax prepayments		43	581
Trade and other receivables	11	44,503	41,586
Prepayments and other current assets	12	31,863	33,248
Cash and cash equivalents	13	65,943	48,301
Total current assets		**153,436**	**132,760**
Total assets		**1,044,162**	**963,834**
LIABILITIES AND EQUITY			
Non-current liabilities			
Long-term debt	14	141,448	161,296
Long-term lease liabilities	27	5,776	-
Deferred income tax liabilities	26	26,167	24,656
Asset retirement obligations		7,303	7,605
Other non-current liabilities		3,851	3,766
Total non-current liabilities		**184,545**	**197,323**
Current liabilities			
Short-term debt and current portion of long-term debt	15	14,302	55,469
Current portion of long-term lease liabilities	27	1,520	-
Trade payables and accrued liabilities	17	49,001	38,462
Current income tax payable		2,846	747
Other taxes payable		16,289	14,113
Total current liabilities		**83,958**	**108,791**
Total liabilities		**268,503**	**306,114**
Equity attributable to PAO NOVATEK shareholders			
Ordinary share capital		393	393
Treasury shares		(8,353)	(6,913)
Additional paid-in capital		31,297	31,297
Currency translation differences		(3,283)	(724)
Asset revaluation surplus on acquisitions		5,617	5,617
Retained earnings		732,168	618,680
Total equity attributable to PAO NOVATEK shareholders	18	**757,839**	**648,350**
Non-controlling interest		**17,820**	**9,370**
Total equity		**775,659**	**657,720**
Total liabilities and equity		**1,044,162**	**963,834**

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

L. Mikhelson
Chairman of the Management Committee

M. Gyetvay
Chief Financial Officer

20 February 2018

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

	Notes	Year ended 31 December: 2017	2016
Revenues			
Oil and gas sales	19	579,819	533,857
Other revenues		3,367	3,615
Total revenues		**583,186**	**537,472**
Operating expenses			
Purchases of natural gas and liquid hydrocarbons	20	(161,443)	(134,268)
Transportation expenses	21	(137,192)	(133,462)
Taxes other than income tax	22	(49,494)	(44,053)
Depreciation, depletion and amortization	6	(34,523)	(34,631)
Materials, services and other	23	(20,768)	(19,133)
General and administrative expenses	24	(17,170)	(18,126)
Exploration expenses	6	(1,819)	(2,087)
Net impairment expenses		(52)	(178)
Change in natural gas, liquid hydrocarbons and work-in-progress		2,602	439
Total operating expenses		**(419,859)**	**(385,499)**
Net gain on disposal of interests in joint ventures	5	-	73,072
Other operating income (loss), net		424	221
Profit from operations		**163,751**	**225,266**
Finance income (expense)			
Interest expense	25	(7,712)	(11,570)
Interest income	25	15,872	18,732
Change in fair value of non-commodity financial instruments	27	(7,178)	10,387
Foreign exchange gain (loss), net	25	13,676	(25,490)
Total finance income (expense)		**14,658**	**(7,941)**
Share of profit (loss) of joint ventures, net of income tax	7	22,430	90,839
Profit before income tax		**200,839**	**308,164**
Income tax expense			
Current income tax expense		(35,227)	(35,577)
Deferred income tax benefit (expense), net		858	(7,514)
Total income tax expense	26	**(34,369)**	**(43,091)**
Profit		**166,470**	**265,073**
Profit attributable to:			
Non-controlling interest		10,083	7,278
Shareholders of PAO NOVATEK		156,387	257,795
Basic and diluted earnings per share (in Russian roubles)		51.85	85.41
Weighted average number of shares outstanding (in millions)		*3,016.2*	*3,018.5*

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

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2017	2016
Profit		**166,470**	**265,073**
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to profit (loss)			
Remeasurement of pension obligations	16	(724)	(121)
Share of remeasurement of pension obligations of joint ventures		(100)	(21)
		(824)	**(142)**
Items that may be reclassified subsequently to profit (loss)			
Currency translation differences		(2,580)	4,368
Share of currency translation differences of joint ventures		21	-
		(2,559)	**4,368**
Other comprehensive income (loss)		**(3,383)**	**4,226**
Total comprehensive income		**163,087**	**269,299**
Total comprehensive income attributable to:			
Non-controlling interest		10,083	7,278
Shareholders of PAO NOVATEK		153,004	262,021

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

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2017	2016
Profit before income tax		**200,839**	**308,164**
Adjustments to profit before income tax:			
Depreciation, depletion and amortization		34,523	34,631
Impairment expenses (reversals), net		52	178
Foreign exchange loss (gain), net		(13,676)	25,490
Loss (gain) on disposal of assets, net		305	(73,072)
Interest expense		7,712	11,570
Interest income		(15,872)	(18,732)
Share of loss (profit) in joint ventures, net of income tax	7	(22,430)	(90,839)
Change in fair value of non-commodity financial instruments		7,178	(10,387)
Revaluation of commodity derivatives through loss (profit)		9	1,778
Decrease (increase) in long-term advances given		655	(3,331)
Other adjustments		240	152
Working capital changes			
Decrease (increase) in trade and other receivables, prepayments and other current assets		(786)	2,592
Decrease (increase) in inventories		(2,607)	(861)
Increase (decrease) in trade payables and accrued liabilities, excluding interest and dividends payable		6,592	9,953
Increase (decrease) in taxes payable, other than income tax		1,962	2,836
Total effect of working capital changes		**5,161**	**14,520**
Dividends received from joint ventures		2,383	-
Interest received		5,949	1,983
Income taxes paid excluding actual payments relating to disposal of stakes in joint ventures		(32,629)	(28,314)
Net cash provided by operating activities		**180,399**	**173,791**
Cash flows from investing activities			
Purchases of property, plant and equipment		(24,783)	(27,662)
Payments for mineral licenses		(9,786)	(1,928)
Purchases of materials for construction		(1,697)	(929)
Purchases of intangible assets		(780)	(508)
Acquisition of joint ventures	5	(1,583)	-
Additional capital contributions to joint ventures	7	(2,269)	(19,565)
Payments for acquisition of subsidiaries net of cash acquired	5	(15,706)	(2,961)
Proceeds from disposal of stakes in joint ventures	5	-	84,978
Costs to sell stakes in joint ventures	5	-	(2,634)
Actual income tax payments relating to disposal of stakes in joint ventures		-	(9,932)
Interest paid and capitalized		(3,391)	(5,314)
Guarantee fees paid		(1,315)	(1,061)
Loans provided to joint ventures	8	(5,211)	(6,645)
Repayments of loans provided to joint ventures	8	8,246	6,038
Net cash provided by (used for) investing activities		**(58,275)**	**11,877**

(in millions of Russian roubles)

	Notes	Year ended 31 December: 2017	2016
Cash flows from financing activities			
Proceeds from long-term debt		-	6,373
Repayments of long-term debt		(53,035)	(82,753)
Repayments of short-term debt with original maturity more than three months		(136)	(21,300)
Net increase (decrease) in short-term debt with original maturity three months or less		(56)	(5,040)
Interest on debt paid		(6,526)	(11,423)
Dividends paid to shareholders	18	(42,075)	(41,653)
Payments of lease liabilities		(567)	-
Purchases of treasury shares	18	(1,442)	(916)
Net cash used for financing activities		**(103,837)**	**(156,712)**
Net effect of exchange rate changes on cash and cash equivalents		(645)	(9,842)
Net increase (decrease) in cash and cash equivalents		**17,642**	**19,114**
Cash and cash equivalents at the beginning of the period		48,301	29,187
Cash and cash equivalents at the end of the period		**65,943**	**48,301**

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

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

	Number of ordinary shares (in millions)	Ordinary share capital	Treasury shares	Additional paid-in capital	Currency translation differences	Asset revaluation surplus on acquisitions	Retained earnings	Equity attributable to PAO NOVATEK shareholders	Non-controlling interest	Total equity
1 January 2016	***3,019.1***	**393**	**(5,997)**	**31,297**	**(5,092)**	**5,617**	**399,861**	**426,079**	**2,092**	**428,171**
Profit	-	-	-	-	-	-	257,795	257,795	7,278	265,073
Other comprehensive income (loss)	-	-	-	-	4,368	-	(142)	4,226	-	4,226
Total comprehensive income	**-**	**-**	**-**	**-**	**4,368**	**-**	**257,653**	**262,021**	**7,278**	**269,299**
Dividends (Note 18)	-	-	-	-	-	-	(41,653)	(41,653)	-	(41,653)
Effect from other changes in joint ventures' net assets (Note 7)	-	-	-	-	-	-	2,819	2,819	-	2,819
Purchase of treasury shares (Note 18)	*(1.4)*	-	(916)	-	-	-	-	(916)	-	(916)
31 December 2016	***3,017.7***	**393**	**(6,913)**	**31,297**	**(724)**	**5,617**	**618,680**	**648,350**	**9,370**	**657,720**
Profit	-	-	-	-	-	-	156,387	156,387	10,083	166,470
Other comprehensive loss	-	-	-	-	(2,559)	-	(824)	(3,383)	-	(3,383)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(2,559)**	**-**	**155,563**	**153,004**	**10,083**	**163,087**
Dividends (Note 18)	-	-	-	-	-	-	(42,075)	(42,075)	(1,633)	(43,708)
Purchase of treasury shares (Note 18)	*(2.1)*	-	(1,440)	-	-	-	-	(1,440)	-	(1,440)
31 December 2017	***3,015.6***	**393**	**(8,353)**	**31,297**	**(3,283)**	**5,617**	**732,168**	**757,839**	**17,820**	**775,659**

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

In December 2017, the Group’s joint venture OAO Yamal LNG started production at the first train of its natural gas liquefaction plant (hereinafter referred to as the “LNG Plant”) based on the resources of the South-Tambeyskoye field, located in the YNAO. Annual capacity of the LNG Plant after launching of the three trains will amount to 16.5 million tons of liquefied natural gas (5.5 million tons for each train) and up to 1.2 million tons of stable gas condensate. At the end of 2017, the shareholders of Yamal LNG approved a decision on construction of the fourth train with the capacity of about 0.9 million tons of LNG per year that will expand the overall LNG plant capacity from 16.5 million tons to 17.4 million tons of LNG per year. The Group purchases portion of produced liquefied natural gas (“LNG”) and sells it on the international markets. The Group’s LNG sales volumes are not subject to significant seasonal fluctuations.

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

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

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

In November 2017, the Group acquired a 100 percent ownership interest in OOO Severneft-Urengoy, an oil and gas company located in YNAO, for a cash consideration of RR 13,062 million. Severneft-Urengoy is a holder of the license for exploration and production of hydrocarbons within the West-Yaroyakhinsky license area.

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

In February 2018, a Group’s subsidiary OOO Kola Yard was renamed to OOO NOVATEK-Murmansk to align with the uniform brand image for NOVATEK.

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

2 BASIS OF PREPARATION

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

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

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

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

			Average rate for the year ended 31 December:	
Russian roubles to one currency unit	**At 31 December 2017**	**At 31 December 2016**	**2017**	**2016**
US dollar (USD)	57.60	60.66	58.35	67.03
Euro (EUR)	68.87	63.81	65.90	74.23
Polish zloty (PLN)	16.51	14.44	15.48	17.03

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and amended standards and interpretations. In 2017, the Group adopted all IFRS, amendments and interpretations which are effective 1 January 2017 and relevant to its operations. None of them had material impact on the Group's consolidated financial statements. In addition, 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 financial statements and therefore the comparative period information was not restated.

IFRS 16*, *Leases. The standard requires lessees to recognize right-of-use assets and lease liabilities for most leases. 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 ended within twelve months of the date of transition.

As a result, at 1 January 2017, the Group recognized in the consolidated 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 statement of income for the year ended 31 December 2017, the Group has recorded RR 459 million and RR 119 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 for the year ended 31 December 2017 RR 366 million, RR 128 million and RR 5 million in transportation expenses, general and administrative expenses and in materials, services and other expenses, respectively, instead of the above mentioned depreciation, depletion and amortization and interest expenses.

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

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to consolidate a subsidiary or account for an investment using the equity method because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are recycled to profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained or replaced with significant influence, the Group continues to apply the equity method and does not remeasure the retained interest; only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

Extractive activities. The Group follows the successful efforts method of accounting for its oil and gas properties and equipment whereby property acquisitions and development costs are capitalized, and exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of non-proven reserves and other expenditures relating to exploration activity), excluding exploratory drilling expenditures and exploration license acquisition costs, are recognized within operating expenses in the consolidated statement of income as incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Production costs and overheads are charged to expense as incurred.

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

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

Depreciation, depletion and amortization of oil and gas properties and equipment is calculated using the unit-of-production method for each field based upon total proved reserves for costs associated with acquisitions of proved properties and common infrastructure facilities, and proved developed reserves for other development costs, including wells. Where unit-of-production method does not reflect useful life and pattern of consumption of particular oil and gas assets, such as processing facilities serving several properties, those assets are depreciated on a straight-line basis.

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

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

	Years
Machinery and equipment	5-15
Processing facilities	20-30
Buildings	25-50

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and subsequently measured at 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 accounting requirements under this standard to short-term leases.

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

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

Inventories. Natural gas, gas condensate, crude oil and gas condensate refined products are valued at the lower of cost or net realizable value. The cost of inventories includes direct cost of materials, direct operating costs, and related production overhead expenses and is recorded on a first-in-first-out (“FIFO”) basis. Net realizable value is the estimate of the selling price in the ordinary course of business, less selling expenses.

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

Financial instruments. Derivative instruments are accounted for at fair value and are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative. Gains or losses arising from changes in the fair value of derivative instruments are included in the consolidated statement of income. The Group does not apply hedge accounting.

Certain shareholders’ loans provided by the Group to its joint ventures include embedded derivatives that modify cash flows of the loans based on financial (market interest rates) and non-financial (interest rate on borrowings of the lender and free cash flows of the borrower) variables. The risks relating to these variables are interrelated; therefore, terms and conditions of each of these loans related to those variables were defined as a single compound embedded derivative. The Group designated these loans as financial assets at fair value through profit or loss (see Note 27).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Where there is an active market for a commodity, commodity contracts are accounted for as derivatives except for contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a commodity in accordance with the Group's expected purchase, sale or usage requirements. Gains or losses arising from changes in the fair value of commodity derivatives are recognized within other operating income (loss) in the consolidated statement of income (see Note 27).

Derivatives embedded in other non-derivative financial instruments or in non-financial host contracts are recognized as separate derivatives when their risks and economic characteristics are not closely related to those of the host contracts, and the host contracts are not carried at fair value.

A pricing formula in a purchase or sale contract will, for instance, be considered to be closely related to the host purchase or sales contract if the price formula is related to the market for such host contracts. Where there is no active market for the commodity, the Group assesses the characteristics of such a price to be closely related to the host contract if the price formula is based on relevant indexations commonly used by other market participants. Contracts are assessed for embedded derivatives when the Group becomes a party to them, including at the date of a business combination.

Loans and receivables with fixed or determinable payments that are not quoted in an active market are recognized initially at fair value, normally being the transaction price, plus directly attributable transaction costs, and subsequently carried at amortized cost using the effective interest method. Loans and receivables are analyzed for impairment on a debtor by debtor basis. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms.

The Group's debt, trade payables and other non-derivative liabilities are classified as financial liabilities measured at amortized cost. Financial liabilities included in this category are initially recognized at fair value less directly attributable transaction costs and subsequently are measured at amortized cost using the effective interest method.

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Deferred tax assets and liabilities are recognized on temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or when the tax loss carry forwards will be utilized. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

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

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

Fair value estimation of shareholders' loans to joint ventures is determined using benchmark interest rates adjusted for the borrower credit risk and free cash flows from the borrower's strategic plans approved by the shareholders of the joint ventures. Fair values of the shareholders' loans to joint ventures and sensitivities are presented in Note 27.

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

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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

Impairment provision for trade receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators to determine that the receivables are potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates. When there is no expectation of recovering additional cash for an amount receivable, it is written off against the associated provision.

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

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

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

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

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

5 ACQUISITIONS AND DISPOSALS

Acquisition of AO Eurotek and AO South-Khadyryakhinskoye

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

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

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

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

Acquisition of OOO Severneft-Urengoy

In November 2017, the Group acquired a 100 percent ownership interest in OOO Severneft-Urengoy, an oil and gas company located in YNAO, for a cash consideration of RR 13,062 million. Severneft-Urengoy is a holder of the license for exploration and production of hydrocarbons within the West-Yaroyakhinsky license area.

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

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

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

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

Acquisition of a participation interest in OOO Cryogas-Vysotsk

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

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

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

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

Acquisition of Blue Gaz Sp. z o.o.

In December 2016, in order to expand activities on Polish market, the Group acquired a 100 percent participation interest in Blue Gaz Sp. z o.o. the owner of a regasification station in Poland, for total cash consideration of RR 26 million (PLN 2 million), which was paid by the end of 2016. The financial and operational activities of Blue Gaz Sp. z o.o. would not have a material impact on the Group's revenues and results for the year ended 31 December 2016 if the acquisition had occurred in January 2016.

Acquisition of OOO Evrotek-Yuh

In April 2016, the Group acquired a 100 percent participation interest equity stake in OOO Evrotek-Yuh for RR 6 million. Evrotek-Yuh was a holder of the license for exploration and production of hydrocarbons within the Ladertoyskiy license area located on the Gydan peninsula in YNAO. Evrotek-Yuh had no notable operating activities up to and as at the acquisition date and accordingly, this acquisition is outside the definition of "business" as defined in IFRS 3, *Business Combinations*. The acquisition cost has been fully allocated to the cost of the license.

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

5 ACQUISITIONS AND DISPOSALS (CONTINUED)

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 14). 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 (see Note 14)	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)

6 PROPERTY, PLANT AND EQUIPMENT

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

	Oil and gas properties and equipment	Assets under construction and advances for construction	Other	Total
Cost	348,268	64,778	15,195	428,241
Accumulated depreciation, depletion and amortization	(93,886)	-	(2,643)	(96,529)
Net book value at 31 December 2015	**254,382**	**64,778**	**12,552**	**331,712**
Additions	3,099	29,191	26	32,316
Transfers	58,674	(59,001)	327	-
Acquisition of subsidiaries	53	-	-	53
Changes in asset retirement costs	2,990	-	-	2,990
Depreciation, depletion and amortization	(33,836)	-	(522)	(34,358)
Disposals, net	(645)	(192)	(81)	(918)
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	1,797	46,238	29	48,064
Transfers	42,740	(43,640)	900	-
Acquisition of subsidiaries (see Note 5)	14,873	1,756	89	16,718
Changes in asset retirement costs	(1,486)	-	-	(1,486)
Depreciation, depletion and amortization	(33,943)	-	(668)	(34,611)
Disposals, net	(371)	(207)	(27)	(605)
Currency translation differences	(99)	3	16	(80)
Cost	479,569	38,926	16,709	535,204
Accumulated depreciation, depletion and amortization	(171,325)	-	(3,828)	(175,153)
Net book value at 31 December 2017	**308,244**	**38,926**	**12,881**	**360,051**

Included in additions to property, plant and equipment for the years ended 31 December 2017 and 2016 are capitalized interest and foreign exchange differences of RR 3,827 million and RR 5,314 million, respectively.

Included within assets under construction and advances for construction are advances to suppliers for construction and equipment of RR 6,554 million and RR 1,438 million at 31 December 2017 and 2016, respectively.

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

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

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In 2016, the Group purchased through auctions oil and gas exploration and production licenses for the Nyakhartinskiy and Syadorskiy license areas located in the YNAO and the Tanamskiy license area located in Krasnoyarsk Territory for the total amount of RR 1,928 million, which were included in additions to oil and gas properties and equipment.

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

	At 31 December 2017	At 31 December 2016
Proved properties acquisition costs	58,951	47,243
Less accumulated depletion of proved properties acquisition costs	(18,001)	(16,782)
Unproved properties acquisition costs	11,376	10,069
Total acquisition costs	**52,326**	**40,530**

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

Reconciliation of depreciation, depletion and amortization (DDA):

	Year ended 31 December:	
	2017	2016
Depreciation, depletion and amortization of property, plant and equipment	34,611	34,358
Add: DDA of intangible assets	639	554
Less: DDA capitalized in the course of intra-group construction services	(727)	(281)
DDA as presented in the consolidated statement of income	**34,523**	**34,631**

At 31 December 2017 and 2016, no property, plant and equipment were pledged as security for the Group's borrowings. No impairment was recognized in respect of oil and gas properties and equipment for the years ended 31 December 2017 and 2016.

Capital commitments are disclosed in Note 28.

Leases. Included in property, plant and equipment at 31 December 2017 are the right-of-use assets primarily related to long-term agreements on time chartering of marine tankers. Movements in the carrying amounts of the right-of-use assets for the reporting period are as follows:

	At 31 December 2016	At 1 January 2017(*)	Additions	Depreciation	Other movements	At 31 December 2017
Oil and gas properties and equipment	-	16	7,123	(375)	(130)	6,634
Other	-	240	500	(129)	-	611
Total net book value	**-**	**256**	**7,623**	**(504)**	**(130)**	**7,245**

(*) – effect of initial application of IFRS 16, *Leases*, recognized at 1 January 2017 (see Note 3).

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

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

	Year ended 31 December:	
	2017	**2016**
Net book value of assets at 1 January	**15,472**	**14,744**
Additions	6,345	5,297
Expensed	-	(3)
Acquisition of subsidiaries	834	7
Reclassification to proved properties and development expenditures	(4,846)	(4,573)
Net book value of assets at 31 December	**17,805**	**15,472**
Liabilities	689	384
Cash flows used for operating activities	1,819	1,891
Cash flows used for investing activities	5,749	4,085

For the years ended 31 December 2017 and 2016, within operating expenses the Group has recognized exploration expenses in the amount of RR 1,819 million and RR 2,087 million, respectively. These expenses included employee compensations in the amount of RR 301 million and RR 300 million, respectively.

7 INVESTMENTS IN JOINT VENTURES

	At 31 December 2017	At 31 December 2016
Joint ventures:		
OAO Yamal LNG	126,377	126,688
OOO Yamal Development	73,873	55,228
ZAO Nortgas	50,519	51,222
OOO SeverEnergia (through Artic Russia B.V. at 31 December 2016)	27,666	24,449
OOO Cryogas-Vysotsk	3,841	-
ZAO Terneftegas	3,050	2,063
Total investments in joint ventures	**285,326**	**259,650**

The Group considers that Yamal LNG, Yamal Development, Nortgas, SeverEnergia, Artic Russia, Cryogas-Vysotsk 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 participants or by a group of participants. The Group accounts for 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 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 December 2017, Yamal LNG started production on the first train of the LNG Plant and commenced LNG deliveries to international markets.

At 31 December 2017 and 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.

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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.

OOO SeverEnergia, Artic Russia B.V. and OOO Yamal Development. SeverEnergia through its wholly owned subsidiary AO Arcticgas operates the Samburgskoye, Urengoyskoye and Yaro-Yakhinskoye fields, located in the YNAO.

At 31 December 2016, the Group held an effective 53.3 percent participation interest in SeverEnergia through two of the Group's other joint ventures, Artic Russia and Yamal Development. Artic Russia was owned by the Group (a 13.6 percent participation interest) and Yamal Development (an 86.4 percent participation interest). Yamal Development was a joint venture of the Group and PAO Gazprom Neft with a 50 percent participation interest held by each investor. Artic Russia and Yamal Development held direct 49 and 51 percent participating interests, respectively, in SeverEnergia.

In June 2017, as part of the restructuring procedures to simplify the ownership structure in SeverEnergia and Articgas and to eventually achieve parity shareholdings by the Group and Gazprom Neft, Artic Russia was liquidated, and its assets and liabilities were distributed between its shareholders. As a result, the Group obtained a direct 6.7 percent participation interest in SeverEnergia, and Yamal Development's direct participation interest in SeverEnergia increased from 51 to 93.3 percent. The Group's effective participation interest in SeverEnergia did not change and was 53.3 percent at 31 December 2017.

Subsequent to the reporting date, in January 2018, Yamal Development and SeverEnergia were merged with Arcticgas. As a result, the Group and Gazprom Neft obtained direct participation interests in Arcticgas, 53.3 percent and 46.7 percent, respectively. The Group's management expects that further steps to achieve parity shareholdings in Arcticgas will be undertaken in the nearest future.

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.

OOO Cryogas-Vysotsk. The Group holds a 51 percent ownership interest in Cryogas-Vysotsk acquired in July 2017 (see Note 5). Cryogas-Vysotsk is a joint venture with AO Gazprombank group (49 percent). The joint venture is carrying out a project for construction of the first train of a medium-scale plant for natural gas liquefaction with annual capacity of 660 thousand tons, located at the port of Vysotsk on the Baltic Sea.

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

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

	Year ended 31 December:	
	2017	**2016**
At 1 January	**259,650**	**154,725**
Share of profit from operations	39,854	33,655
Share of finance income (expense)	(10,297)	74,236
Share of total income tax benefit (expense)	(7,127)	(17,052)
Share of profit (loss) of joint ventures, net of income tax	**22,430**	**90,839**
Share of other comprehensive loss of joint ventures	(79)	(21)
Acquisitions of joint ventures (see Note 5)	1,583	-
Group's costs capitalized in investments	1,328	753
Contributions to equity	2,269	9,802
Dividends received from joint ventures	(2,383)	-
Effect from initial measurement of loans provided by the Group to joint ventures (see Note 27)	-	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	528	(103)
At 31 December	**285,326**	**259,650**

For the years ended 31 December 2017 and 2016, the Group recorded commission fees in the amount of RR 1,328 million and RR 753 million, respectively, for the guarantee received from the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (see Note 28) as an increase to the investment in Yamal LNG.

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

In September 2016, the capital of Yamal LNG was increased through a cash contribution made by the Group as a result of the disposal of the 9.9 percent stake in Yamal LNG (see Note 5) in the amount of RR 19,565 million. The Group's 50.1 percent share in Yamal LNG's capital increase was recorded in the Group's investment in Yamal LNG in the amount of RR 9,802 million. The Group's shareholding in Yamal LNG did not change notably as a result of this capital contribution.

For the year ended 31 December 2017, Nortgas declared dividends in the total amount of RR 4,766 million, of which RR 2,383 million were attributable to NOVATEK.

For the year ended 31 December 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 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

At 31 December 2017	**Yamal LNG**	**SeverEnergia**	**Nortgas**
Property, plant and equipment and materials for construction	1,741,465	380,715	135,180
Other non-current non-financial assets	391	276	44
Non-current financial assets	-	155,527	12,226
Total non-current assets	**1,741,856**	**536,518**	**147,450**
Cash and cash equivalents	29,297	8,658	1,409
Other current financial assets	19,793	17,484	2,550
Current non-financial assets	16,994	948	321
Total current assets	**66,084**	**27,090**	**4,280**
Non-current financial liabilities	(1,484,498)	(101,936)	(20,970)
Non-current non-financial liabilities	(38,705)	(56,873)	(23,149)
Total non-current liabilities	**(1,523,203)**	**(158,809)**	**(44,119)**
Trade payables and accrued liabilities	(26,946)	(16,892)	(693)
Other current financial liabilities	(5,294)	(29,647)	(3,881)
Current non-financial liabilities	(112)	(12,948)	(2,000)
Total current liabilities	**(32,352)**	**(59,487)**	**(6,574)**
Net assets	**252,385**	**345,312**	**101,037**

At 31 December 2016			
Property, plant and equipment and materials for construction	1,265,939	385,404	138,768
Other non-current non-financial assets	273	278	47
Non-current financial assets	6,061	120,655	11,213
Total non-current assets	**1,272,273**	**506,337**	**150,028**
Cash and cash equivalents	12,842	13,517	277
Other current financial assets	23,211	15,520	2,639
Current non-financial assets	14,314	1,013	631
Total current assets	**50,367**	**30,050**	**3,547**
Non-current financial liabilities	(1,016,196)	(130,872)	(24,795)
Non-current non-financial liabilities	(35,798)	(57,555)	(23,544)
Total non-current liabilities	**(1,051,994)**	**(188,427)**	**(48,339)**
Trade payables and accrued liabilities	(17,628)	(14,308)	(1,302)
Other current financial liabilities	-	(29,355)	-
Current non-financial liabilities	(148)	(11,669)	(1,490)
Total current liabilities	**(17,776)**	**(55,332)**	**(2,792)**
Net assets	**252,870**	**292,628**	**102,444**

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

For the year ended 31 December 2017	Yamal LNG	SeverEnergia	Nortgas
Revenue	3,613	147,207	23,087
Depreciation, depletion and amortization	(895)	(22,903)	(6,914)
Profit from operations	528	66,734	5,581
Change in fair value of non-commodity financial instruments	27,110	-	-
Foreign exchange gain (loss), net	(26,089)	1	-
Profit before income tax	1,505	63,232	4,400
Income tax expense	(4,589)	(10,482)	(950)
Profit (loss), net of income tax	**(3,084)**	**52,750**	**3,450**
Other comprehensive loss	(94)	(66)	(91)
Total comprehensive income (loss)	**(3,178)**	**52,684**	**3,359**

For the year ended 31 December 2016	Yamal LNG	SeverEnergia	Nortgas
Revenue	2,722	133,229	25,697
Depreciation, depletion and amortization	(650)	(26,451)	(7,749)
Profit from operations	670	55,585	4,368
Change in fair value of non-commodity financial instruments	(25,223)	-	-
Foreign exchange gain (loss), net	200,485	25	-
Profit before income tax	176,043	47,806	2,436
Income tax expense	(28,952)	(7,930)	(574)
Profit, net of income tax	**147,091**	**39,876**	**1,862**
Other comprehensive loss	(27)	(23)	(14)
Total comprehensive income	**147,064**	**39,853**	**1,848**

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

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

7 INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

As at and for the year ended 31 December 2017	**Yamal LNG**	**SeverEnergia**	**Nortgas**
Net assets at 1 January 2017	**252,870**	**292,628**	**102,444**
Profit (loss), net of income tax	(3,084)	52,750	3,450
Other comprehensive loss	(94)	(66)	(91)
Other equity movements	2,693	-	-
Dividends	-	-	(4,766)
Net assets at 31 December 2017	**252,385**	**345,312**	**101,037**
Ownership	50.1%	53.3%	50%
Group's share in net assets	**126,377**	**184,155**	**50,519**
As at and for the year ended 31 December 2016			
Net assets at 1 January 2016	**77,442**	**252,775**	**100,596**
Profit, net of income tax	147,091	39,876	1,862
Other comprehensive loss	(27)	(23)	(14)
Other equity movements	28,364	-	-
Net assets at 31 December 2016	**252,870**	**292,628**	**102,444**
Ownership	50.1%	53.3%	50%
Group's share in net assets	**126,688**	**156,059**	**51,222**

At 31 December 2017 and 2016, the Group's cumulative investments in SeverEnergia and Yamal Development totaled RR 101,539 million and RR 79,677 million, respectively, which differed from the Group's share in the net assets of SeverEnergia. The differences of RR 82,616 million and RR 76,382 million mainly related to the Group's interest in debt liabilities of Yamal Development, through which the Group held indirect interests in SeverEnergia.

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

8 LONG-TERM LOANS AND RECEIVABLES

	At 31 December 2017	At 31 December 2016
Long-term loans	183,233	184,621
Long-term interest receivable	29,130	24,390
Other long-term receivables	429	442
Total	**212,792**	**209,453**
Less: current portion of long-term loans	(891)	(308)
Total long-term loans and receivables	**211,901**	**209,145**

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

	At 31 December 2017	At 31 December 2016
OAO Yamal LNG	175,568	173,845
OOO Cryogas-Vysotsk	5,211	-
ZAO Terneftegas	2,454	3,201
OOO Yamal Development	-	7,575
Total long-term loans	**183,233**	**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. 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 Cryogas-Vysotsk. The Group provided Russian rouble denominated loans under agreed credit line facilities to Cryogas-Vysotsk, the Group's joint venture. The loans are repayable not later than 2033 and bear variable interest rates.

OOO Yamal Development. The Group provided Russian rouble denominated loans under agreed credit line facilities to Yamal Development, the Group's joint venture. In 2017, the loans and accrued interest were fully repaid to the Group 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 2017, Terneftegas repaid to the Group a part of the loans and accrued interest in the total amount of RR 910 million.

No provisions for impairment of long-term loans and receivables were recognized at 31 December 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)

9 OTHER NON-CURRENT ASSETS

	At 31 December 2017	At 31 December 2016
Financial assets		
Commodity derivatives	1,705	1,172
Other financial assets	10	13
Non-financial assets		
Long-term advances	20,228	20,882
Deferred income tax assets	6,898	4,671
Materials for construction	2,694	2,004
Intangible assets, net	1,665	1,510
Other non-financial assets	248	232
Total other non-current assets	**33,448**	**30,484**

At 31 December 2017 and 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.

10 INVENTORIES

	At 31 December 2017	At 31 December 2016
Natural gas and liquid hydrocarbons	8,711	6,765
Materials and supplies (net of provision of RR 4 million at 31 December 2017 and 2016)	2,337	2,247
Other inventories	36	32
Total inventories	**11,084**	**9,044**

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

11 TRADE AND OTHER RECEIVABLES

	At 31 December 2017	At 31 December 2016
Trade receivables (net of provision of RR 284 million and RR 196 million at 31 December 2017 and 2016, respectively)	43,387	40,606
Other receivables (net of provision of RR 19 million and RR 22 million at 31 December 2017 and 2016, respectively)	1,116	980
Total trade and other receivables	**44,503**	**41,586**

Trade receivables in the amount RR 8,921 million and RR 5,362 million at 31 December 2017 and 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 27 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 27.

Trade and other receivables that are less than three months past due are generally not considered for impairment unless other indicators of impairment exist. Trade and other receivables of RR 3,357 million and RR 4,269 million at 31 December 2017 and 2016, respectively, were past due but not impaired. The Group has assessed the payment history of these accounts and recognized impairment where deemed necessary.

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

11 TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing analysis of these past due but not impaired trade and other receivables is as follows:

	At 31 December 2017	At 31 December 2016
Up to 90 days past-due	2,544	3,628
91 to 360 days past-due	669	561
Over 360 days past-due	144	80
Total past due but not impaired	**3,357**	**4,269**
Not past due and not impaired	41,146	37,317
Total trade and other receivables	**44,503**	**41,586**

Movements in the Group provision for impairment of trade and other receivables are as follows:

	Year ended 31 December:	
	2017	2016
At 1 January	**218**	**113**
Additional provision recorded	58	269
Acquisition of subsidiaries	55	-
Receivables written off as uncollectible	(21)	(68)
Provision reversed	(7)	(96)
At 31 December	**303**	**218**

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

12 PREPAYMENTS AND OTHER CURRENT ASSETS

	At 31 December 2017	At 31 December 2016
Financial assets		
Commodity derivatives	2,117	2,920
Current portion of long-term loans receivable (see Note 8)	891	308
Non-financial assets		
Value-added tax receivable	8,057	10,456
Recoverable value-added tax	7,284	5,736
Prepayments and advances to suppliers	6,326	5,998
Deferred transportation expenses for liquid hydrocarbons	2,140	1,903
Deferred transportation expenses for natural gas	1,965	1,901
Deferred export duties for liquid hydrocarbons	1,829	1,643
Prepaid customs duties	561	1,756
Other non-financial assets	693	627
Total prepayments and other current assets	**31,863**	**33,248**

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

13 CASH AND CASH EQUIVALENTS

	At 31 December 2017	At 31 December 2016
Cash at current bank accounts	28,994	31,525
Bank deposits with original maturity of three months or less	36,949	16,776
Total cash and cash equivalents	**65,943**	**48,301**

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

14 LONG-TERM DEBT

	At 31 December 2017	At 31 December 2016
Corporate bonds		
Eurobonds – Ten-Year Tenor (par value USD 1 billion, repayable in 2022)	57,481	60,503
Eurobonds – Ten-Year Tenor (par value USD 650 million, repayable in 2021)	37,364	39,318
Eurobonds – Four-Year Tenor (par value RR 14 billion, repaid in 2017)	-	13,996
Bank loans		
Syndicated term credit line facility	13,280	41,906
Other bank loans	6,887	6,381
Other borrowings		
Loan from Silk Road Fund	39,716	41,125
Other loans	1,022	13,536
Total	**155,750**	**216,765**
Less: current portion of long-term debt	(14,302)	(55,469)
Total long-term debt	**141,448**	**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 RR 14 billion Eurobonds were fully repaid at its maturity date.

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

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

14 LONG-TERM DEBT (CONTINUED)

Other bank loans. In December 2016, the Group obtained a EUR 100 million credit line facility from the Russian subsidiary of a foreign bank which 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 5).

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 December 2017 and 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 were initially repayable until the end of 2017, which was subsequently extended to the end of 2018. During the years ended 31 December 2017 and 2016, a portion of the loans and accrued interest in the amount of RR 13,375 million and 8,673 million, respectively, was repaid.

The fair value of long-term debt including its current portion was RR 167,760 million and RR 224,183 million at 31 December 2017 and 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 27). The fair value of other long-term loans was determined based on future cash flows discounted at the estimated risk-adjusted discount rate (Level 3 in the fair value measurement hierarchy described in Note 27).

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

Maturity period:	**At 31 December 2017**
1 January 2019 to 31 December 2019	8,614
1 January 2020 to 31 December 2020	3,453
1 January 2021 to 31 December 2021	40,816
1 January 2022 to 31 December 2022	60,937
After 31 December 2022	27,628
Total long-term debt	**141,448**

Available credit line facilities. At 31 December 2017, the Group had available long-term credit line facilities from banks with credit limits in the amounts of RR 100 billion, the equivalent of USD 750 million, and EUR 50 million. The facilities include the maintenance of certain restrictive financial covenants.

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

At 31 December 2017 and 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 14,302 million and RR 55,469 million, respectively.

Loans with original maturity three months or less. In 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 December 2017 and 2016, these loans were repaid.

Available credit line facilities. At 31 December 2017, the Group had available a short-term revolving credit line facility from a Russian bank, with a credit limit in the amount of RR 20 billion.

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

16 PENSION OBLIGATIONS

Defined contribution plan. For the years ended 31 December 2017 and 2016, total amounts recognized as an expense in respect of payments made by employer on behalf of employees to the Pension Fund of the Russian Federation were RR 2,111 million and RR 1,853 million, respectively.

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

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

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

	Year ended 31 December:	
	2017	2016
At 1 January	**2,249**	**1,905**
Interest cost	197	201
Current service cost	181	126
Benefits paid	(118)	(105)
Pension plan revision	(35)	-
Actuarial remeasurement arising from:		
- changes in financial assumptions	345	110
- changes in demographic assumptions	122	(24)
- experience adjustments	257	36
At 31 December	**3,198**	**2,249**
Defined benefit plan (benefits) costs were recognized in:		
Materials, services and other (as employee compensation)	225	184
General and administrative expenses (as employee compensation)	153	143
Other operating income (loss)	(35)	-
Other comprehensive loss	724	122

The principal actuarial assumptions used are as follows:

	At 31 December 2017	At 31 December 2016
Weighted average discount rate	6.9%	8.3%
Projected annual increase in employee compensation	4.0%	5.0%
Expected increases to pension benefits	4.3%	6.5%

The discount rate was determined by reference to Russian rouble denominated bonds issued by the Government of the Russian Federation chosen to match the duration of the post-employment benefit obligations. The assumed average salary and pension payment increases for Group employees have been calculated on the basis of inflation forecasts, analysis of increases of past salaries and the general salary policy of the Group. Mortality assumptions are based on the Russian mortality tables published by the State Statistics Committee of the Russian Federation from the year 2010 adjusted for estimates of mortality improvements in the future periods, which management believes are the most conservative and prudent Russian whole-population mortality tables available.

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

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

17 TRADE PAYABLES AND ACCRUED LIABILITIES

	At 31 December 2017	At 31 December 2016
Financial liabilities		
Trade payables	30,936	25,828
Commodity derivatives	3,333	2,754
Dividends payable to non-controlling interest	1,633	-
Interest payable	1,221	1,821
Other payables	775	463
Non-financial liabilities		
Advances from customers	4,474	2,483
Salary payables	472	338
Other liabilities and accruals	6,157	4,775
Total trade payables and accrued liabilities	**49,001**	**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 27.

During the years ended 31 December 2017 and 2016, advances from customers in the amount of RR 2,422 million and RR 3,952 million, respectively, remained at the beginning of the respective period were recognized as revenue.

18 SHAREHOLDERS' EQUITY

Ordinary share capital. Share capital issued and paid in consisted of 3,036,306,000 ordinary shares with a par value of RR 0.1 each at 31 December 2017 and 2016. The total authorized number of ordinary shares was 10,593,682,000 shares at both dates.

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

During the years ended 31 December 2017 and 2016, the Group purchased 2.1 million and 1.4 million ordinary shares (both ordinary shares and GDRs) at a total cost of RR 1,440 million and RR 916 million, respectively. At 31 December 2017 and 2016, the Group held in total (both ordinary shares and GDRs) 20.7 million and 18.6 million ordinary shares at a total cost of RR 8,353 million and RR 6,913 million, respectively. The Group has decided that these shares do not vote.

Dividends. Dividends (including tax on dividends) declared and paid were as follows:

	Year ended 31 December:	
	2017	2016
Dividends payable at 1 January	1	1
Dividends declared (*)	42,075	41,653
Dividends paid (*)	(42,075)	(41,653)
Dividends payable at 31 December	**1**	**1**
Dividends per share declared during the year (in Russian roubles)	13.95	13.80
Dividends per GDR declared during the year (in Russian roubles)	139.50	138.00

(*) – excluding treasury shares.

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

18 SHAREHOLDERS' EQUITY (CONTINUED)

The Group declares and pays dividends in Russian roubles. Dividends declared in 2017 and 2016 were as follows:

Final for 2016: RR 7.00 per share or RR 70.00 per GDR declared in April 2017	21,254
Interim for 2017: RR 6.95 per share or RR 69.50 per GDR declared in September 2017	21,102
Total dividends declared in 2017	**42,356**
Final for 2015: RR 6.90 per share or RR 69.00 per GDR declared in April 2016	20,951
Interim for 2016: RR 6.90 per share or RR 69.00 per GDR declared in September 2016	20,951
Total dividends declared in 2016	**41,902**

Distributable retained earnings. The basis for distribution of profits of a company to shareholders is defined by Russian legislation as net profit presented in its statutory financial statements prepared in accordance with the Regulations on Accounting and Reporting of the Russian Federation, which may differ significantly from amounts calculated on the basis of IFRS. At 31 December 2017 and 2016, NOVATEK's closing balances of the accumulated profit including the respective year's net statutory profit totaled RR 445,104 million and RR 366,928 million, respectively.

19 OIL AND GAS SALES

	Year ended 31 December:	
	2017	**2016**
Natural gas	247,663	229,716
Naphtha	111,979	103,103
Crude oil	77,102	64,952
Other gas and gas condensate refined products	69,066	57,163
Liquefied petroleum gas	40,016	31,652
Stable gas condensate	33,993	47,271
Total oil and gas sales	**579,819**	**533,857**

20 PURCHASES OF NATURAL GAS AND LIQUID HYDROCARBONS

	Year ended 31 December:	
	2017	**2016**
Unstable gas condensate	107,082	93,854
Natural gas	51,053	38,119
Other liquid hydrocarbons	3,308	2,295
Total purchases of natural gas and liquid hydrocarbons	**161,443**	**134,268**

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

The Group purchases all volumes of unstable gas condensate produced by its joint ventures Nortgas, SeverEnergia (through its wholly owned subsidiary, Arcticgas) and Terneftegas at ex-field prices based on benchmark reference crude oil prices (see Note 30).

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

21 TRANSPORTATION EXPENSES

	Year ended 31 December:	
	2017	2016
Natural gas transportation by trunk and low-pressure pipelines	93,686	84,808
Stable gas condensate and liquefied petroleum gas transportation by rail	29,832	31,838
Crude oil transportation by trunk pipelines	7,622	6,654
Gas condensate refined products, stable gas condensate and crude oil transportation by tankers	5,980	9,997
Other	72	165
Total transportation expenses	**137,192**	**133,462**

22 TAXES OTHER THAN INCOME TAX

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

	Year ended 31 December:	
	2017	2016
Unified natural resources production tax	45,459	40,997
Property tax	3,673	2,793
Other taxes	362	263
Total taxes other than income tax	**49,494**	**44,053**

23 MATERIALS, SERVICES AND OTHER

	Year ended 31 December:	
	2017	2016
Employee compensation	9,032	7,558
Repair and maintenance	2,853	3,026
Materials and supplies	1,966	1,838
Complex of services for preparation, transportation and processing of hydrocarbons	1,914	2,062
Electricity and fuel	1,221	1,101
Liquefied petroleum gas volumes reservation expenses	918	1,017
Fire safety and security expenses	749	660
Transportation services	727	641
Rent expenses	308	257
Insurance expenses	307	372
Other	773	601
Total materials, services and other	**20,768**	**19,133**

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

24 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December:	
	2017	**2016**
Employee compensation	11,065	12,327
Social expenses and compensatory payments	2,735	2,184
Legal, audit, and consulting services	839	1,019
Business travel expense	560	624
Fire safety and security expenses	419	387
Advertising expenses	410	370
Repair and maintenance expenses	231	200
Rent expenses	90	214
Other	821	801
Total general and administrative expenses	**17,170**	**18,126**

Auditor's fees. AO PricewaterhouseCoopers Audit has served as the independent external auditor of PAO NOVATEK for each of the reported financial years. The independent external auditor is subject to appointment at the Annual General Meeting of shareholders based on the recommendations from the Board of Directors. The aggregate fees for audit and other services rendered by PricewaterhouseCoopers Audit to the parent company of the Group included within legal, audit, and consulting services are as follows:

	Year ended 31 December:	
	2017	**2016**
Audits of PAO NOVATEK (audit of the Group's consolidated financial statements and audit of statutory financial statements of PAO NOVATEK)	34	34
Other services	9	9
Total auditor's fees and services	**43**	**43**

25 FINANCE INCOME (EXPENSE)

	Year ended 31 December:	
Interest expense (including transaction costs)	**2017**	**2016**
Interest expense on fixed rate debt	8,234	11,469
Interest expense on variable rate debt	2,001	4,828
Subtotal	**10,235**	**16,297**
Less: capitalized interest	(3,391)	(5,314)
Interest expense on debt	**6,844**	**10,983**
Provisions for asset retirement obligations: effect of the present value discount unwinding	749	587
Interest expense on lease liabilities	119	-
Total interest expense	**7,712**	**11,570**

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

25 FINANCE INCOME (EXPENSE)(CONTINUED)

	Year ended 31 December:	
Interest income	**2017**	**2016**
Interest income on loans receivable	13,747	17,597
Interest income on cash, cash equivalents and deposits	2,125	1,135
Total interest income	**15,872**	**18,732**

	Year ended 31 December:	
Foreign exchange gains (losses)	**2017**	**2016**
Gains	48,322	41,124
Losses	(34,646)	(66,614)
Total foreign exchange gain (loss), net	**13,676**	**(25,490)**

26 INCOME TAX

Reconciliation of income tax. The table below reconciles actual income tax expense and theoretical income tax, determined by applying the statutory tax rate to profit before income tax.

	Year ended 31 December:	
	2017	**2016**
Profit before income tax	200,839	308,164
Theoretical income tax expense at statutory rate of 20 percent	40,168	61,633
Increase (decrease) due to:		
Non-deductible differences in respect of the Group's share of loss (profit) of joint ventures	(4,592)	(18,147)
Non-deductible differences in respect of net gain on disposal of interests in joint ventures	-	781
Tax benefits relating to priority investment projects	(1,312)	(1,540)
Other differences	105	364
Total income tax expense	**34,369**	**43,091**

A number of the Group's investment projects were included by the government authorities in the list of priority projects, in respect of them the Group was able to apply a reduced income tax rate of 16.5 percent and 15.5 percent for the years ended 31 December 2017 and 2016, respectively.

Domestic and foreign components of current income tax expense were:

	Year ended 31 December:	
	2017	**2016**
Russian Federation income tax	34,811	35,025
Foreign income tax	416	552
Total current income tax expense	**35,227**	**35,577**

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

26 INCOME TAX (CONTINUED)

Effective income tax rate. The 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 years ended 31 December 2017 and 2016 was 19.3 percent and 19.8 percent, respectively.

In respect of PAO NOVATEK and majority of its Russian subsidiaries, the Group submits a single consolidated income tax return in accordance with Russian tax legislation (see Note 3).

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

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

	At 31 December 2017	At 31 December 2016
Long-term deferred income tax asset (other non-current assets)	6,898	4,671
Long-term deferred income tax liability	(26,167)	(24,656)
Net deferred income tax liability	**(19,269)**	**(19,985)**

Movements in deferred income tax assets and liabilities during the years ended 31 December 2017 and 2016 are as follows:

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

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

26 INCOME TAX (CONTINUED)

	At 31 December 2016	Statement of Income effect	Statement of Comprehensive Income effect	At 31 December 2015
Property, plant and equipment	(28,747)	(1,989)	2	(26,760)
Intangible assets	(313)	66	-	(379)
Inventories	(250)	(34)	-	(216)
Other	(451)	171	(14)	(608)
Deferred income tax liabilities	**(29,761)**	**(1,786)**	**(12)**	**(27,963)**
Less: deferred tax assets offset	*5,105*	*848*	-	*4,257*
Total deferred income tax liabilities	**(24,656)**	**(938)**	**(12)**	**(23,706)**
Tax losses carried forward	2,542	(616)	(2)	3,160
Inventories	2,153	683	(1)	1,471
Asset retirement obligations	1,464	634	-	830
Loans receivable	1,346	(2,662)	-	4,008
Property, plant and equipment	1,068	304	-	764
Trade payables and accrued liabilities	913	147	59	707
Assets held for sale	-	(4,316)	-	4,316
Other	290	98	8	184
Deferred income tax assets	**9,776**	**(5,728)**	**64**	**15,440**
Less: deferred tax liabilities offset	*(5,105)*	*(848)*	-	*(4,257)*
Total deferred income tax assets	**4,671**	**(6,576)**	**64**	**11,183**
Net deferred income tax liabilities	**(19,985)**	**(7,514)**	**52**	**(12,523)**

Deferred income tax assets expected to be realized within twelve months as of 31 December 2017 and 2016 were RR 3,902 million and RR 3,356 million, respectively. Deferred tax liabilities expected to be reversed within twelve months of 31 December 2017 and 2016 were RR 936 million and RR 701 million, respectively.

At 31 December 2017, the Group had recognized deferred income tax assets of RR 3,607 million (31 December 2016: RR 2,542 million) in respect of unused tax loss carry forwards of RR 18,373 million (31 December 2016: RR 13,102 million). In accordance with tax legislation of Russian Federation effective 1 January 2017, taxable profits can be reduced in the amount of tax losses carried forward for relief during unlimited period of time, at the same time in 2017 to 2020 tax losses carried forward cannot exceed 50 percent of taxable profits. Up until 2017, the tax legislation set a limit period for tax losses to be carried forward for relief against taxable profits for ten years after they were incurred. In determining future taxable profits and the amount of tax benefits that are probable in the future, the Group's management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

	At 31 December 2017		At 31 December 2016	
Financial assets	Non-current	Current	Non-current	Current
Loans and receivables				
Long-term loans receivable	5,211	-	7,575	-
Trade and other receivables	29,559	44,503	24,832	41,586
Cash and cash equivalents	-	65,943	-	48,301
Other	10	-	13	-
At fair value through profit or loss				
Long-term loans receivable	177,131	891	176,738	308
Commodity derivatives	1,705	2,117	1,172	2,920
Total financial assets	**213,616**	**113,454**	**210,330**	**93,115**
Financial liabilities				
At amortized cost				
Long-term debt	141,448	14,302	161,296	55,469
Long-term lease liabilities	5,776	1,520	-	-
Trade and other payables	-	32,932	-	28,112
Dividends payable to non-controlling interest	-	1,633	-	-
At fair value through profit or loss				
Commodity derivatives	649	3,333	1,517	2,754
Total financial liabilities	**147,873**	**53,720**	**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 prices.

These contracts include pricing terms that are based on a variety of commodities and indices, and/or volume flexibility options that collectively qualify them under the scope of 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).

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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 December 2017	At 31 December 2016
Within other non-current and current assets	3,822	4,092
Within other non-current and current liabilities	(3,982)	(4,271)

	Year ended 31 December:	
Included in other operating income (loss)	2017	2016
Operating income (loss) from natural gas foreign trading	289	1,970
Change in fair value	(9)	(1,778)

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

	Year ended 31 December:	
Effect on the fair value	2017	2016
Increase by ten percent	(1,572)	(1,673)
Decrease by ten percent	1,572	1,673

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.

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

	Year ended 31 December:	
	2017	2016
At 1 January	**198,454**	**216,136**
Loans provided	-	6,645
Repayment of the loans and accrued interest	(910)	(1,298)
Initial measurement at fair value allocated to increase the Group's investments in joint ventures (see Note 7)	-	(836)
Subsequent remeasurement at fair value recognized in profit (loss) as follows:		
– Interest income (using the effective interest rate method)	13,106	16,248
– Foreign exchange gain (loss), net	3,579	(48,828)
– Remaining effect from changes in fair value (attributable to free cash flows of the borrowers and interest rates)	(7,178)	10,387
At 31 December	**207,051**	**198,454**

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.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	Year ended 31 December:	
Effect on the fair value	**2017**	**2016**
Increase by one percent	(11,560)	(13,038)
Decrease by one percent	12,536	14,272

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.

(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.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

At 31 December 2017	Russian rouble	US dollar	Euro	Other	Total
Financial assets					
Non-current					
Long-term loans receivable	5,211	79,459	97,672	-	182,342
Trade and other receivables	527	17,231	11,801	-	29,559
Commodity derivatives	-	-	1,705	-	1,705
Other	-	-	-	10	10
Current					
Trade and other receivables	21,822	16,360	3,730	2,591	44,503
Current portion of long-term loans receivable	-	891	-	-	891
Commodity derivatives	-	-	2,117	-	2,117
Cash and cash equivalents	16,392	36,449	12,745	357	65,943
Financial liabilities					
Non-current					
Long-term debt	-	(134,561)	(6,887)	-	(141,448)
Long-term lease liabilities	(340)	(5,360)	(3)	(73)	(5,776)
Commodity derivatives	-	-	(649)	-	(649)
Current					
Current portion of long-term debt	(1,022)	(13,280)	-	-	(14,302)
Current portion of long-term lease liabilities	(116)	(1,349)	(2)	(53)	(1,520)
Trade and other payables	(25,651)	(3,563)	(3,505)	(213)	(32,932)
Dividends payable to non-controlling interest	(1,633)	-	-	-	(1,633)
Commodity derivatives	-	-	(3,333)	-	(3,333)
Net exposure	**15,190**	**(7,723)**	**115,391**	**2,619**	**125,477**

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

27 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**

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

The sensitivity analysis depicted in the table below reflects the hypothetical loss that would occur assuming a ten percent increase in exchange rates and no changes in the portfolio of instruments and other variables at 31 December 2017 and 2016, respectively:

		Year ended 31 December:	
Effect on profit before income tax	Increase in exchange rate	2017	2016
RUB / USD	10%	(772)	(5,815)
RUB / EUR	10%	11,539	11,750

The effect of a corresponding ten percent decrease in exchange rate is approximately equal and opposite.

(b) Commodity price risk

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

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

There were no changes in regulated wholesale natural gas prices on the domestic market (excluding residential customers) since 1 January 2016 until 30 June 2017. From 1 July 2017, regulated wholesale natural gas prices were increased by 3.9 percent.

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

Management believes it has limited downside commodity price risk for natural gas in the Russian Federation and does not use commodity derivative instruments for trading purposes. The Group's natural gas purchase and sales contracts in the domestic market are 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.

LNG supplies on international markets. In 2017, the Group sold liquefied natural gas purchased from its joint venture Yamal LNG on international markets under short-term contracts at prices based on benchmark reference natural gas prices at the major natural gas hubs. These Group's purchase and sales contracts are entered to meet supply requirements to fulfil contract obligations and are not within the scope of IAS 39, *Financial instruments: recognition and measurement*.

LNG regasification activity in Poland. The Group purchases LNG in Poland at prices depending on natural gas 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*.

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.

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

Liquid hydrocarbons supplies. The Group sells its crude oil, stable gas condensate and gas condensate refined products under spot contracts. Naphtha and stable gas condensate volumes sold to the Asian-Pacific Region, European and North American markets are primarily based on benchmark 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, or Dubai, plus a premium or a discount, 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. The Group's liquid hydrocarbons purchase and sales contracts are entered to meet supply requirements to fulfil contract obligations or for own consumption and are not within the scope of 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.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

	At 31 December 2017		At 31 December 2016	
	RR million	Percent	RR million	Percent
At fixed rate	141,448	*91%*	161,323	*74%*
At variable rate	14,302	*9%*	55,442	*26%*
Total debt	**155,750**	***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 change in interest rates over the short term. This policy makes it possible to significantly limit the Group's sensitivity to interest rate volatility.

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

	Year ended 31 December:	
Effect on profit before income tax	2017	2016
Increase by 100 basis points	143	554

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

The Group is examining various ways to manage its cash flow interest rate risk by using a combination of floating and fixed interest rates. No swaps or other similar instruments were in place at 31 December 2017 and 2016, or during the years then ended.

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

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

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

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

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

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

Moody's, Fitch and/or Standard & Poor's	At 31 December 2017	At 31 December 2016
Investment grade rating	14,676	12,913
Non-investment grade rating	12,661	5,062
No external rating	17,166	23,611
Total trade and other receivables	**44,503**	**41,586**

The table below highlights the Group's cash and cash equivalents balances to published credit ratings of its banks and/or their parent companies:

Moody's, Fitch and/or Standard & Poor's	At 31 December 2017	At 31 December 2016
Investment grade rating	49,857	38,087
Non-investment grade rating	15,916	10,194
No external rating	170	20
Total cash and cash equivalents	**65,943**	**48,301**

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

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

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

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

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

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

At 31 December 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	-	8,890	107,061	32,055	148,006
Interest	7,272	7,272	16,655	6,163	37,362
Debt at variable rate					
Principal	14,314	-	-	-	14,314
Interest	168	-	-	-	168
Lease liabilities	1,606	1,494	4,393	937	8,430
Trade and other payables	32,932	-	-	-	32,932
Dividends payable to non-controlling interest	1,633	-	-	-	1,633
Total financial liabilities	**57,925**	**17,656**	**128,109**	**39,155**	**242,845**
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 derivative commodity contracts based on undiscounted cash flows:

At 31 December 2017	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
Cash inflow	45,120	29,028	54,785	-	128,933
Cash outflow	(46,422)	(28,182)	(54,572)	-	(129,176)
Net cash flows	**(1,302)**	**846**	**213**	**-**	**(243)**
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)**

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (CONTINUED)

Reconciliation of liabilities arising from financing activities. The movements in the Group`s liabilities arising from financing activities for the year ended 31 December 2017 are as follows:

	Long-term debt and interest payables	Long-term lease liabilities	Total
At 31 December 2016	**218,586**	**-**	**218,586**
At 1 January 2017[(*)]	**218,586**	**256**	**218,842**
Cash flows	(63,144)	(567)	(63,711)
Non-cash movements			
Non-cash additions	-	7,623	7,623
Interest accrued	10,235	119	10,354
Foreign exchange movements	(8,706)	(135)	(8,841)
At 31 December 2017	**156,971**	**7,296**	**164,267**

[(*)] – effect of initial application of IFRS 16, *Leases*, recognized at 1 January 2017 (see Note 3).

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. In December 2017, the Group's credit rating was upgraded to investment level BBB by Fitch Ratings. In January 2018, the Group's credit rating was upgraded to investment level Baa3 by Moody's Investors Service. The Group has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis to maintain its credit ratings.

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

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

The Group defines the term "capital" as equity attributable to PAO NOVATEK shareholders plus net debt (total debt less cash and cash equivalents). There were no changes to the Group's approach to capital management during 2017. At 31 December 2017 and 2016, the Group's capital totaled RR 847,646 million and RR 816,814 million, respectively.

28 CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

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

Contractual commitments. At 31 December 2017, the Group had contractual capital expenditures commitments aggregating approximately RR 49 billion (at 31 December 2016: RR 13 billion) mainly for construction of future LNG projects (through 2022) and for development at the Yarudeyskoye (through 2018), the East-Tarkosalinskoye (through 2019), the Yurkharovskoye (through 2019), the North-Russkoye (through 2019) and the West-Yaroyakhinskoye (through 2018) fields all in accordance with duly signed agreements.

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

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 December 2017, the Group's future minimum payments under the time charter agreements for which provision of the services has not yet commenced amounted to RR 2.7 billion (at 31 December 2016: RR 11.5 billion).

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

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

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

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

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

Field	License holder	License expiry date
	Subsidiaries:	
Salmanovskoye (Utrenneye)	OOO Arctic LNG 2	2031
Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2034
Upper-Tiuteyskoye and West-Seyakhinskoye	OOO NOVATEK-Yurkharovneftegas	2044
West-Yurkharovskoye	OOO NOVATEK-Yurkharovneftegas	2029
East-Tarkosalinskoye	OOO NOVATEK-Tarkosaleneftegas	2043
North-Russkoye	OOO NOVATEK-Tarkosaleneftegas	2031
Kharbeyskoye	OOO NOVATEK-Tarkosaleneftegas	2036
Urengoyskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
Khancheyskoye	OOO NOVATEK-Tarkosaleneftegas	2044
East-Tazovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
Dorogovskoye	OOO NOVATEK-Tarkosaleneftegas	2033
North-Khancheyskoye + Khadyryakhinskoye	OOO NOVATEK-Tarkosaleneftegas	2029
Dobrovolskoye (within the Olimpiyskiy license area)	OOO NOVATEK-Tarkosaleneftegas	2059
Geofizicheskoye	OOO Arctic LNG 1	2034
Gydanskoye	OOO Arctic LNG 1	2044
Yarudeyskoye	OOO Yargeo	2029
West-Yaroyakhinskoye	OOO Severneft-Urengoy	2025
South-Khadyryakhinskoye	AO South-Khadyryakhinskoye	2031
Malo-Yamalskoye	OOO NOVATEK-Yarsaleneftegas	2034
	Joint ventures:	
South-Tambeyskoye	OAO Yamal LNG	2045
Urengoyskoye (within the Samburgskiy and Yevo-Yakhinskiy license areas)	AO Arcticgas(*)	2034
Yaro-Yakhinskoye	AO Arcticgas	2034
Samburgskoye	AO Arcticgas	2034
North-Chaselskoye	AO Arcticgas	Life of field
Yevo-Yakhinskoye	AO Arcticgas	2034
North-Urengoyskoye	ZAO Nortgas	2038
Termokarstovoye	ZAO Terneftegas	2097

(*) – subsidiary of OOO SeverEnergia

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

28 CONTINGENCIES AND COMMITMENTS (CONTINUED)

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

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

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

29 PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The principal subsidiaries and joint ventures of the Group and respective effective ownership in the ordinary share capital at 31 December 2017 and 2016 are set out below:

	Ownership percent at 31 December: 2017	2016	Country of incorporation	Principal activities
Subsidiaries:				
OOO NOVATEK-Yurkharovneftegas	100	100	Russia	Exploration and production
OOO NOVATEK-Tarkosaleneftegas	100	100	Russia	Exploration and production
OOO Yargeo	51	51	Russia	Exploration, development and production
OOO Arctic LNG 1	100	100	Russia	Exploration and development
OOO Arctic LNG 2	100	100	Russia	Exploration and development, construction of LNG plant
OOO Arctic LNG 3	100	100	Russia	Exploration and development
OOO NOVATEK-Murmansk (formerly OOO Kola Yard)	100	100	Russia	Construction of large-scale offshore structures
OOO NOVATEK-Purovsky ZPK	100	100	Russia	Gas Condensate Processing Plant
OOO NOVATEK-Transervice	100	100	Russia	Transportation services
OOO NOVATEK-Ust-Luga	100	100	Russia	Fractionation and Transshipment Complex
OOO NOVATEK-AZK	100	100	Russia	Wholesale and retail trading
OOO NOVATEK-Chelyabinsk	100	100	Russia	Trading and marketing
OOO NOVATEK-Kostroma	100	100	Russia	Trading and marketing
OOO NOVATEK-Perm	100	100	Russia	Trading and marketing
OOO NOVATEK Moscow Region	100	100	Russia	Trading and marketing
Novatek Gas & Power GmbH	100	100	Switzerland	Trading and marketing
Novatek Gas & Power Asia PTE. Ltd	100	100	Singapore	Trading and marketing
Novatek Polska Sp. z o.o.	100	100	Poland	Trading and marketing
Blue gaz Sp. z o.o.	100	100	Poland	LNG regasification, trading and marketing
Joint ventures:				
OAO Yamal LNG	50.1	50.1	Russia	Exploration and development, production of LNG
OOO Yamal Development	50	50	Russia	Holding company
OOO SeverEnergia (includes a producing subsidiary, AO Articgas, see Note 7)	53.3	53.3	Russia	Holding company
ZAO Nortgas	50	50	Russia	Exploration and production
ZAO Terneftegas	51	51	Russia	Exploration and production
OOO Cryogas-Vysotsk	51	-	Russia	Construction of medium-scale LNG plant

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

30 RELATED PARTY TRANSACTIONS

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

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

	Year ended 31 December:	
Related parties – joint ventures	**2017**	**2016**
Transactions		
Purchases of natural gas and liquid hydrocarbons	(137,784)	(112,498)
Interest income on loans issued	13,640	17,524
Dividends received	2,383	-
Other revenues	1,481	844
Materials, services and other	(193)	(91)

Related parties – joint ventures	**At 31 December 2017**	**At 31 December 2016**
Balances		
Long-term loans receivable	182,342	184,313
Interest on long-term loans receivable	29,130	24,496
Trade payables and accrued liabilities	19,785	15,440
Current portion of long-term loans receivable	891	308
Trade receivables	246	423

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

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

	Year ended 31 December:	
Related parties – parties under control of key management personnel	**2017**	**2016**
Transactions		
Liquid hydrocarbons transportation by rail	(9,496)	(9,405)
Purchases of construction services (capitalized within property, plant and equipment)	(661)	(343)
Materials, services and other	(16)	(72)

Related parties – parties under control of key management personnel	**At 31 December 2017**	**At 31 December 2016**
Balances		
Prepayments and other current assets	565	478
Trade payables and accrued liabilities	504	270
Advances for construction	195	23

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

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

30 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:

	Year ended 31 December:	
Related parties – members of the key management personnel	**2017**	**2016**
Board of Directors	133	132
Management Committee	2,138	1,956
Total compensation	**2,271**	**2,088**

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.

31 SEGMENT INFORMATION

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

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 statement of income. The CODM also reviews capital expenditures of the reporting segment for the period defined as additions to property, plant and equipment (see Note 6).

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

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

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

31 SEGMENT INFORMATION (CONTINUED)

Geographical information for the years ended 31 December 2017 and 2016 is as follows:

	Year ended 31 December:	
	2017	**2016**
Russia	351,318	315,856
Europe	152,439	132,854
Asia-Pacific region	77,204	84,936
North America	25,962	26,052
Middle East	-	7,416
Less: export duties	(27,104)	(33,257)
Total outside Russia	228,501	218,001
Total oil and gas sales	**579,819**	**533,857**

Revenues pertaining to geographical information are prepared based on the products geographical destination. For products transported by tankers, the geography is determined based on the location of the port of discharge/transshipment designated by the Group's customer. Substantially all of the Group's operating assets are located in the Russian Federation.

Major customers. For the years ended 31 December 2017 and 2016, the Group had one major customer to whom individual revenue exceeded 10 percent of total external revenues, which represented 19 percent (RR 110.3 billion) and 18 percent (RR 97.7 billion) of total external revenues, respectively. The Group's major customer resides within the Russian Federation.

32 SUBSEQUENT EVENTS

In February 2018, the Group won an auction held by ALROSA group to purchase 100 percent participation interest equity stakes in Maretiom Investments Limited and Velarion Investments Limited for RR 30.3 billion, of which RR 21 billion were paid in January 2018 as the auction participation deposit. These companies are the owners of 100 percent participation interests in AO Geotransgas and OOO Urengoyskaya gasovaya companiya, the holders of the licenses for exploration and production of hydrocarbons within the Beregovoy and Ust-Yamsoveyskiy license areas located in YNAO, respectively. The transaction is expected to be closed in the nearest future.

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

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

33 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 assesses that the adoption of this standard will not have a material impact on the Group's consolidated financial statements.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES

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

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

Oil and Gas Exploration and Development Costs

The following tables set forth information regarding oil and gas acquisition, exploration and development activities. The amounts reported as costs incurred include both capitalized costs and costs charged to expense, these costs do not include LNG liquefaction and transportation operations (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2017	2016
Costs incurred in exploration and development activities		
Acquisition of unproved properties	1,040	1,928
Acquisition of proved properties	10,594	-
Exploration costs	7,958	4,828
Development costs	16,481	23,550
Total costs incurred in exploration and development activities	**36,073**	**30,306**
The Group's share in joint ventures' cost incurred in exploration and development activities	19,214	71,408

	At 31 December 2017	At 31 December 2016
Capitalized costs relating to oil and gas producing activities		
Proved and unproved properties	70,327	57,312
Wells, related equipment and facilities	265,708	236,137
Support equipment and facilities	105,424	88,202
Uncompleted wells, related equipment and facilities	27,312	30,138
Total capitalized costs relating to oil and gas producing activities	**468,771**	**411,789**
Less: accumulated depreciation, depletion and amortization	(161,083)	(119,674)
Net capitalized costs relating to oil and gas producing activities	**307,688**	**292,115**
The Group's share in joint ventures' capitalized costs relating to oil and gas producing activities	469,475	476,608

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Results of Operations for Oil and Gas Producing Activities

The Group's results of operations for oil and gas producing activities are shown below. The results of operations for oil and gas producing activities do not include general corporate overhead or its associated tax effects. Income tax is based on statutory rates. In the following table, revenues from oil and gas sales are comprised of the sale of hydrocarbons produced by the Group's subsidiaries and include processing costs, related to processing facilities of the Group's subsidiaries as well as transportation expenses to customers (amounts in millions of Russian roubles).

	Year ended 31 December:	
	2017	**2016**
Revenues from oil and gas sales	279,252	276,037
Lifting costs	(14,071)	(14,233)
Transportation expenses	(73,356)	(76,356)
Taxes other than income tax	(48,842)	(43,844)
Depreciation, depletion and amortization	(31,644)	(32,049)
Exploration expenses	(1,819)	(2,087)
Total production costs	**(169,732)**	**(168,569)**
Results of operations for oil and gas producing activities before income tax	109,520	107,468
Less: related income tax expenses	(21,904)	(21,494)
Results of operations for oil and gas producing activities of the Group's subsidiaries	**87,616**	**85,974**
Share of profit of joint ventures	34,969	29,821
Total results of operations for oil and gas producing activities	**122,585**	**115,795**

Proved Oil and Gas Reserves

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

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

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

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

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2017 and 2016.

Extensions of production licenses are assumed to be at the discretion of the Group. Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The principal licenses of the Group for exploration and production expire between 2029 and 2059. Legislation of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Management intends to extend its licenses for properties expected to produce beyond the license expiry dates.

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

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

Net reserves exclude quantities due to others when produced.

The reserve quantities below include 100 percent of the net proved reserve quantities attributable to the Group's consolidated subsidiaries and the Group's ownership percentage of the net proved reserves quantities of the joint ventures including volumes of natural gas consumed in hydrocarbons production and development activities. Production and reserves of the South-Tambeyskoye field of Yamal LNG are reported at 60 percent including an additional 9.9 percent interest not owned by the Group, since the Group assumes certain economic and operational risks related to this interest (previously was reported at 50.1 percent). A portion of the Group's total proved reserves are classified as either developed non-producing or undeveloped. Of the non-producing reserves, a portion represents existing wells which are to be returned to production at a future date.

For convenience, reserves estimates are provided both in English and Metric units.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

Net proved reserves of natural gas are presented below.

	Net proved reserves		**Group's share in joint ventures**		**Total net proved reserves**	
	Billions of cubic feet	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*	*Billions of cubic feet*	*Billions of cubic meters*
At 31 December 2015 [1]	**37,241**	**1,055**	**26,713**	**756**	**63,954**	**1,811**
Changes attributable to:						
Revisions of previous estimates	789	22	1,923	55	2,712	77
Extension and discoveries	633	18	360	10	993	28
Production	(1,678)	(48)	(711)	(20)	(2,389)	(68)
At 31 December 2016 [1]	**36,985**	**1,047**	**28,285**	**801**	**65,270**	**1,848**
Changes attributable to:						
Revisions of previous estimates	(76)	(2)	374	10	298	8
Extension and discoveries	1,485	42	1,154	33	2,639	75
Acquisitions [2]	8,117	230	-	-	8,117	230
Production	(1,523)	(43)	(716)	(20)	(2,239)	(63)
At 31 December 2017	**44,988**	**1,274**	**29,097**	**824**	**74,085**	**2,098**
Net proved developed reserves (included above)						
At 31 December 2015	17,089	484	7,995	226	25,084	710
At 31 December 2016	14,399	407	8,487	240	22,886	647
At 31 December 2017	12,685	359	12,820	363	25,505	722
Net proved undeveloped reserves (included above)						
At 31 December 2015	20,152	571	18,718	530	38,870	1,101
At 31 December 2016	22,586	640	19,798	561	42,384	1,201
At 31 December 2017	32,303	915	16,277	461	48,580	1,376

(1) As a result of changes in the presentation of natural gas production and reserves volumes taking into account fuel gas volumes, and the revision of the Group's reported share in production and reserves of South-Tambeyskoye field of Yamal LNG (see above), total net proved natural gas reserves as at 31 December 2016 and 2015 were increased by 3,307 billion of cubic feet (93 billion cubic meters) and 1,281 billion of cubic feet (36 billion cubic meters), respectively.

(2) In 2017, the Group acquired oil and gas exploration and production licenses for the Upper-Tiuteyskoye, the West-Seyakhinskoye and the Gydanskoye fields and 100 percent ownership interests in OOO Severneft-Urengoy, AO South-Khadyryakhinskoye and AO Eurotek, exploration and production license holders of the East-Urengoiskoye+North-Esetinskoye, the South-Khadyryakhinskoye and the Syskonsyninskoye fields, respectively.

The net proved reserves of natural gas reported in the table above included reserves attributable to a non-controlling interest in a Group's subsidiary of 167 billion of cubic feet (five billion cubic meters) and 178 billion of cubic feet (five billion cubic meters) at 31 December 2017 and 2016, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 2,386 billion of cubic feet (68 billion cubic meters) and 2,121 billion of cubic feet (60 billion cubic meters) at 31 December 2017 and 2016, respectively.

UNAUDITED SUPPLEMENTAL OIL AND GAS DISCLOSURES (CONTINUED)

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

	Net proved reserves		Group's share in joint ventures		Total net proved reserves	
	Millions of barrels	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*	*Millions of barrels*	*Millions of metric tons*
At 31 December 2015	**551**	**68**	**660**	**75**	**1,211**	**143**
Changes attributable to:						
Revisions of previous estimates	116	11	59	8	175	19
Extension and discoveries	15	1	18	3	33	4
Production	(59)	(7)	(46)	(5)	(105)	(12)
At 31 December 2016 (1)	**623**	**73**	**691**	**81**	**1,314**	**154**
Changes attributable to:						
Revisions of previous estimates	33	4	(12)	(2)	21	2
Extension and discoveries	61	8	62	7	123	15
Acquisitions (2)	40	5	-	-	40	5
Production	(55)	(7)	(43)	(5)	(98)	(12)
At 31 December 2017	**702**	**83**	**698**	**81**	**1,400**	**164**
Net proved developed reserves (included above)						
At 31 December 2015	305	38	302	34	607	72
At 31 December 2016	275	33	326	37	601	70
At 31 December 2017	307	38	359	41	666	79
Net proved undeveloped reserves (included above)						
At 31 December 2015	246	30	358	41	604	71
At 31 December 2016	348	40	365	44	713	84
At 31 December 2017	395	45	339	40	734	85

(1) As a result of the revision of the Group's reported share in production and reserves of South-Tambeyskoye field of Yamal LNG (see above), total net proved crude oil, gas condensate and natural gas liquids reserves as at 31 December 2016 were increased by 14 million of barrels (two million metric tons).

(2) In 2017, the Group acquired oil and gas exploration and production licenses for the Upper-Tiuteyskoye, the West-Seyakhinskoye and the Gydanskoye fields and 100 percent ownership interests in OOO Severneft-Urengoy, AO South-Khadyryakhinskoye and AO Eurotek, exploration and production license holders of the East-Urengoiskoye+North-Esetinskoye, the South-Khadyryakhinskoye and the Syskonsyninskoye fields, respectively.

The net proved reserves of crude oil, gas condensate and natural gas liquids reported in the table above included reserves attributable to a non-controlling interest in a Group's subsidiary of 65 million of barrels (eight million metric tons) and 66 million of barrels (nine million metric tons) at 31 December 2017 and 2016, respectively, and reserves attributable to an additional 9.9 percent interest in Yamal LNG not owned by the Group (see above) of 17 million of barrels (two million metric tons) and 14 million of barrels (two million metric tons) at 31 December 2017 and 2016, respectively.

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

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