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OJSC SEVERNEFTEGAZPROM

IFRS FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPOT

31 December 2020

Moscow | 2021

Contents

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Independent Auditor's Report

To the Shareholders of Open Joint Stock Company Severneftegazprom

Opinion

We have audited the accompanying financial statements of Open Joint Stock Company Severneftegazprom (OJSC Severneftegazprom), which comprise the statement of financial position as at December 31, 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended December 31, 2020, and Notes to the financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of OJSC Severneftegazprom as at December 31, 2020, and its financial performance and its cash flows for the year ended December 31, 2020 in accordance with International Financial Reporting Standards (IFRSs).

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 Financial Statements* section of our report. We are independent of the audited entity in accordance with Independence Rules for Auditors and Audit Firms and Code of Professional Ethics of Auditors, that correspond to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for the audited entity ability to continue as a going concern, disclosure, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the audited entity or to cease operations, or has no realistic alternative but to do.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective are to obtain reasonable assurance about whether the 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 basic of these financial statements.

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

a) identify and assess the risks of material misstatement of the 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;

b) 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 audited entity's internal control.

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management of the audited entity.

d) 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 audited entity'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 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 audited entity to cease to continue as a going concern.

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent underlying transactions and events in a manner that achieves fair presentation.

1. MAIN ACTIVITY

The core activities of Open Joint Stock Company Severneftegazprom (the "Company") are exploration and development of the Yuzhno-Russkoye oil and gas field, prospecting, production and sales of gas.

The Company was established in 2001 as a result of reorganisation of Limited Liability Company Severneftegazprom. The Company is its successor, including the rights and obligations contained in the licenses received, certificates and other constitutive documents issued by governmental and controlling bodies.

As at 31 December 2020 shareholders of the Company were represented by PJSC Gazprom which holds 50 % of ordinary shares plus 6 ordinary shares, Wintershall Dea GmbH (till 1st of May 2019 – Wintershall Holding GmbH) which holds 25 % of ordinary shares minus 3 ordinary shares plus 2 class "A" preference shares and 1 class "C" preference share and OMV Exploration & Production GmbH which holds 25 % of ordinary shares minus 3 ordinary shares plus 3 class "B" preference shares.

The Company holds the license for the development of Yuzhno-Russkoye oil and gas field located in the Yamalo-Nenets Autonomous District of the Russian Federation. The license expires in 2043, however it may be extended in case of increase of the period of production.

The Yuzhno-Russkoye oil and gas field consists of two deposits - the Cenomanian and the Turonian. In October 2007, the Company began commercial exploitation of the Cenomanian deposit, and in 2018 - the Turonian one.

Registered address and place of business: 22, Lenin street, Krasnoselkup village, Krasnoselkupskiy district, the Yamalo-Nenets Autonomous District, Tyumen region, Russian Federation, 629380.

2. OPERATING ENVIRONMENT

The economy of the Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation of the Russian Federation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The political and economic instability, the current impact and ongoing situation with sanctions, uncertainty and volatility of the financial and trade markets and other risks have had and may continue to have effects on the Russian economy.

The spread of COVID-19, which occurred since the beginning of 2020, has had a material adverse effect on the world economy. Measures taken to combat the spread of the virus have caused material economic downturn. Global oil and gas markets are experiencing high volatility of demand and prices. The duration and consequences of the COVID-19 pandemic, as well as the efficiency of the measures taken are currently unclear. It is now impossible to assess reliably the duration and effect of the consequences of the pandemic on the Company's financial position and results of operations in future reporting periods.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russian Federation to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Company's business in the current business and economic environment. The future economic and regulatory situation and its impact on the Company's operations may differ from management's current expectations.

The official Russian Rouble to US Dollar ("USD") foreign exchange rates as determined by the Central Bank of the Russian Federation were 73.8757 and 61.9057 as at 31 December 2020 and 31 December 2019, respectively. The official Russian Rouble to Euro ("EUR") foreign exchange rates as determined by the Central Bank of the Russian Federation were 90.6824 and 69.3406 as at 31 December 2020 and 31 December 2019, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except for assets held for sale. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented.

The Company is incorporated in the Russian Federation and maintains its statutory accounting records and prepares statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation; its functional and presentation currency is the Russian Rouble ("RUB").

(b) Property, plant and equipment

Property, plant and equipment comprise costs incurred in developing oil and gas fields as well as costs related to construction and acquisition of oil and gas assets.

Property, plant and equipment are carried at historical cost of acquisition or construction and adjusted for accumulated depreciation and impairment where required. Historical cost includes expenditures directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Cost of replaced part is retired. Costs of minor repairs and maintenance are expensed when incurred.

The cost of property, plant and equipment includes an initial estimate of costs of dismantling and removing the items and the restoring the site on which they were located. The estimate of the recognised obligation for dismantling and removing items of property, plant and equipment is reviewed at the end of the financial year. The effect of a change in the valuation of a provision recognised as a change in accounting estimates increases or decreases the value of the corresponding asset, with the distribution of the effect on the initial value and the accumulated depreciation of the objects.

Gains and losses arising from the disposal of property, plant and equipment are included in the profit or loss as incurred. They are measured as the difference between carrying amount and disposal proceeds.

Impairment of property, plant and equipment

At each reporting date, management assesses whether there is any indication of impairment 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 expenses for sale and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or loss in current year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's recoverable amount (see Note 11).

Oil and gas exploration assets

Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells, including development dry wells, and related production facilities are capitalised.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalised as exploration and evaluation assets on a "field by field" basis pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalised if additional exploration drilling is underway or firmly planned. Exploration costs not meeting these criteria are charged to expense.

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Depreciation

Property, plant and equipment are depreciated from the moment when they are placed in use.

Depreciation of pipelines, wells, buildings, plant and equipment used to extraction of gas is calculated using the units-of-production method based upon proved developed reserves. Gas reserves for this purpose are determined mainly in accordance with the guidelines of the Society of Petroleum Engineers and the World Petroleum Congress, and were estimated by independent reservoir engineers.

Depreciation of assets not directly associated with production is calculated on a straight-line basis over their estimated useful life.

Assets under construction are not depreciated until they are placed in service.

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Summary of useful lives and alternative basis for depreciation:

	Assets related to extraction of oil and gas	**Other assets**
Buildings and facilities	Units of production	5- 30 years
Pipeline	Units of production	-
Machinery and equipment	Units of production	1-15 years
Wells	Units of production	-
Roads	Units of production	-
Other	-	1-20 years

(c) Provisions (including dismantlement provision and environment restoration)

Provisions are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, 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 calculated at each reporting period and are included in the financial statements at their expected net present values using pre-tax discount rates appropriate to the Company that reflect current market assessments of the time value of money and those risks specific to the liability. Assumptions for discount rate and inflation are determined at the end of the financial year.

After the end of exploitation of the deposit the Company is obliged to bear costs for decommissioning of the deposit and environmental restoration. The initial provision for decommissioning and site and environment restoration together with any changes in estimation of the ultimate restoration liability is recorded in the statement of financial position, with a corresponding amount recorded as part of property, plant and equipment in accordance with IAS 16 “Property, Plant and Equipment”. This amount is depreciated over the term of the field development.

Changes in the provision for decommissioning and site restoration resulting from the passage of time are reflected in the profit or loss each period under finance costs. Other changes in the provision, relating to a change in the discount rate applied, in the expected pattern of settlement of the obligation or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change. The effects of such changes are added to, or deducted from, the cost of the related asset.

(d) Uncertain tax positions

The Company’s uncertain tax positions (potential tax expenses and tax assets) are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the reporting date.

(e) Inventories

Inventories are reported at the lower of the weighted average cost of sales and net realizable value.

Cost of inventories is determined by the weighted average cost method. Cost of finished goods and work in progress includes the costs of raw materials and supplies, direct labour costs and other direct costs and related normal production overhead. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

(f) Assets held for sale

Assets are classified as assets held for sale if their value is recovered mainly as a result of the sale, and not as a result of further use. Assets held for sale are carried at the lower of the carrying amounts and their fair value net of expenses for sale. Impairment loss is accounted as other operating expenses. Assets held for sale are not depreciated. Assets held for sale are disclosed in the Statement of financial position.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

(h) Restricted cash

Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the statement of cash flows.

Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

(i) Value added tax (VAT)

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the other receivable from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of accounts receivable, impairment loss is recorded for the gross amount of the debtor, including VAT.

(j) Financial instruments

Classification and measurement of financial assets

Company classifies financial assets into three measurement categories: those measured subsequently at amortised cost, those measured subsequently at fair value with changes recognised in other comprehensive income, and those measured subsequently at fair value with changes recognised in profit or loss.

Classification of financial assets one or another category takes place on the basis of the business model used by Company for management of the financial assets connected with the cash flows provided by the contract.

Financial assets measured subsequently at amortised cost

Such category of financial assets includes assets held to obtain contractual cash flows and it is expected that they will result in cash flows being payments of principal and interest.

The loans issued, account receivable, deposits, cash and cash equivalents belong to this category of financial assets of theCompany. The loans issued and accounts receivable include financial assets with the fixed or determinable payments that are not quoted in an active market. After initial recognition the loans issued and accounts receivable are estimated at the amortised cost using the effective interest method.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial assets measured subsequently at fair value with changes recognised in other comprehensive income

Such category of financial assets includes debt-type assets held within business models whose objective is achieved by both collecting contractual cash flows and selling financial assets and it is expected that they will result in cash flows being payments of principal and interest.

Gains and losses associated with this category of financial assets are recognised in other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When a financial asset is disposed of, cumulative previous gain or loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss in the consolidated statement of comprehensive income. Interest income from these financial assets is calculated using the effective interest method and included in financial income.

Financial assets measured subsequently at fair value with changes recognised through profit or loss

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss.

Impairment of financial assets

Company applies the expected credit loss model to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset is measured at an amount equal to 12-month expected credit losses.

For trade accounts receivable or contract assets, whether they contain a significant financing component or not, measurement based on lifetime expected credit losses are applied.

Classification and measurement of financial liabilities

Company classifies all financial liabilities as measured subsequently at amortised cost.

Financial liabilities consist of trade accounts payable, other accounts payable, loans and borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognised as interest expense over the period of the borrowings.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

(k) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

The different levels of fair value hierarchy have been defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. For the Company, Level 1 inputs include held-for-trading financial assets that are actively traded on the Russian domestic markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Company, Level 2 inputs include observable market value measures applied to available for sale securities.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Cash and cash equivalents are included into Level 1 of fair value hierarchy, all other financial instruments - Level 3 of fair value hierarchy.

The fair values in Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

(l) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(m) Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

(n) Other reserves

Borrowings received from shareholders are recognised initially at fair value, net of transaction costs incurred. The difference between the fair value of the loan and the amount of funds as at the receipt date is treated as an addition to equity and recorded in "Other reserves".

Other reserves include other comprehensive loss related to reameasurements of post-employment benefit obligations.

(o) Pension liabilities and other long-term employee benefits

In the normal course of business the Company contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included in wages, salaries and other staff costs in cost of sales and in general and administrative expenses.

The Company also operates non-State post-employment benefits, which are recorded in the financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority of employees of the Company. The cost of providing pensions is accrued and charged to staff costs in the statement of profit and loss and other comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees (Note 15). Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Plan assets are measured at fair value and are subject to certain limitations. Fair value of plan assets is based on market prices.

Actuarial gains or losses on other long-term employee benefits are recognised in profit or loss in the period in which they arise.

(p) Social liabilities

Social costs relating to the maintenance of housing are expensed when incurred.

Discretionary and voluntary payments made to support social programs and related operations are expensed as incurred and shown in Statement of profit and loss and other comprehensive income.

(q) Non-cash transactions

Non-cash transactions are measured at the fair value of the consideration received or receivable.

Non-cash transactions have been excluded from the cash flow provided by operating, investing and financing activities in the accompanying statement of cash flows.

(r) Equity

Share capital

Share capital consists of ordinary and non-redeemable preference shares, which are classified as equity.

The excess of consideration received over the face-value of issued shares is recorded as a share premium in the statement of changes in equity.

Dividends

Dividends are payable only with the respective decision of shareholders. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved at the General Meeting of Shareholders on or before the end of the reporting period. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

(s) Revenue recognition

Revenues from sale of gas are recognised for financial reporting purposes when gas is delivered to customers and title passes at transfer points in accordance with the agreements on the basis of technical acceptance-handover reports. Revenues are stated net of VAT. Revenues are measured at the fair value of the consideration received or receivable.

When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Interest income is recognised on accrual basis that takes into account the effective yield on the asset.

(t) Mineral extraction tax

Mineral extraction tax (MET) on natural gas is defined monthly as the amount of volume produced per tax rate.

Average MET rate for the year 2020 was approximately RUB 1,020 per 1,000 cubic meters for the Cenomanian gas and RUB 225 per 1,000 cubic meters for the Turonian gas. MET is recorded within Cost of sales in the Statement of Profit or Loss and Other Comprehensive Income.

Average MET rate for the year 2019 was approximately RUB 1,255 per 1,000 cubic meters for the Cenomanian gas and RUB 257 per 1,000 cubic meters for the Turonian gas. MET is recorded within Cost of sales in the Statement of Profit or Loss and Other Comprehensive Income.

(u) Employee benefits

Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Company. In the normal course of business the Company contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

(v) Income tax

Income tax have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax comprises current tax and deferred tax and is recognised in profit or loss for the year, unless it is recognised in other comprehensive income or directly in equity relating to transactions that are also recognised 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 taxation authorities in respect of taxable profit or loss for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than income tax are recorded within operating expenses.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

(w) Foreign currency translation

The functional and presentation currency of the Company is the national currency of the Russian Federation, Russian Roubles (“RUB”).

Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Central Bank of the Russian Federation (“CBRF”) at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into Russian Roubles at year-end official exchange rates of the CBRF are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

(x) New financial reporting standards

Application of amendments to standards

The following amendments to current standards became effective beginning on or after 1 January 2020:

- The amendments to IFRS 3 Business Combinations (issued in October 2018 and effective for annual reporting periods beginning on or after 1 January 2020). These amendments clarify the definition of a business and simplify assessment of whether an acquired set of activities and assets is a group of assets rather than a business.
- The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (issued in October 2018 and effective for annual reporting periods beginning on or after 1 January 2020). The amendments clarify and bring into line the definition of the term “materiality”, as well as provide recommendations for improving the consistency in its application when referenced in IFRS.
- The amendments to IFRS 16 Leases (issued in May 2020 and effective for annual reporting periods beginning on or after 1 June 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendments do not affect lessors.
- The amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (issued in September 2019 and applicable for interim periods starting January 1, 2020). The changes affect the reform of the base rate of the interest rate.
- A new revision of the Conceptual Framework for Financial Reporting (issued in March 2018 and mandatory for companies to use with their statements for 2020). In particular, it introduces new definitions of assets and liabilities and refined definitions of income and expenses, and clarifies some important concepts.

Amendments to existing standards that are not yet effective and have not been early adopted by the Company

Certain amendments to standards are mandatory for the annual periods beginning on or after 1 January 2022. In particular, the Company has not early adopted the following amendments to standards:

- The amendments to IAS 1 Presentation of Financial Statements (issued in January 2020 and effective for annual reporting periods beginning on or after 1 January 2023). Amendments clarify the criteria for classifying obligations as short-term or long-term.
- The amendments to IFRS 9 Financial Instruments (issued in May 2020 and effective for annual reporting periods beginning on or after 1 January 2022). The amendments clarify which fees should be included when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
- The amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (issued in May 2020 and effective for annual reporting periods beginning on or after 1 January 2022). The amendments specify which costs are included in determining the cost of fulfilling a contract for assessing whether the contract is onerous.
- The amendments to IAS 16 Property, Plant and Equipment (issued in May 2020 and effective for annual reporting periods beginning on or after 1 January 2022). The amendments prohibit deducting from the cost of property, plant and equipment amounts received from selling items produced while the asset is preparing for its intended use. Instead, such sales proceeds and related cost are recognised in profit or loss.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 27).

Useful lives of property, plant and equipment

(In thousands of Russian Roubles, unless otherwise stated)

Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Depreciation of PPE

For assets depreciated using the units-of-production method, there are three depreciation rates calculated separately (Note 11):

- for pipelines, wells, buildings, plant and equipment used in the production of gas from the Cenomanian deposits;

- for pipelines, wells, buildings, plant and equipment used in the production of gas from the Turonian deposits;

- for general field facilities used for gas production from both deposits.

Classification of production licenses

Management treats cost of production licenses as cost of acquisition of oil and gas properties, accordingly, production licenses are included in property, plant and equipment in these financial statements.

Provision for decommissioning and site restoration and environmental restoration

Site restoration costs that may be incurred by the Company at the end of the operating life of certain of the Company facilities and properties are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated in accordance with the unit-of-production method during the whole usage period of these assets and reported in the comprehensive income. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgment. This judgment is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

For details of discounting rates used see Note 15.

	Change in	**31 December 2020**	**31 December 2019**
Discount rate	+1 %	(1,992,843)	(2,028,702)
	-1 %	2,494,836	2,565,161

Reserves estimation

Unit-of-production depreciation charges are principally measured based on Company’s estimates of proved developed reserves. Proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Company’s estimates of proved developed reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of production assets.

Accounting for assets and liabilities of the pension plan

The assessment of the obligations of the pension plan is based on the use of actuarial techniques and assumptions (see Note 15). Actual results may differ from estimates, and the Company's estimates may be adjusted in the future based on changes in the economic and financial situation. Management uses judgments on selected models, cash flows and their distribution over time, as well as other indicators, including the discount rate. The recognition of the assets of the pension plan is limited to an assessment of the present value of future benefits available to the Company under this plan. The cost of future benefits is determined on the basis of actuarial techniques and prerequisites. The value of the assets of the pension plan and these restrictions can be adjusted in the future.

Accounting for Right-of-Use Assets and Lease Liabilities

When calculating the present value of lease payments, the Company uses professional judgment to determine the rate of additional borrowing if the lease does not contain a discount rate. When determining the rate of attracting additional borrowed funds, the management of the Company analyzes the availability of borrowed funds attracted for a similar period in the same period. In the absence of borrowed funds with similar characteristics, the discount rate is determined based on the risk-free rate based on quoted government bonds. The estimation of the length of the non-terminating lease period is subject to management judgment, taking into account all relevant facts and circumstances that give the Company an economic incentive to exercise or not exercise the option to renew the lease. These facts and circumstances include the need to renew the lease to carry out production activities, the duration of construction and operation of facilities on leased land, the useful lives of the leased facilities, potential costs of dismantling and moving the asset.

5. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including market risk (currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management focuses on minimising potential adverse effects on the financial performance of the Company.

(a) Currency risk

Company's assets and borrowings denominated in foreign currency lead to the foreign exchange risk mainly it concerns Euro.

In respect of currency risk management sets limits on the level of exposure to currency and in total. The positions are monitored monthly.

The table below summarised the Company's exposure to foreign currency exchange rate risk at the end of the reporting period. Financial assets and liabilities in foreign currencies, denominated in thousands of Russian Roubles:

	EUR
31 December 2020	
Liabilities	
Trade accounts payable	(13,972)
Net financial liabilities in foreign currencies	**(13,972)**

As at 31 December 2020, if the Russian Rouble had depreciated by 15 % against the Euro with all other variables held constant, profit before tax would have been lower by RUB 2,096 thousand, as a result of foreign exchange losses on translation of Euro denominated accounts payable. The effect of related Russian Ruble appreciated against the Euro would have been approximately the same amount with opposite impact.

As at 31 January 2019, the Company has no financial assets and liabilities exposed to currency risk.

b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and accounts receivable. The banks with which the Company places funds have insignificant risk of default since the Company places its funds in highly rated leading foreign banks and Russian banks with state participation which minimises the risk of default. As the main debtors of the Company are related parties of the Gazprom Group, management believes that the credit risk is low. Accounts receivable from related parties relate to sales performed in 2020 and the Company has no past due nor impaired accounts receivable as at 31 December 2020.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position (refer to notes 7, 8, 12).

c) Credit risks concentration

The Company is exposed to concentrations of credit risk. As at 31 December 2020 and 31 December 2019 the Company had three counterparties with the total amount of these balances RUB 4,273,152 thousand (31 December 2019: RUB 5,548,352 thousand) or 97 % of the gross amount of financial accounts receivable net of allowance for expected credit losses (31 December 2019 – 97 %).

In 2020 and 2019 the Company's bank deposits were held in several bank accounts with two banks (refer to Note 7 for credit ratings).

d) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for gas, and their impact on the Company's future performance and results of the Company's operations. A decline in the prices could result in a decrease in net income and cash flows. The Company's overall strategy in production and sales of gas is centrally managed.

(In thousands of Russian Roubles, unless otherwise stated)

The Company assesses on a regular basis potential scenarios for future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Company's financial position. Actual results and the impact on the Company's operations and financial position, may differ from management's estimates of potential scenarios.

e) Liquidity risk

The Company's liquidity management objective involves projecting cash flows in major currencies and estimation of the level of liquid assets necessary to meet obligations and maintaining debt financing plans.

The table below analyses the Company's liabilities into relevant maturity grouping based on the remaining period in the statement of financial position date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which include future interest payments.

	Note	**within 1 year**	**from 1 to 5 years**	**over 5 years**
31 December 2020				
Trade accounts payable	13, 18	5,187,509	790,479	-
Accounts payable to related parties	13, 18	273,802	-	-
Lease liabilities	13, 18	84,317	162,135	53 145
Borrowings	16	1,048,454	17,553,639	-
Other accounts payable	13	6,343	-	-
Total financial liabilities		**6 600 425**	**18,506,253**	**53,145**

	Note	**within 1 year**	**from 1 to 5 years**	**over 5 years**
31 December 2019				
Trade accounts payable	13, 18	1,643,979	179,696	-
Accounts payable to related parties	13, 18	604,031	-	-
Lease liabilities	13, 18	66,614	22,406	92,349
Other accounts payable	13	6,359	-	-
Total financial liabilities		**2,320,983**	**202,102**	**92,349**

f) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the statement of financial position, less cash and cash equivalents and restricted cash. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

As at 31 December 2020 financial leverage was 0.10.

As at 31 December 2019 financial leverage is not calculated because there are no borrowings in the Company.

g) Reconciliation of liabilities arising from financing activities

Reconciliation of movements for liabilities arising from financing activities of the Company for the year ended 31 December 2020 and 31 December 2019 is presented in the table below:

(In thousands of Russian Roubles, unless otherwise stated)

	Dividends for payment	Lease liabilities	Borrowings	Total
As at 31 December 2018	**-**	**-**	**-**	**-**
Initial application of IFRS 16 Leases (Note 11)	-	169,290	-	**169,290**
New lease agreements (Note 11)	-	7,470	-	**7,470**
Dividends announced (note 19)	1,840,114	-	-	**1,840,114**
Cash flow from financing activities				
Dividends paid (Note 19)	(1,840,114)	-	-	**(1,840,114)**
Repayment of interest expense on lease liability (Note 26)	-	(15,873)	-	**(15,873)**
Repayment of lease obligations (Note 11)	-	(70,341)	-	**(70,341)**
Net cash flow used in financing activities	**(1,840,114)**	**(86,214)**	**-**	**(1,926,328)**
Interests (Note 26)	-	15,873	-	**15,873**
As at 31 December 2019	**-**	**106,419**	**-**	**106,419**
Modification of leases (Note 11)	-	155,747	-	**155,747**
Dividends announced (Note 19)	4,408,462	-	-	**4,408,462**
Leases interests (Note 26)	-	23,542	-	**23,542**
Interest capitalised and accrued (Note 11)	-	-	326,904	**326,904**
Interest capitalised and paid (Investment activity)	-	-	(296,257)	**(296,257)**
Other changes	-	-	(2,843)	**(2,843)**
Cash flow from financing activities				
Long-term borrowings	-	-	14,779,925	**14,779,925**
Borrowings attraction rate	-	-	(109,323)	**(109,323)**
Dividends paid (Note 19)	(4,408,462)	-	-	**(4,408,462)**
Repayment of interest expense on lease liability (Note 26)	-	(23,542)	-	**(23,542)**
Repayment of lease obligations (Note 11)		(47 913)	-	**(71,455)**
Net cash flow used in financing activities	**(4,408,462)**	**(71,455)**	**14,670,602**	**(10,190,685)**
As at 31 December 2020	**-**	**214,253**	**14,698,406**	**14,912,659**

(In thousands of Russian Roubles, unless otherwise stated)

6. FINANCIAL INSTRUMENTS

	Note	31 December 2020	31 December 2019
Current assets			
Cash and cash equivalents	7	8,189,975	5,551,514
Accounts receivable from related parties	8	4,280,060	9,150,682
Other accounts receivable	8	147,869	141,398
Non-current assets			
Other long-term accounts receivable	12	2,255	8,652
Total financial assets at amortised cost		**12,620,159**	**14,852,245**
Current liabilities			
Trade accounts payable	13	5,187,509	1,643,979
Accounts payable to related parties	13	273,802	604,031
Current portion of long-term lease liabilities	13	64,808	57,058
Current portion of long-term borrowings	16	21,662	-
Other accounts payable	13	6,343	6,359
Non-current liabilities			
Long-term borrowings	16	14,676,744	-
Trade accounts payable	18	790,479	179,696
Long-term lease liabilities	18	149,445	49,361
Total financial liabilities at amortised cost		**21,170,792**	**2,540,484**

As at 31 December 2020 and 31 December 2019, the fair values of financial assets and financial liabilities approximate their carrying amounts.

7. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Deposit accounts	8,189,700	9,150,600
Current accounts	275	82
Total cash and cash equivalents	**8,189,975**	**9,150,682**

As at 31 December 2020 and as at 31 December 2019 cash was placed on deposit accounts for the period less than 3 months.

As at 31 December 2020 the weighted average interest rate on the deposit accounts of the Company was 3.58 % for Russian Roubles.

As at 31 December 2019 the weighted average interest rate on the deposit accounts of the Company was 4.95 % for Russian Roubles.

The table below analyses the credit quality of banks at which the Company holds cash and cash equivalents at the reporting date:

	Rating as of 31 December 2020	Rating agency	Credit limit for one bank	31 December 2020	31 December 2019
Bank GPB (JSC)	Ba1	Moody’s	Not set	8,189,948	9 150 682
VTB Bank (PJSC)	Baa3	Moody’s	Not set	27	-
Total cash and cash equivalents				**8,189,975**	**9,150,682**

(In thousands of Russian Roubles, unless otherwise stated)

8. TRADE AND OTHER ACCOUNTS RECEIVABLE

	Note	31 December 2020	31 December 2019
Financial assets			
Accounts receivable from related parties	27	4,280,060	5,551,514
Other accounts receivable		165,237	157,887
Allowance for expected credit losses for accounts receivable		(17,368)	(16,489)
Total financial accounts receivable		**4,427,929**	**5,692,912**
Non-financial assets			
VAT recoverable		396,338	584,649
Advances to suppliers		17,702	69,386
Prepaid taxes, other than income tax		1,399	5,397
Total non-financial accounts receivable		**415,439**	**659,432**
Total trade and other accounts receivable		**4,843,368**	**6,352,344**

As at 31 December 2020 and 31 December 2019 accounts receivable from related parties are related mainly to gas sales in the Russian Federation.

As at 30 September 2015 cash in the amount of RUB 1,851,570 thousand was placed on deposit accounts in LLC Vneshprombank. Due to the revocation of the bank license on 21 January 2016 the return probability of the deposit is assessed as low. As a result, in 2015 the Company reclassified the deposit in the amount of RUB 1,851,570 thousand into accounts receivable and accrued allowance for expected credit losses for the whole amount.

As at December 31, 2019, an analysis of the possibility of debt collection was conducted. The management of the Company decided to write off the full amount of debt due to the created provision for expected credit losses in the amount of 1,896,496 thousand rubles due to the fact that there is no probability of a deposit return.

The allowance for expected credit losses has been accrued for all overdue doubtful receivables as at December 31, 2020 and December 31, 2019.

The ageing analysis of trade and other accounts receivable is as follows:

	Total overdue accounts receivable as at		Total allowance for expected credit losses as at		Total overdue accounts receivable net of allowance for expected credit losses as at	
Ageing from the due date	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
up to 1 year past due	949	1,079	(949)	(1,079)	-	-
1 to 3 years past due	14,451	13,422	(14,451)	(13,422)	-	-
over 3 years past due	1,965	1,988	(1,965)	(1,988)	-	-
Total	**17,368**	**16,489**	**(17,368)**	**(16,489)**	**-**	**-**

Change in the allowance for expected credit losses of accounts receivable is as follows:

Allowance for expected credit losses as at 1 January 2019	**(1,911,432)**
Accrual of allowance	(1,553)
Write-off of accounts receivable against allowance	1,896,496
Allowance for expected credit losses as at 31 December 2019	**(16,489)**
Accrual of allowance	(934)
Write-off of accounts receivable against allowance	55
Allowance for expected credit losses as at 31 December 2020	**(17, 368)**

As the principal debtors of the Company are related parties, the Company believes that the default risk is low. No accounts receivable from related parties were past due or impaired as at 31 December 2020 and as at 31 December 2019.

The fair value of accounts receivable as at 31 December 2020 and 31 December 2019 approximates their carrying value.

(In thousands of Russian Roubles, unless otherwise stated)

9. INVENTORIES

	31 December 2020	31 December 2019
Materials for extraction	769,058	532,375
Other materials	15,190	17,577
Total inventories at the lower of cost of sales and net realizable value	**784,248**	**549,952**

As of 31 December 2020 the amount of the write-down of inventories to net realisable value amounted to RUB 195,058 thousand (31 December 2019: RUB 238,515 thousand).

10. OTHER CURRENT ASSETS

	31 December 2020	31 December 2019
Assets held for sale	-	1,207
Total other current assets	**-**	**1,207**

As at 31 December 2020 were no assets held for sale.

An asset held for sale as at 31 December 2019 was presented by one flat situated in the Urengoy settlement and was sold in 2020.

(In thousands of Russian Roubles, unless otherwise stated)

11.PROPERTY, PLANT AND EQUIPMENT

	Pipelines	Wells	Buildings and facilities	Machinery and equipment	Roads	Others	Right-of-use assets	Prepayments and assets under construction	Total
Cost as at 1 January 2019	**9,625,765**	**12,208,505**	**39,490,493**	**18,675,086**	**13,685,020**	**229,598**	**182,578**	**5,236,942**	**99,333,987**
Additions	-	-	-	162,524	-	7,790	7,470	8,365,561	**8,543,345**
Accrual of decommissioning and site and environmental restoration obligation	-	200,132	62,773	74	-	-	-	-	**262,979**
Change in component for decommissioning and site and environmental restoration obligation (Note 15)	1,181,998	1,078,677	5,059,579	514,093	-	-	-	-	**7,834,347**
Disposal	-	-	(1,609)	(82,763)		(601)			**(84,973)**
Disposal of decommissioning and site and environmental restoration obligation	-	-	(36)	(9)	-	-	-	-	**(45)**
Transfer to inventories	-	-	-	-	-	-	-	(189,221)	**(189,221)**
Transfer	-	3,474,010	1,174,132	345,012	-	7,902	-	(5,001,056)	-
Cost as at 31 December 2019	**10,807,763**	**16,961,324**	**45,785,332**	**19,614,017**	**13,685,020**	**244,689**	**190,048**	**8,412,226**	**115,700,419**
Additions	-	-	-	130,259	-	4,881	-	24,809,802	**24,944,942**
Accrual of component for decommissioning and site restoration obligation	-	181,945	454,502	1,165	51,414	-	-	-	**689,026**
Change in component for decommissioning and site and environmental restoration obligation (Note 15)	(108,723)	(107,110)	(429,166)	(45,432)	-	-	-	-	**(690,431)**
Disposal		(2,492)	(2,262)	(28,644)	-	(2,125)	-	-	**(35,523)**
Disposal of decommissioning and site and environmental restoration obligation	-	(284)	(114)	(27)	-	-	-	-	**(425)**
Leases modification	-	-	-	-	-	-	155,747	-	**155,747**
Capitalized borrowings costs	-	101,612	23,750	3,176	2,393	-	-	195,973	**326,904**
Transfer to inventories	-	-	-	-	-	-	-	(298,982)	**(298,982)**
Transfer	-	13,522,172	2,171,512	545,563	265,830	-	-	(16,505,077)	-
Cost as at 31 December 2020	**10,699,040**	**30,657,167**	**48,003,554**	**20,220,077**	**14,004,657**	**247,445**	**345,795**	**16,613,942**	**140,791,677**
Accumulated depreciation as at 1 January 2019	**(4,173,037)**	**(4,465,104)**	**(15,398,282)**	**(7,312,221)**	**(5,768,750)**	**(156,520)**	**-**	**-**	**(37,273,914)**
Depreciation	(650,400)	(1,189,838)	(2,931,648)	(1,543,952)	(944,250)	(23,090)	(74,703)	-	**(7,357,881)**
Disposals	-	-	353	86,804	-	582	-	-	**87,739**
Change in component for decommissioning and site and environmental restoration obligation (Note 15)	(533,083)	(513,607)	(2,441,088)	(219,176)	-	-	-	-	**(3,706,954)**
Accumulated depreciation as at 31 December 2019	**(5,356,520)**	**(6,168,549)**	**(20,770,665)**	**(8,988,545)**	**(6,713,000)**	**(179,028)**	**(74,703)**	**-**	**(48,251,010)**
Depreciation	(547,598)	(1,288,952)	(2,516,684)	(1,196,056)	(707,281)	(21,280)	(64,565)	-	**(6,342,416)**
Change in component for decommissioning and site restoration obligation (Note 15)	36,836	27,320	133,779	12,756	-	-	-	-	**210,691**
Disposals	-	1,532	75	23,515	-	2,125	-	-	**27,247**
Accumulated depreciation as at 31 December 2020	**(5,867,282)**	**(7,428,649)**	**(23,153,495)**	**(10,148,330)**	**(7,420,281)**	**(198,183)**	**(139,268)**	**-**	**(54,355,488)**
Net book value as at 1 January 2019	**5,452,728**	**7,743,401**	**24,092,211**	**11,362,865**	**7,916,270**	**73,078**	**182,578**	**5,236,942**	**62,060,073**
Net book value as at 31 December 2019	**5,451,243**	**10,792,775**	**25,014,667**	**10,625,472**	**6,972,020**	**65,661**	**115,345**	**8,412,226**	**67,449,409**
Net book value as at 31 December 2020	**4,831,758**	**23,228,518**	**24,850,059**	**10,071,747**	**6,584,376**	**49,262**	**206,527**	**16,613,942**	**86,436,189**

At the end of each reporting period management assesses whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment.

As at 31 December 2020 the Company performed a test for impairment of property, plant and equipment at the cash-generating unit level.

The recoverable amount of each cash-generating unit was determined on the basis of the value in use indicator. The value of use was determined by discounting future cash flows that would result from the continued use of the unit. In determining the recoverable amount of future cash flows the following key assumptions were used:

- cash flow forecasts used in the calculations were based on the Company's budgets for a three-year period. Cash flows beyond the three-year period have been forecasted based on the information about a volume of production and a forecast of gas prices;

(In thousands of Russian Roubles, unless otherwise stated)

- the forecast of gas prices was based on the approved tariffs by the Federal Tariff Service;
- the discount rate of 14.64 % for determining the value of use was calculated on the basis of the industry average rates of the weighted average cost of capital (as at 31 December 2019: 16.11%).

As at 31 December 2020 and as at 31 December 2019 an impairment of property, plant and equipment was not identified.

In August 2020, the Company raised a long-term borrowing. For the year ended 31 December 2020 capitalised borrowing costs amounted to RUB 326,904 thousand.

As at 31 December 2020 capitalised borrowing costs included in assets under construction amounted RUB 195,973 thousands.

As at 31 December 2020 property, plant and equipment included prepayments for assets under construction in the amount of RUB 1,969,729 thousand (RUB 2,809,945 thousand as at 31 December 2019).

Depreciation of property, plant and equipment in the amount of RUB 29,878 thousand for the year ended 31 December 2020 was capitalised into assets under construction (for the year ended 31 December 2019: RUB 21,222 thousand).

As at 31 December 2020 property, plant and equipment included right-of-use assets in the amount of RUB 206,527 thousand (RUB 115,345 thousand as at 31 December 2019). Right-to-use assets are mainly represented by leases of real estate and land.

Change of right-of-use assets for the year ended 31 December 2020 is provided below:

	Buildings and facilities	**Others (land lease)**	**Total**
Cost as at 1 January 2020	**142,207**	**47,841**	**190,048**
Leases agreements modification	174,228	(18,481)	**155,747**
Cost as at 31 December 2020	**316,435**	**29,360**	**345,795**
Accumulated depreciation as at 1 January 2020	**(72,788)**	**(1,915)**	**(74,703)**
Depreciation	(63,415)	(1,150)	(64,565)
Accumulated depreciation as at 30 December 2020	**(136,203)**	**(3,065)**	**(139,268)**
Net book value as at 31 December 2020	**180,232**	**26,295**	**206,527**

Change of right-of-use assets for the year ended 31 December 2019 is provided below:

	Buildings and facilities	**Others (land lease)**	**Total**
Cost as at 1 January 2019	**-**	**-**	**-**
Initial recognition	134,737	47,841	**182,578**
Additions of new lease agreements	7,470	-	**7,470**
Cost as at 31 December 2019	**142,207**	**47,841**	**190,048**
Accumulated depreciation as at 1 January 2019	**-**	**-**	**-**
Depreciation	(72,788)	(1,915)	**(74,703)**
Accumulated depreciation as at 31 December 2019	**(72,788)**	**(1,915)**	**(74,703)**
Net book value as at 31 December 2019	**69,419**	**45,926**	**115,345**

Unit-of-production depreciation, depletion and amortisation charged are principally measured based on Company's estimation of proved developed gas reserves. Proved developed reserves are estimated by independent international reservoir engineers, by reference to available geological and engineering data, and only include volumes for which access to extract is assured with reasonable certainty.

The unit-of-production depreciation rate for the property, plant and equipment for the year ended 31 December 2020 was:
- for pipelines, wells, buildings, plant and equipment used in the production of gas from the Cenomanian deposits 10.81% (2019 – 11.93%);

- for pipelines, wells, buildings, plant and equipment used in the production of gas from the Turonian deposits 5.75% (2019 – 11.93%);

- for general field facilities used for gas production from both deposits 10.03% (2019 – 11.93%);.

The change in the depreciation rate is due to an update in proven gas reserves as of December 31, 2019, according to an independent appraiser report.

(In thousands of Russian Roubles, unless otherwise stated)

Estimates of gas reserves are inherently imprecise, require the application of judgments and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to Company's estimates of proved developed reserves affect prospectively the amounts of depreciation charged and, consequently, the carrying amounts of property, plant and equipment.

12. LONG-TERM ACCOUNTS RECEIVABLE

	31 December 2020	31 December 2019
Financial assets		
Other accounts receivable	2,255	8,652
Total long-term accounts receivable	**2,255**	**8,652**

The fair value of long-term accounts receivable as at 31 December 2020 and 31 December 2019 approximates their carrying value.

13. ACCOUNTS PAYABLE AND PROVISIONS

	Note	31 December 2020	31 December 2019
Financial liabilities			
Trade accounts payable		5,187,509	1,643,979
Accounts payable to related parties	28	273,802	604,031
Current portion of long-term lease liabilities		64,808	57,058
Other accounts payable		6,343	6,359
Total financial liabilities		**5,532,462**	**2,311,427**
Non-financial liabilities			
Wages and salaries		312,169	263,274
Provision for employee bonuses		233,832	66,143
Provisions for seasonal work and equipment installation		74,125	875
Provision for environmental restoration		2,962	12,645
Advances received		268	17,268
Total non-financial liabilities		**623,356**	**360,205**
Total accounts payable and provisions		**6,155,818**	**2,671,632**

An increase in accounts payable to suppliers and contractors in 2020 is due to the implementation of the investment program in accordance with the Technological Scheme for the development of Cenomanian and Turonian gas deposits of the Yuzhno-Russkoye field.

The Company is obliged to perform environmental restoration works on the pit of mineral soil which was used for construction purposes.

14. TAXES PAYABLE OTHER THAN INCOME TAX

	31 December 2020	31 December 2019
Mineral extraction tax	1,698,437	2,607,389
Value added tax	79,520	2,043,344
Property tax	234,199	162,904
Insurance contributions for employees	94,346	63,086
Personal income tax	12,564	19,087
Other taxes and accruals	691	775
Total taxes payable other than income tax	**2,119,757**	**4,896,585**

Mineral extraction tax payable has decreased due to the decrease of the tax rate in 2020 compared to the tax rate in 2019.

(In thousands of Russian Roubles, unless otherwise stated)

15.PROVISIONS

	31 December 2020	31 December 2019
Provision for decommissioning and site restoration an environmental restoration	11,146,851	10,174,748
Provision for employee benefits	1,453,746	1,319,520
Total provisions	**12,600,597**	**11,494,268**

Provision for decommissioning and site restoration and environmental restoration

	Note	Year ended Note 31 December 2020	Year ended 31 December 2019
Provision for decommissioning and site restoration and environmental restoration at the beginning of the year		**10,174,748**	**5,251,727**
Provision accrual		742,146	304,833
Change in estimate of provision	11	(479,740)	4,127,393
Increase in discounted value for the year	26	709,697	490,795
Provision for decommissioning and site restoration and environmental restoration at the end of the year		**11,146,851**	**10,174,748**

The Company is obliged to bear expenses for decommissioning and site restoration of the Yuzhno-Russkoye deposit after its development. The discount rate used to calculate the net present value of the future cash outflows relating to decommissioning and site restoration as at 31 December 2020 was 6.85 % (as at 31 December 2019 – 6.58 %), which represents the pre-tax rate which reflects market assessment of time value of money at the end of the reporting period.

Provisions for employee benefits

The Company operates post-employment and other long-term benefits system, which is recorded as defined benefit plan in the financial statements under IAS 19 Employee benefits. Defined benefit plan covers the majority of employees of the Company. These benefits include pension benefits provided by the non-governmental pension fund, JSC NPF GAZFOND, and post-retirement benefits from the Company provided upon retirement. The amount of post-employment and other long-term benefits depends on the time of work experience of employees, wages in recent years prior to retirement, a predetermined fixed amount or a combination of these factors.

Principal actuarial assumptions are provided below:

	31 December 2020	31 December 2019	31 December 2018
Nominal discount rate	6.30 %	6.30 %	8.60 %
Future salary and pension increases (nominal)	5.00 %	5.10 %	5.10 %
Mortality rate	Russia - 2018	Russia - 2016	Russia – 2014
Turnover ratio p.a.	4.2 % in average, employment period-related curve of resign	4.2 % in average, employment period-related curve of resign	4.1 % in average, employment period-related curve of resign

Weighted-average duration of obligations is 12.7 years as at 31 December 2020, 12.9 years as at 31 December 2019.

Provision for employee benefits recognised in the statement of financial position is provided below:

	Provision for employee benefits as at	
	31 December 2020	31 December 2019
Present value of benefit obligations	2,321,364	2,087,982
Fair value of plan assets	(867,618)	(768,462)
Total net liabilities	**1,453,746**	**1,319,520**

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2020 and 31 December 2019 are provided below:

(In thousands of Russian Roubles, unless otherwise stated)

	Provision for employee benefits (post-employment benefits)	Provision for employee benefits (other long-term benefits)	Fair value of plan assets	Net liability / (asset)
As at 31 December 2019	**2,041,550**	**46,432**	**(768,462)**	**1,319,520**
Current service cost	225,773	6,621	-	232,393
Interest expense / (income)	123,374	2,688	(48,413)	77,649
Loss from remeasurements of other long-term benefit obligations	-	2,932	-	2,932
Total expenses included in staff costs	**349,147**	**12,240**	**(48,413)**	**312,974**
Loss from remeasurements of post-employment benefit obligations	45,987	-		45,987
Loss on plan assets excluding amounts included in net interest expense	-	-	13,258	13,258
Total recognised in the other comprehensive income	**45,987**	**-**	**13,258**	**59,246**
Benefits paid	(166,452)	(7,541)	115,370	(58,623)
Contributions by employer	-	-	(179,371)	(179,371)
Closing balance as at 31 December 2020	**2,270,233**	**51,131**	**(867,618)**	**1,453,746**

	Provision for employee benefits (post-employment benefits)	Provision for employee benefits (other long-term benefits)	Fair value of plan assets	Net liability / (asset)
As at 31 December 2018	**1,454,377**	**135,050**	**(650,317)**	**939,110**
Current service cost	157,382	19,647	-	177,029
Interest expense / (income)	115,296	11,340	(55,927)	70,709
Decrease in obligations as a result of plan amendments	-	(164,492)	-	(164,492)
Loss from remeasurements of other long-term benefit obligations	-	51,268	-	51,268
Total expenses included in staff costs	**272,678**	**(82,237)**	**(55,927)**	**134,514**
Loss from remeasurements of post-employment benefit obligations	541,944	-	-	541,944
Loss on plan assets excluding amounts included in net interest expense	-	-	32,322	32,322
Total recognised in the other comprehensive income	**541,944**	**-**	**32,322**	**574,266**
Benefits paid	(227,450)	(6,380)	170,952	(62,878)
Contributions by employer	-	-	(265,492)	(265,492)
Closing balance as at 31 December 2019	**2,041,549**	**46,433**	**(768,462)**	**1,319,520**

Information about benefit plans and related risks

As a rule, the above employee benefits are indexed in accordance with inflation or salary growth for benefits that depend on salary level. In addition to the inflation risk, all employee benefit obligations are exposed to mortality risk. The sensitivity analysis of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2020 is presented below:

(In thousands of Russian Roubles, unless otherwise stated)

	Increase / (decrease) of defined benefit obligation	Increase / (decrease) of defined benefit obligation, %
Mortality rates lower by 20 %	103,423	4.46 %
Mortality rates higher by 20 %	(92,843)	(4.00 %)
Discount rate lower by 1 p.p.	303,135	13.06 %
Discount rate higher by 1 p.p.	(253,196)	(10.91 %)
Growth rate of pensions and allowances lower by 1 p.p.	(259,725)	(11.19 %)
Growth rate of pensions and allowances higher by 1 p.p.	305,700	13.17 %
Staff turnover lower by 1 p.p. for all ages	75,0925	3.27 %
Staff turnover higher by 1 p.p. for all ages	(71,346)	(3.07 %)

16.BORROWINGS

In August 2020, the Company signed a Borrowing Agreement with VTB Bank PJSC for opening a long-term credit line up to RUB 40,000,000 thousand to finance capital expenses with an interest rate equal to the current key rate of the Central Bank of the Russian Federation (Bank of Russia) + 1.3 % and maturing until the end of 2028.

	31 December 2020	31 December 2019
Bank borrowing	14,676,744	-
Total long-term borrowings	**14,676,744**	**-**
Current portion of long-term borrowing	21,662	-
Total current portion of long-term borrowings	**21,662**	**-**

The current portion of long-term bank borrowing includes interest payable in accordance with the Borrowing Agreement.

The terms and conditions of the bank borrowing not repaid as at the reporting date are specified below:

	Currency	Interest rate	Maturity date	31 December 2020	31 December 2019
VTB Bank (PJSC)	RUB	Key rate Bank of Russia +1.3 %	2024	14,676,744	-
Total				**14,676,744**	**-**

The key rate of the Bank of Russia as at 31 December 2020 amounted to 4.25 %. The commission rate charged on the unused amount of the credit line amounted to 1.45 %. As at 31 December 2020 the Company was in compliance with all financial covenants. The effective interest rate at 31 December 2020 is 6.00 %.

17.INCOME TAX

Income tax expense comprises the following:

	Year ended 31 December	
	2020	**2019**
Current tax expense	1,388,798	2,116,369
Deferred tax expense	52,194	428,398
Total tax expense	**1,440,992**	**2,544,767**

(In thousands of Russian Roubles, unless otherwise stated)

	Year ended 31 December	
	2020	**2019**
Profit before income tax	**6,018,113**	**7,571,753**
Theoretical income tax expense	(1,203,623)	(1,514,351)
Effects related to the change in provision for decommissioning and site restoration	(183,712)	(988,147)
Tax effect of expenses and losses not deductible for income tax purposes	(53,657)	(42,270)
Income tax expense	**(1,440,992)**	**(2,544,767)**

Differences between the recognition criteria in IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement in these temporary differences is recorded at the rate of 20 %.

		Tax effect of movement in temporary differences		
	1 January 2020	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2020**
Tax effect of taxable temporary differences:				
Property, plant and equipment	(7,444,441)	(139,345)	-	(7,583,786)
Borrowings	-	(20,636)	-	(20,636)
Total	**(7,444,441)**	**(159,981)**	-	**(7,604,422)**
Tax effect of deductible temporary differences:				
Inventories	38,242	(9,283)	-	28,959
Trade and other accounts receivable	358,905	35,205	-	394,110
Other deductible temporary differences	93,108	81,865	11,849	186,822
Total	**490,255**	**107,787**	**11,849**	**609,891**
Total net deferred tax (liabilities) / assets	**(6,954,186)**	**(52,194)**	**11,849**	**(6,994,531)**

		Tax effect of movement in temporary differences		
	1 January 2019	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2019**
Tax effect of taxable temporary differences:				
Property, plant and equipment	(7,072,740)	(371,701)	-	(7,444,441)
Other temporary differences	-	14,318	-	14,318
Total	**(7,072,740)**	**(357,383)**	-	**(7,430,123)**
Tax effect of deductible temporary differences:				
Inventories	38,957	(715)	-	38,242
Trade accounts receivable	373,934	(15,029)	-	358,905
Other deductible temporary differences	73,740	(167,587)	60,321	78,790
Total	**486,631**	**(71,015)**	**60,321**	**475,937**
Total net deferred tax (liabilities)/ assets	**(6,586,109)**	**(428,398)**	**60,321**	**(6,954,186)**

As at 31 December 2020 and as at 31 December 2019 all deferred tax assets and deferred tax liabilities formed during the period activity of the Company recalculated on the basis of the income tax rate of 20 % (including 2 % to the Federal budget).

(In thousands of Russian Roubles, unless otherwise stated)

Based on the amount of proved gas reserves and contracted sales, management believes that the Company will generate sufficient taxable profit in the future periods against which the deductible temporary differences will be reversed.

18. LONG-TERM ACCOUNTS PAYABLE

	31 December 2020	31 December 2019
Financial liabilities		
Trade accounts payable	790,479	179,696
Total financial liabilities	**790,479**	179,696
Non-financial liabilities		
Long-term lease liabilities	149,445	49,361
Total non-financial liabilities	**149,445**	**49,361**
Total accounts payable	**939,924**	**229,057**

19.EQUITY

Share capital

Share capital of the Company authorised, issued and paid totals RUB 40,000 thousand as at 31 December 2020 and 31 December 2019 and consists of 533,324 ordinary shares with the nominal value of RUB 60 per share and 2 preference shares (type "A") with the nominal value of RUB 2,462 thousand per share, 3 preference shares (type "B") with the nominal value of RUB 667 thousand per share and 1 preference share (type "C") with the nominal value of RUB 1,077 thousand.

The excess of the proceeds from share issuance over the nominal value was recorded in equity as the share premium. After the share capital increase from its own funds (from the share premium) in 2011, the share premium amounted to RUB 25,099,045 thousand.

As at 31 December 2020 and 31 December 2019 all issued preference and ordinary shares are fully paid.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give its holders the right to participate at general shareholders' meetings without voting rights unless decisions are made in relation to reorganisation and liquidation of the Company and changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Upon a positive decision of the shareholders meeting to pay dividends, dividends on preference shares (type "A") are calculated as 12.308 % of the portion of the profit of the Company which has been allocated for dividends payment in accordance with the resolution of the shareholders meeting; preference shares (type "B") as 5 % of the allocated profit for dividends; preference shares (type "C") as 2.692 % of the profit allocated for dividends. These preference dividends rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until the dividend is paid.

Other reserves

Before 1 January 2007 the Company received loans from its shareholders. Indebtedness under the loans was recognised in the financial statements at the fair value calculated using average interest rates on similar loans. The difference between the fair value of the loans and the amount received net of related tax was recorded in equity as Other reserves. During 2007-2008 years the Company redeemed all the loans for which Other reserves were recognised. The fair value effect in the amount of RUB 873,253 thousand, net of income tax RUB 275,810 thousand, was recognised in Other reserves.

Other reserves include other comprehensive income related to the reassessment of estimated post-employment benefits obligations net of related income tax (Note 15).

Dividends

The Annual General Meeting of the Shareholders of the Company held on 30 June 2020 decided to pay dividends in the amount of RUB 4,408,462 thousand for the year ended 31 December 2019. All dividends are declared and paid in 2020 in Russian Roubles in full. The amount of paid dividends, net of tax, amounted to RUB 4,046,965 thousand.

The Annual General Meeting of the Shareholders of the Company held on 4 June 2019 decided to pay dividends in the amount of RUB 1,840,114 thousand for the year ended 31 December 2018. The amount of paid dividends, net of tax, amounted to RUB 1,689,223 thousand.

(In thousands of Russian Roubles, unless otherwise stated)

	2020			
	Ordinary shares	Preference shares class "A"	Preference shares class "B"	Preference shares class "C"
Dividends payable as at 1 January	-	-	-	-
Dividends declared during the year	3,526,770	542,594	220,423	118,675
Dividends paid during the year	(3,526,770)	(542,594)	(220,423)	(118,675)
Dividends payable as at 31 December	-	-	-	-
Dividends per share declared during the year	**6.6**	**271,297**	**73,474**	**118,675**

	2019			
	Ordinary shares	Preference shares class "A"	Preference shares class "B"	Preference shares class "C"
Dividends payable as at 1 January	-	-	-	-
Dividends declared during the year	1,472,091	226,481	92,006	49,536
Dividends paid during the year	(1,472,091)	(226,481)	(92,006)	(49,536)
Dividends payable as at 31 December	-	-	-	-
Dividends per share declared during the year	**2.8**	**113,240**	**30,668**	**49,536**

All dividends are declared and paid in Russian Roubles in full.

In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian statutory accounting. The statutory accounting reports of the Company are the basis for profit distribution according to legislation of the Russian Federation.

20. REVENUE

	Year ended 31 December	
	2020	**2019**
Revenue from gas sales	44,073,280	51,742,256
Total revenue	**44,073,280**	**51,742,256**

All customers of the Company are related parties (Note 28).

(In thousands of Russian Roubles, unless otherwise stated)

21. COST OF SALES

	Year ended 31 December	
	2020	**2019**
Mineral extraction tax (MET)	25,082,202	30,909,870
Depreciation of property, plant and equipment and right-of-use assets	6,250,967	7,265,284
Staff costs	2,716,729	2,271,643
Property tax	778,028	694,387
Repairment and technical maintenance	571,264	601,648
Materials	198,407	221,489
Insurance	153,933	132,493
Geophysical services	89,574	71,657
Other outsourced production services	71,384	171,039
Fire safety and security services	65,363	51,588
Transportation costs	44,770	57,635
Fuel costs	38,613	46,694
Software support costs	37,047	59,220
Rent expenses	25,951	22,158
Other	59,768	91,894
Total cost of sales	**36,184,000**	**42,668,699**

The decrease in mineral extraction tax is related to the reduction in the tax rate in 2020.

Expenses on short-term lease and lease of low-value assets in 2020 amounted to RUB 3,642 thousand (RUB 3,646 thousand in 2019).

22. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2020	**2019**
Administrative staff costs	866,652	734,331
Depreciation of right-of-use assets	61,571	71,375
Insurance	39,157	40,910
Overhaul of other objects	30,521	37,499
Industrial safety and security services	27,152	22,954
Heat and electricity	18,919	18,313
Materials and spare parts	17,892	21,307
Maintenance	13,132	15,637
Communication services	11,292	11,155
Advertising	11,039	42,902
Software support	8,991	13,629
Consulting services	3,835	30,000
Rent expenses	2,028	1,982
Other general and administrative expenses	54,591	62,406
Total general and administrative expenses	**1,166,772**	**1,124,400**

(In thousands of Russian Roubles, unless otherwise stated)

23. OTHER OPERATING INCOME

	Year ended 31 December	
	2020	**2019**
Fees and penalties due to violation of contract covenants	47,548	39,653
Gain on disposal of property, plant and equipment	4,506	16,585
Gain on disposal of assets held for sale	3,613	-
Gain from capitalizing of materials	3,573	4,577
Rent income on property, plant and equipment	3,191	3,484
Reimbursement of the road maintenance costs	1,540	3,375
Other operating income	11,125	11,051
Total other operating income	**75,096**	**78,725**

24. OTHER OPERATING EXPENSES

	Year ended 31 December	
	2020	**2019**
Social costs	71,204	89,636
Loss on disposal of materials	54,264	14,729
Registration of real estate and land rights	15,883	4,121
Loss on disposal of property, plant and equipment	8,532	-
House renting to employees	4,762	7,636
Non-refundable VAT	3,642	5,707
Remeasurement of employee benefits	2,932	51,268
Evaluation and expert services	1,680	1,098
Souvenir and gift products	1,511	4,229
Loss on disposal of assets held for sale	1,207	-
Administrative penalties	600	1,175
Other operating expenses	20,214	47,621
Total other operating expenses	**186,431**	**227,220**

25. FINANCE INCOME

	Year ended 31 December	
	2020	**2019**
Interest income	297,535	429,497
Foreign currency exchange gains	911	745
Total finance income	**298,446**	**430,242**

(In thousands of Russian Roubles, unless otherwise stated)

26. FINANCE EXPENSE

		Year ended 31 December	
	Note	**2020**	**2019**
Interest expenses on provision for decommissioning and site restoration	15	709,697	490,795
Interest expense on provision for post-employment benefits	15	77,649	70,709
Interest expense on long-term lease liability		23,542	15,873
Interest expense (provision for environmental restoration)		6,268	-
Foreign currency exchange losses		1,929	3
Total finance expense		**819,085**	**577,380**

27. CONTINGENCIES, COMMITMENTS AND OTHER RISKS

(a) Tax legislation

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation was amended with effect from 1 January 2019 are more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy used in 2020 and preceding years meets market condition. Company has implemented measures of internal controls to be in compliance with the transfer pricing legislation.

Given the specifics of transfer pricing rules, the impact of any challenge to the Company’s transfer prices cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Company.

(b) Legal proceedings

The Company is subject of, or party to a number of court proceedings 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 Company and which have not been accrued or disclosed in the financial statement.

(c) Capital commitments

The total investment utilisation with the investment programme for 2021 is RUB 24,354,449 thousand (2020 – RUB 36,232,610 thousand).

(d) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage that have not already been provided for.

(In thousands of Russian Roubles, unless otherwise stated)

28. RELATED PARTY TRANSACTIONS

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 over the other party in making financial or operational decisions as defined by IAS 24 Related Party Disclosures. In considering each possible related party relationship, attention is 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 effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions with shareholders and its related parties

The Company is under the control of PJSC Gazprom and is included in the Gazprom Group. PJSC Gazprom is the Immediate and Ultimate Parent entity of the Company. The Government of the Russian Federation is the party with ultimate control. At the same time Wintershall Dea GmbH (till 1st of May Wintershall Holding GmbH), which is part of the Wintershall Dea Group and OMV Exploration & Production GmbH, which is part of the OMV Group have significant influence on the Company (Note 1).

Transactions of the Company with related parties for the years ended 31 December 2020 and 31 December 2019 are presented below:

		Year ended 31 December	
	Note	**2020**	**2019**
Sales of gas to PJSC Gazprom (Gazprom Group)	20	17,629,312	20,696,902
Sales of gas to CJSC Gazprom YRGM Trading (BASF SE Group)	20	15,425,648	18,109,790
Sales of gas to JSC Gazprom YRGM Development (OMV Group)	20	11,018,320	12,935,564
Other income		840	886
Purchases of goods and services from Gazprom Group		702,414	372,435

Information on significant transactions concerning cash and cash equivalents with related parties:

Cash and cash equivalents	**Note**	**31 December 2020**	**31 December 2019**
Bank GPB (JSC)	7	8,189,948	9,150,682
Total cash and cash equivalents		**8,189,948**	**9,150,682**

Information on significant transactions concerning interest income with related parties:

		Year ended 31 December	
Interest income	**Note**	**2020**	**2019**
Bank GPB (JSC)	25	297,535	421,883
Total interest income		**297,535**	**421,883**

Significant balances with related parties are summarised as follows:

Accounts receivable	**Note**	**31 December 2020**	**31 December 2019**
PJSC Gazprom		1,709,261	2,219,341
CJSC Gazprom YRGM Trading		1,495,603	1,941,923
JSC Gazprom Development		1,068,288	1,387,088
Bank GPB (JSC)		746	1,195
Gazprom Group companies		6,162	1,967
Total accounts receivable	8	**4,280,060**	**5,551,514**

As at 31 December 2020 and 31 December 2019 short-term accounts receivable of related parties were non-interest bearing, had maturity within one year and were denominated in Russian Roubles.

(In thousands of Russian Roubles, unless otherwise stated)

Accounts payable	Note	31 December 2020	31 December 2019
Accounts payable to Gazprom Group companies	13	263,614	57,706
Long-term accounts payable to Gazprom Group companies	18	-	-
Total accounts payable		**263,614**	**57,706**

Transactions with parties under control of the Government

Information on significant transactions with parties under control of the Government:

Cash and cash equivalents	Note	31 December 2020	31 December 2019
VTB Bank (PJSC)	7	27	-
Total cash and cash equivalents		**27**	**-**

		Year ended 31 December	
Interest income	**Note**	**2020**	**2019**
VTB Bank (PJSC)		-	7,614
Total interest income		**-**	**7,614**

Accounts payable	Note	31 December 2020	31 December 2019
JSC United Engine Corporation	13	-	546,325
VTB Bank (PJSC)	13	10,188	
Total accounts payable		**10,188**	**546,325**

The Company hadn't significant transactions with state-controlled organisations except for transactions with the Gazprom Group Companies and their related parties.

Transactions with Key Management Personnel

Key management personnel of the Company consists of the Board of directors, the General Director and his ten deputies.

The General Director and his ten deputies compensation is presented below:

	Year ended 31 December	
	2020	**2019**
Short-term benefits	354,519	387,148
Other long-term benefits (contributions to the non-state pension fund NPF GAZFOND JSC)	96,620	48,357
Total compensation	**451,139**	**435,505**

As at December 31, 2020, there is no outstanding payments to key management personnel.

The Annual General Meeting of the Shareholders held in June 2020 has decided to pay compensation to the members of the Board of directors amounting to RUB 4,870 thousand.

29. SUBSEQUENT EVENTS

There were no subsequent events to disclosure.