PAO NOVATEK

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

FOR THE THREE MONTHS ENDED 30 JUNE 2019

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GENERAL PROVISIONS

You should read the following discussion and analysis of our financial condition and results of operations for the three months ended 30 June 2019 together with our unaudited consolidated interim condensed financial statements as of and for the three and six months ended 30 June 2019. The unaudited consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". These consolidated interim condensed financial statements should be read together with the audited consolidated financial statements for the year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards (IFRS).

The financial and operating information contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" comprises information of PAO NOVATEK, its consolidated subsidiaries and joint ventures (hereinafter jointly referred to as "we" or the "Group").

OVERVIEW

We are Russia's second largest natural gas producer and one of the world leaders in terms of proved natural gas reserves under the Petroleum Resources Management System ("PRMS") and the Securities and Exchange Commission ("SEC") reserve reporting methodologies.

Our exploration and development, production and processing of natural gas, gas condensate and crude oil are conducted mainly within the Russian Federation.

The natural gas assets of our subsidiaries and joint ventures include projects where we sell natural gas through the Unified Gas Supply System in the Russian domestic market and liquefied natural gas ("LNG") delivered to international markets.

In the fourth quarter of 2017, our joint venture OAO Yamal LNG commenced producing LNG at the first train of its liquefaction plant, and in the third and fourth quarters of 2018, the second and third LNG trains were launched. The launch of the three LNG trains with nameplate capacity of 16.5 million tons per annum allowed Yamal LNG to become one of the largest suppliers of LNG to international markets. In 2019, our joint venture OOO Cryogas-Vysotsk commissioned its medium-scale LNG plant.

We deliver unstable gas condensate produced by our subsidiaries and our joint ventures Arcticgas, Nortgas and Terneftegas to our Purovsky Gas Condensate Plant (the "Purovsky Plant") for processing into stable gas condensate and natural gas liquids ("NGL"). The Purovsky Plant allows us to process more than 12 million tons of unstable gas condensate per annum.

Most of our stable gas condensate is sent for further processing to our Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea (the "Ust-Luga Complex"). The Ust-Luga Complex processes our stable gas condensate into light and heavy naphtha, jet fuel, gasoil and fuel oil, nearly all of which we sell to the international markets allowing us to increase the added value of our liquid hydrocarbons sales. The Ust-Luga Complex allows us to process about seven million tons of stable gas condensate annually.

The excess volumes of stable gas condensate received from the processing at the Purovsky Plant over volumes sent for further processing to the Ust-Luga Complex are sold on both the domestic and international markets (by rail and from the port of Ust-Luga on the Baltic Sea by tankers).

A significant part of our NGL volumes produced at the Purovsky Plant is dispatched via pipeline for further processing at the refining facilities of OOO SIBUR Tobolsk (the "Tobolsk Refining Facilities"). The remaining volumes are sold directly from the Purovsky Plant without incurring additional transportation expenses. After processing at the Tobolsk Refining Facilities we receive liquefied petroleum gas ("LPG") with higher added value, the majority of which are transported by rail to our end-customers in the domestic and international markets with the remaining portion sold directly from the Tobolsk Refining Facilities without incurring additional transportation expenses. NGL sold directly from the Purovsky Plant and sales of LPG received from the processing at the Tobolsk Refining Facilities are presented within LPG sales in this report.

We deliver our crude oil to both domestic and international markets.

RECENT DEVELOPMENTS

Implementing our Arctic LNG 2 project

The Group through a project entity OOO Arctic LNG 2 undertakes to construct a new LNG plant on the Gydan peninsula based on the hydrocarbon resources of the Salmanovskoye (Utrenneye) field (the "Arctic LNG 2 project").

The Arctic LNG 2 plant will be built on gravity-based platforms and will consist of three processing trains with an annual capacity of 6.6 million tons of LNG per year each, or an aggregated capacity of 19.8 million tons of LNG per year. The licenses for natural gas liquefaction technology were purchased from Linde AG.

At present, the FEED work on the LNG plant construction is completed, and the EPC agreements on the design and construction of gravity-based platforms, topsides and onshore facilities for the three liquefaction trains of the plant are signed. The FID decision is expected to be taken in the third quarter of 2019.

Gravity-based platforms and other major units for the plant will be produced at our own LNG construction center in the Murmansk region (the "Murmansk yard"), which will also be used for the Group's subsequent LNG projects. Currently, the construction of loading berths, the first dry dock and the concrete plant are being completed at the Murmansk yard; engineering communications mounting works for buildings and gravity-based platforms fabrication site are in process. The topsides fabrication complex is in process of construction. In July 2019, the construction of a gravity-based platform for the first train of the Arctic LNG 2 plant was commenced.

The use of gravity-based platforms technology for the plant construction, as well as localizing production (most of the equipment for the plant construction will be produced in the Russian domestic market) will contribute to lower LNG liquefaction costs compared to other LNG projects.

The Salmanovskoye (Utrenneye) field's development is ongoing. Construction of several power units of the field's power plant was completed with exploratory wells drilled to supply their operation.

In the first half of 2019, the Group signed heads of agreements with several international companies to supply liquefied natural gas from the Arctic LNG 2 project as well as other Group's projects. The signing of these agreements is a vital step in the successful and timely implementation of the Arctic LNG 2 project.

In March 2019, the Group sold a 10% participation interest in OOO Arctic LNG 2 to TOTAL E&P Salmanov, a wholly owned subsidiary of TOTAL S.A. After transaction closing, the Group's participation interest in Arctic LNG 2 project was retained at 90%; however, the key project's financial and operational decisions are approved unanimously by all participants, implying joint control over the company. As a result, the Group recognized Arctic LNG 2 as a joint venture and started to account for its participation interest using the equity method.

In June 2019, the Group signed agreements with China National Petroleum Corporation ("CNPC"), CNOOC Limited, Mitsui & Co., Ltd and Japan Oil, Gas and Metals National Corporation ("JOGMEC") on entering the Arctic LNG 2 project. According to these agreements, CNPC and CNOOC Limited, through their respective subsidiaries, and Japan Arctic LNG B.V., a joint venture of Mitsui & Co., Ltd and JOGMEC, each purchase a 10% participation interest in Arctic LNG 2 project. The transactions were closed subsequent to the reporting date, in July 2019, after the fulfilment of the conditions precedent. As a result, the Group's participation interest in OOO Arctic LNG 2 further decreased to 60%.

Start of LNG production at the medium-scale LNG plant at the port of Vysotsk

In March 2019, our joint venture OOO Cryogas-Vysotsk commenced initial LNG production at the first train of its medium-scale LNG plant located at the port of Vysotsk on the Baltic Sea, and in April reached nameplate capacity of 660 thousand tons per annum.

Reorganization of AO Arcticgas

In February 2019, the Group made a contribution of 100% participation interest in OOO NOVATEK-Yarsaleneftegas, the holder of the license for exploration and production of hydrocarbons within the Malo-Yamalskiy license area, to the capital of our joint venture AO Arcticgas. This transaction was conducted within the framework of the agreement with PAO Gazprom Neft on reorganization of Arcticgas, which envisage the receipt of several assets in full ownership by the Arcticgas' shareholders.

It is expected that the reorganization will be completed by the end of 2019. The financial result from the reorganization will be recognized at its final stage as the transactions are considered to be interrelated.

Increasing our resource base

In May 2019, the Group obtained the rights for geological research works at five license areas in the Krasnoyarsk Territory: Khalmeryakhskiy, Dorofeevskiy, West-Dorofeevskiy, South-Khalmeryakhskiy and South-Dorofeevskiy. The license areas are located on the Gydan peninsula in the close proximity to our South-Leskinskiy license area.

BASIS OF PRESENTATION

Oil and gas production in the current report is calculated based on 100% of our subsidiaries production and our proportionate share in the production of our joint ventures including volumes of natural gas consumed in oil and gas producing and development activities. Production of the South-Tambeyskoye field developed by the Group's joint venture OAO Yamal LNG is reported at 60% including an additional 9.9% interest not owned by the Group, since the Group assumes certain economic and operational risks related to this interest.

Our oil and gas revenues and average realized net prices are presented net of VAT and export duties, where applicable. Our LPG revenues and average realized net prices also exclude excise and fuel taxes incurred on sales in Poland. Starting from January 2019, the Group accrues excise tax on raw oil and claims the double excise tax deduction. The net result, or so called "reverse excise", is reported as a deduction to our "Purchases of natural gas and liquid hydrocarbons" in our consolidated statement of income (see "Our tax burden and obligatory payments" below).

SELECTED DATA

millions of Russian roubles except as stated	Three months ended 30 June: 2019	2018	Change %
Financial results			
Total revenues [(1)]	218,513	195,822	11.6%
Operating expenses	(157,507)	(135,606)	16.2%
EBITDA [(2)]	115,835	101,339	14.3%
Profit attributable to shareholders of PAO NOVATEK	69,175	32,041	115.9%
Profit attributable to shareholders of PAO NOVATEK, excluding the effect of foreign exchange gains (losses) [(3)]	64,296	54,289	18.4%
Earnings per share (in Russian roubles)	22.97	10.63	116.1%
Earnings per share, excluding the effect of foreign exchange gains (losses) [(3)] (in Russian roubles)	21.35	18.01	18.5%
Net debt [(4)]	75,010	90,692	(17.3%)
Production volumes [(5)]			
Hydrocarbons production (million barrels of oil equivalent)	149.0	131.8	13.1%
Daily production (million barrels of oil equivalent per day)	1.64	1.45	13.1%
Operating results			
Natural gas sales volumes (million cubic meters)	18,764	15,149	23.9%
Naphtha sales volumes (thousand tons)	1,221	1,317	(7.3%)
Crude oil sales volumes (thousand tons)	1,214	1,148	5.7%
Liquefied petroleum gas sales volumes (thousand tons)	674	658	2.4%
Other stable gas condensate refined products (thousand tons)	620	711	(12.8%)
Stable gas condensate sales volumes (thousand tons)	396	436	(9.2%)
Cash flow results			
Net cash provided by operating activities	111,312	61,885	79.9%
Cash used for capital expenditures [(6)]	31,203	22,052	41.5%
Free cash flow [(7)]	80,109	39,833	101.1%

(1) Net of VAT and export duties, as well as excise and fuel taxes incurred on LPG sales in Poland.
(2) EBITDA represents profit (loss) adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as income (loss) from changes in fair value of derivative financial instruments and contingent consideration. EBITDA includes EBITDA from subsidiaries and our proportionate share in the EBITDA of our joint ventures.
(3) Excluding the effect of foreign exchange gains (losses) of subsidiaries and our proportionate share in foreign exchange gains (losses) of our joint ventures (see "Profit attributable to shareholders and earnings per share" below).
(4) Net Debt represents our total debt net of cash, cash equivalents and bank deposits with original maturity more than three months.
(5) Oil and gas production is calculated based on 100% of production of our subsidiaries and our proportionate share in the production of our joint ventures including fuel gas. Production of the South-Tambeyskoye field of Yamal LNG is reported at 60% (see "Basis of presentation" above).
(6) Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.
(7) Free cash flow represents the difference between Net cash provided by operating activities and Cash used for capital expenditures.

Reconciliation of EBITDA is as follows:

millions of Russian roubles	Three months ended 30 June: 2019	2018	Change %
Profit	**73,898**	**37,274**	**98.3%**
Depreciation, depletion and amortization	8,007	8,655	(7.5%)
Impairment expenses (reversals), net	(10)	89	n/a
Loss (income) from changes in fair value of derivative financial instruments and contingent consideration	437	619	(29.4%)
Total finance expense (income)	277	(7,380)	n/a
Total income tax expense	9,866	11,486	(14.1%)
Share of loss (profit) of joint ventures, net of income tax	(23,282)	18,215	n/a
EBITDA from subsidiaries	**69,193**	**68,958**	**0.3%**
Share in EBITDA of joint ventures	**46,642**	**32,381**	**44.0%**
EBITDA	**115,835**	**101,339**	**14.3%**

SELECTED MACRO-ECONOMIC DATA

Exchange rate, Russian roubles for one foreign currency unit [1]	Three months ended 30 June: 2019	2018	Change %
US dollar (USD)			
Average for the period	64.56	61.80	4.5%
At the beginning of the period	64.73	57.26	13.0%
At the end of the period	63.08	62.76	0.5%
Depreciation (appreciation) of Russian rouble to US dollar	(2.5%)	9.6%	n/a
Euro			
Average for the period	72.52	73.75	(1.7%)
At the beginning of the period	72.72	70.56	3.1%
At the end of the period	71.82	72.99	(1.6%)
Depreciation (appreciation) of Russian rouble to Euro	(1.2%)	3.4%	n/a

(1) Based on the data from the Central Bank of Russian Federation (CBR). The average rates for the period are calculated as the average of the daily exchange rates on each business day (rate is announced by the CBR) and on each non-business day (rate is equal to the exchange rate on the previous business day).

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Average for the period	Three months ended 30 June: 2019	2018	Change %
Benchmark natural gas prices [2]			
NBP, USD per mmbtu	4.1	7.3	(43.8%)
Benchmark crude oil prices [3]			
Brent, USD per barrel	68.9	74.4	(7.4%)
Urals, USD per barrel	67.9	72.5	(6.3%)
Urals, Russian roubles per barrel	4,384	4,481	(2.2%)
Benchmark crude oil prices excluding export duties [4]			
Urals, USD per barrel	53.6	56.0	(4.3%)
Urals, Russian roubles per barrel	3,460	3,461	(0.0%)
Benchmark oil products [5] **and liquefied petroleum gas** [6] **prices, USD per ton**			
Naphtha Japan	542	640	(15.3%)
Naphtha CIF NWE	527	636	(17.1%)
Jet fuel	646	709	(8.9%)
Gasoil	603	647	(6.8%)
Fuel oil	414	417	(0.7%)
Liquefied petroleum gas	404	456	(11.4%)
Export duties, USD per ton [7]			
Crude oil, stable gas condensate	104.1	120.6	(13.7%)
Naphtha	57.2	66.2	(13.6%)
Jet fuel, gasoil	31.2	36.1	(13.6%)
Fuel oil	104.1	120.6	(13.7%)
Liquefied petroleum gas	0.0	0.0	n/a

(2) Based on natural gas prices at the National Balancing Point (NBP), the natural gas hub in the United Kingdom.

(3) Based on Brent (dtd) and Russian Urals CIF Rotterdam spot assessments prices.

(4) Export duties per barrel were calculated based on export duties per ton divided by the coefficient 7.3.

(5) Based on Naphtha C+F (cost plus freight) Japan, Naphtha CIF NWE, Jet CIF NWE, Gasoil 0.1% CIF NWE, Fuel Oil 1.0% CIF NWE prices.

(6) Based on spot prices for propane-butane mix at the Belarusian-Polish border (DAF, Brest).

(7) Export duties are determined by the Russian Federation government in US dollars and are paid in Russian roubles (see "Our tax burden and obligatory payments" below).

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current economic conditions

Commodity price volatility continues to exert significant influence on financial and operational results in the global oil and gas industry. Our financial results are obviously impacted by these global developments as our export sales are linked to the specific underlying benchmark commodity prices but we believe our business model, representing one of the lowest cost producers in the world, insulates us from severe financial and operational stress. In each reporting period, the Group achieved strong operating results and remained free cash flow positive.

Management continues to closely monitor the economic and political environment in Russia and abroad, including the domestic and international capital markets, to determine if any further corrective and/or preventive measures are required to sustain and grow our business. We also closely monitor the present commodity price environment and its impact on our business operations. We do not expect any asset impairments or write-offs resulting from a lower commodity price environment.

We conduct regular reviews of our capital expenditure program and existing debt obligations. In our opinion, the Group's financial position is stable and expected operating cash flows are sufficient to service and repay our debt, as well as to execute our planned capital expenditure programs.

Political events in Ukraine in the beginning of 2014 have prompted a negative reaction by the world community, including economic sanctions levied by the United States of America, Canada and the European Union against certain Russian individuals and legal entities. In July 2014, NOVATEK was included on the OFAC's Sectoral Sanctions Identification List (the "List"), which imposed sanctions that prohibit individuals or legal entities registered or working on the territory of the United States from providing new credit facilities to the Group for longer than 60 days (prior to 28 November 2017, the aforementioned restrictions related to new credit facilities with maturity of more than 90 days).

Despite the inclusion on the List, the Group may conduct any other activities, including financial transactions, with U.S. investors and partners. NOVATEK was included on the List even though the Group does not conduct any business activities in Ukraine, nor does it have any impact on the political and economic processes taking place in this country. Management has assessed the impact of the sanctions described above on the Group's activities taking into consideration the current state of the world economy, the condition of domestic and international capital markets, the Group's business, and long-term projects with foreign partners. We have concluded that the inclusion on the List does not significantly impede the Group's operations and business activities in any jurisdiction, nor does it affect the Group's assets and debt, and does not have a material effect on the Group's financial position.

We together with our international partners are undertaking all necessary actions to implement our joint investment projects on time as planned, including, but not limited to, attracting financing from domestic and non-US capital markets.

Natural gas prices

We sell our natural gas to customers in the Russian domestic market, mainly through trunk pipelines and regional distribution networks, and deliver LNG purchased primarily from our joint ventures, OAO Yamal LNG and OOO Cryogas-Vysotsk, to international markets. In addition, we sell on the European market regasified liquefied natural gas arising during the transshipment of LNG (boil-off gas), as well as during the regasification of purchased LNG at our own regasification stations in Poland.

The Group's natural gas prices in Russia are strongly influenced by the prices set by the Federal Anti-Monopoly Service, a federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation (the "Regulator"), as well as present market conditions.

In 2018, wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by the Regulator by 3.4% effective 21 August 2018, and remained unchanged through the end of the second quarter of 2019. Effective 1 July 2019, the Regulator increased wholesale prices by 1.4%.

In October 2018, the Ministry of Economic Development of the Russian Federation published the "Forecast of Socio-economic Development of the Russian Federation for the period until 2024" stating that wholesale natural gas prices for sales to all customer categories (excluding residential customers) will be increased from July 2020 to 2024 by an average of 3.0% on an annual basis. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth rates on the domestic market.

The specific terms for delivery of natural gas affect our average realized prices. The majority of our natural gas volumes on the domestic market are sold directly to end-customers in the regions of natural gas consumption, so transportation tariff to the end-customer's location is included in the contract sales price. The remaining volumes of natural gas are sold "ex-field" to wholesale gas traders, in which case the buyer is responsible for the payment of further gas transportation tariff. Sales to wholesale gas traders allow us to diversify our natural gas sales without incurring additional commercial expenses.

We deliver natural gas to residential customers in the Chelyabinsk and Kostroma regions of the Russian Federation at regulated prices through our subsidiaries OOO NOVATEK-Chelyabinsk and OOO NOVATEK-Kostroma, respectively. We disclose such residential sales within our end-customers category.

In addition, we periodically sell natural gas at the Saint-Petersburg International Mercantile Exchange based on market conditions. We disclose such sales within our sales to end-customers category.

The Group's natural gas prices on international markets are influenced by many factors, such as the balance between supply and demand fundamentals, weather, the geography of sales, and the delivery terms to name a few. The Group sells LNG on international markets under short- and long-term contracts with prices based on the prices for natural gas at major natural gas hubs and on benchmark crude oil prices. We sell boil-off gas in Europe at prices linked to natural gas prices at major European natural gas hubs. The Group's prices for regasified LNG sold as natural gas on the Polish market are based on the prices regulated by the Energy Regulatory Office of Poland.

The following table shows our aggregate average realized natural gas sales prices on the domestic and international markets (excluding VAT, where applicable):

	Three months ended 30 June:		Change
	2019	**2018**	**%**
Average natural gas price, RR per mcm	5,329	4,409	20.9%
Average natural gas price, USD per mcm [1]	82.6	71.5	15.5%

[1] Operations initially priced in Russian roubles were translated into US dollars using the average exchange rate for the period.

In the three months ended 30 June 2019, our aggregate average price for natural gas sold in the Russian Federation and on the international markets increased by 20.9% mainly due to an increase in LNG sales volumes, as well as an increase in the regulated Russian domestic price by 3.4% effective 21 August 2018.

Stable gas condensate and refined products, crude oil and liquefied petroleum gas prices

Crude oil, stable gas condensate, LPG and oil products prices on international markets have historically been volatile depending on, among other things, the balance between supply and demand fundamentals, the ability and willingness of oil producing countries to sustain or change production levels to meet changes in global demand and potential disruptions in global crude oil supplies due to war, geopolitical developments, terrorist activities or natural disasters.

The actual prices we receive for our liquid hydrocarbons on both the domestic and international markets are dependent on many external factors beyond the control of management. Among many other factors volatile movements in benchmark crude oil and oil products prices can have a positive and/or negative impact on the contract prices we receive for our liquids sales volumes.

In addition, our actual realized net export prices for crude oil, stable gas condensate and its refined products are affected by the so-called "export duty lag effect". This lag effect is due to the differences between actual crude oil prices for a certain period and crude oil prices based on which export duty rate is calculated for the same period (see "Our tax burden and obligatory payments" below). In periods when crude oil prices are rising, the duty lag effect normally has a positive impact on the Group's financial results, as the export duty rates are set on the basis of lower crude oil prices compared to the actual prices. Conversely, in periods of declining crude oil prices, the export duty rate is calculated based on higher prices compared to the actual prices, resulting in a negative financial impact.

Most of our liquid hydrocarbons sales prices on both the international and domestic markets include transportation expenses in accordance with the specific terms of delivery. The remaining portion of our liquids volumes is sold without additional transportation expenses (ex-works sales of liquefied petroleum gas from the Purovsky Plant and the Tobolsk Refining Facilities, as well as certain other types of sales).

We commonly sell our stable gas condensate and refined products, as well as liquefied petroleum gas to the international markets with a premium to the respective international benchmark reference products prices. We export SILCO (low-sulfur "Siberian Light Crude Oil") and ESPO ("East Siberia – Pacific Ocean") grades of crude oil to international markets with a premium or a discount to the benchmark Brent and Dubai crude oil depending on current market situation.

The following table shows our average realized net stable gas condensate and refined products, crude oil and LPG sales prices. Average realized net prices are shown net of VAT and export duties, as well as excise and fuel taxes incurred on LPG sales in Poland:

Russian roubles or US dollars per ton [1]	Three months ended 30 June: 2019	2018	Change %
Naphtha			
Average net price, RR per ton	32,844	37,595	(12.6%)
Average net price, USD per ton	508	609	(16.6%)
Other stable gas condensate refined products			
Average net price, RR per ton	35,937	37,178	(3.3%)
Average net price, USD per ton	556	601	(7.5%)
Crude oil			
Average net price, RR per ton	24,911	24,767	0.6%
Average net price, USD per ton	386	400	(3.5%)
LPG			
Average net price, RR per ton	18,657	20,239	(7.8%)
Average net price, USD per ton	289	327	(11.6%)
Stable gas condensate			
Average net price, RR per ton	26,244	23,412	12.1%
Average net price, USD per ton	406	379	7.1%

[1] Operations initially priced in Russian roubles were translated into US dollars using the average exchange rate for the period.

In the three months ended 30 June 2019, the underlying benchmark prices for all our liquids decreased compared to the corresponding period in prior year (see "Selected macro-economic data" above), resulting in a decrease in our weighted-average realized net prices in US dollar terms for naphtha and other stable gas condensate refined products, crude oil and LPG. At the same time, our weighted-average realized net prices in Russian rouble terms decreased to a lesser extent, and even increased marginally for crude oil, due to the Russian rouble depreciation relative to the US dollar by 4.5%.

We sell our stable gas condensate on the domestic market at prices linked to benchmark crude oil prices with a time lag, which together with an increase in the share of SGC export sales has led to an increase of our weighted average SGC sales prices in the current reporting period.

The dynamics of our weighted-average realized net prices for each product category also reflects changes in volumes sold within periods and changes in the geography of shipments which may significantly impact our average prices in periods of high benchmark prices volatility on international markets. In addition, specifics of pricing mechanism for each particular product (such as time lag of international benchmark crude oil prices and export duty rates used in price calculation, price setting on an individual transaction basis for some deliveries and other factors) also have an impact on the dynamics of our weighted-average realized net prices.

Transportation tariffs

Natural gas by pipelines

We transport our natural gas within the Russian Federation territory through our own pipelines into the Unified Gas Supply System ("UGSS"), which is owned and operated by PAO Gazprom, a Russian Federation Government controlled monopoly. Transportation tariffs charged to independent producers for the use of the Gas Transmission System ("GTS"), as part of the UGSS, are set by the Regulator (see "Terms and abbreviations" below).

In accordance with the existing methodology of calculating transportation tariffs for natural gas produced in the Russian Federation for shipments to consumers located within the customs territory of the Russian Federation and the member states of the Customs Union Agreement (Belarus, Kazakhstan, Kyrgyzstan and Tajikistan), the transportation tariff consists of two parts: a rate for the utilization of the trunk pipeline and a transportation rate per mcm per 100 kilometers (km). The rate for utilization of the trunk pipeline is based on an "input/output" function, which is determined by where natural gas enters and exits the trunk pipeline and includes a constant rate for end-customers using Gazprom's gas distribution systems. The constant rate is deducted from the utilization rate for end-customers using non-Gazprom gas distribution systems.

In 2018 and during the first half of 2019, the average tariff for natural gas transportation through the trunk pipeline did not change. The transportation rate amounted to RR 13.04 per mcm per 100 km (excluding VAT), and the rate for utilization of the trunk pipeline was set in the range from RR 62.57 to RR 2,014.16 per mcm (excluding VAT).

According to the Forecast of the Ministry of Economic Development of the Russian Federation published in October 2018, the increase in tariffs for natural gas transportation through the trunk pipeline beginning in 2019 through 2024 will not exceed the growth rate for wholesale natural gas prices (see "Natural gas prices" above). There was no indexation of transportation tariffs effective 1 July 2019, and as of our report date no information regarding the effective date and the size of the next adjustment of transportation tariffs was available. The Russian Federation Government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth on the domestic market.

Stable gas condensate and LPG by rail

Substantially all of our stable gas condensate and LPG (excluding volumes sold ex-works from the Purovsky Plant and the Tobolsk Refining Facilities) we transport by rail owned by Russia's state-owned monopoly railway operator – OAO Russian Railways ("RZD").

The railroad transportation tariffs are set by the Regulator and vary depending on the type of a product, direction and the length of the transport route. In addition, the Regulator sets the range of railroad tariffs as a percentage of the regulated tariff within which RZD may vary railroad transportation tariffs within the Russian Federation territory based on the type of product, direction and length of the transportation route taking into account current railroad transportation and market conditions.

Effective January 2019, railroad freight transportation tariffs for all types of hydrocarbons were increased by 3.56% relative to the 2018 tariffs.

In 2018 and during the first half of 2019, we applied the discount coefficient of 0.94 to the existing railroad transportation tariffs for stable gas condensate deliveries from the Limbey rail station to the port of Ust-Luga and to end-customers on the domestic and international markets. The discount coefficient is set by the decision of the Management Board of RZD as part of the Strategic Partnership Agreement between the Group and RZD.

Stable gas condensate, refined products and liquefied natural gas by tankers

We deliver part of our stable gas condensate and substantially all stable gas condensate refined products, as well as liquefied natural gas (excluding volumes purchased and sold to customers in the same location) to international markets by chartered tankers. In addition to time chartering expenses, we also may incur transshipment, bunkering, port charges and other expenses depending on the delivery terms, which are included in the transportation by tankers expense category. Our tanker transportation expenses are also influenced by the distance to the final port of destination, tanker availability, seasonality of deliveries and other factors.

Crude oil

We transport nearly all of our crude oil through the pipeline network owned by PAO Transneft, Russia's state-owned monopoly crude oil pipeline operator. The Regulator sets tariffs for transportation of crude oil through Transneft's pipeline network, which includes transport, dispatch, pumping, loading, charge-discharge, transshipment and other related services. The Regulator sets tariffs for each separate route of the pipeline network, so the overall expense for the transport of crude oil depends on the length of the transport route from the producing fields to the ultimate destination, transportation direction and other factors.

Effective 1 January 2019, crude oil transportation tariffs through the pipeline network within the Russian Federation territory were increased by an average of 3.87% relative to the 2018 tariffs.

Our tax burden and obligatory payments

We are subject to a wide range of taxes imposed at the federal, regional, and local levels, many of which are based on revenue or volumetric measures. In addition to income tax, significant taxes and obligatory payments to which we are subject include VAT, unified natural resources production tax ("UPT", commonly referred as "MET" – mineral extraction tax), export duties, excise, property tax and social contributions to non-budget funds.

In practice, Russian tax authorities often have their own interpretation of tax laws that rarely favors taxpayers, who have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations and other documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to an inspection of their activities for a period of three calendar years immediately preceding the year in which the audit is conducted. Previous audits do not completely exclude subsequent claims relating to the audited period. In addition, in some instances, new tax regulations may have a retroactive effect.

We have not employed any tax minimization schemes using offshore or domestic tax zones in the Russian Federation.

Detailed information regarding UPT, export duties, excise and social contributions to non-budget funds described below is based on the current versions of the Tax Code of the Russian Federation and the law "On Customs Tariff" including the amendments that were introduced to these laws in the second half of 2018. In particular, the amendments changed the UPT and the export duties rates formulas, introduced new types of excisable goods and specific procedures for excise tax deductions applicable for processors of raw oil.

The changes in legislation mentioned above were introduced as part of the completion stage of the tax maneuver in the oil and gas industry in the Russian Federation and envisage a gradual decrease in export duties for crude oil and oil products with a respective increase in unified production taxes for crude oil and gas condensate during the periods 2019 to 2024. The UPT rates will be increased by the same amount of a decrease in export duty rate for crude oil, which will result in economic losses to raw oil processors as the export duty rates for oil products are calculated with a discount to crude oil export duty rate. Starting from January 2019, the excise tax for raw oil and the double deductions for this tax were introduced to compensate for these losses.

Starting from January 2019 and during the next six years, the above mentioned legislation changes, with other factors being equal, will influence line items in our consolidated financial statements by increasing our liquids net prices and revenues due to a gradual decrease in export duties, increasing our UPT expenses, as well as our hydrocarbons purchases due to an increase in UPT expenses in our joint ventures. The increase in our UPT expenses and cost of hydrocarbons purchases will be offset by excise tax deductions for raw oil.

Export duties

Procedure for calculation and payment of export duties is set in the Law of the Russian Federation "On Customs Tariff". According to this law, we are subject to export duties on our exports of liquid hydrocarbons (stable gas condensate and refined products, LPG and crude oil).

Crude oil export duty rate formulas are set by the Russian Federation Government and are based on the average Urals crude oil price (Mediterranean and Rotterdam) for the so called "monitoring period" (the period from the 15th calendar day in the previous month to the 14th calendar day of the current month).

In 2018, the calculation of the export duty rate in US dollars when the average Urals crude oil price was more than USD 182.5 per ton (or USD 25 per barrel) was set as follows: USD 29.2 plus 30% of the difference between the average Urals crude oil price and USD 182.5 per ton.

Starting from January 2019, as part of the completion stage of the tax maneuver in the oil and gas industry, the above export duty rate is multiplied by a coefficient, which will be gradually decreased on an annual basis from 0.833 in 2019 to zero in 2024. Thus, the export duty rate for crude oil will be decreased to zero by 2024.

We pay export duties for our stable gas condensate export sales volumes at the export duty rate for crude oil.

The export duty rates for oil products are calculated based on the export duty rate for crude oil adjusted by a coefficient (discount) set for each category of oil products. The export duty rates for our exported stable gas condensate refined products as a percentage of the crude oil export duty rate are presented below:

	% from the crude oil export duty rate
Naphtha	55%
Jet fuel	30%
Gasoil	30%
Fuel oil	100%

The export duty rate for LPG for the next calendar month is calculated based on the average LPG price at the Polish border (DAF, Brest) for the current monitoring period and is calculated using the formula presented in the table below:

Average LPG price, USD per ton (P)	**Formula for export duty rate calculation**
less 490 (inclusive)	Zero rate
between 490 and 640 (inclusive)	0.5 × (P – 490)
between 640 and 740 (inclusive)	75 + 0.6 × (P – 640)
above 740	135 + 0.7 × (P – 740)

We disclose export duties as a deduction to our revenues in the consolidated statement of income.

UPT – natural gas

We pay UPT for natural gas on a monthly basis. The UPT rate for natural gas is set in Russian roubles per one mcm of extracted natural gas.

The UPT rate for natural gas is calculated as a product of the base UPT rate (RR 35 per mcm), the base value of a standard fuel equivalent and a coefficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field. The result is then increased by a parameter characterizing natural gas transportation costs (was set at zero in both reporting periods).

The base value of a standard fuel equivalent is calculated by a taxpayer based on natural gas prices, Urals crude oil prices and crude oil export duty rate.

UPT – crude oil

We pay UPT for crude oil on a monthly basis. The UPT rate for crude oil is set in Russian roubles per ton of extracted crude oil.

The UPT rate is calculated as a product of a coefficient characterizing the dynamics of world crude oil prices and the base UPT rate (RR 919 per ton) adjusted for parameters characterizing crude oil production peculiarities (the reserves' depletion, complexity of extraction, the region, crude oil properties). The result is then increased by a fixed amount of RR 357 per ton in 2018, RR 428 per ton in 2019 to 2021 and RR zero per ton from 2022.

Starting from January 2019, and during the next six years, the UPT rate for crude oil will be gradually increased on an annual basis by the amount of a decrease in the crude oil export duty rate, and will be finally increased by the full amount of export duty rate by 2024.

In both reporting periods, we applied a reduced UPT rate for crude oil produced at our Yurkharovskoye, East-Tarkosalinskoye, Khancheyskoye and Yarudeyskoye fields since these fields are located fully or partially to the north of the 65th degree of the northern latitude fully or partially in the YNAO. Therefore, the adjusted base UPT rate for crude oil produced at these fields for the Group amounted to RR 360 per ton.

Starting from January 2019, where the average export alternative prices for petrol and diesel fuel exceed the regulated wholesale prices for these products on the Russian domestic market, the UPT rate for crude oil is also increased by the so called "petrol and diesel fuel premiums" (set at RR 125 and RR 110 per ton in 2019, respectively). The petrol and diesel fuel premiums are payable by all crude oil producers regardless of whether the extracted crude oil volumes will be further sold or refined.

UPT – gas condensate

We pay UPT for gas condensate on a monthly basis. The UPT rate for gas condensate is set in Russian roubles per ton of extracted gas condensate.

The UPT rate for gas condensate is calculated as a product of the base UPT rate (RR 42 per ton), the base value of a standard fuel equivalent, a coefficient characterizing the difficulty of extracting natural gas and gas condensate from each particular field and an adjusting coefficient of 6.5. The base value of a standard fuel equivalent is calculated by a taxpayer based on natural gas prices, Urals crude oil prices and crude oil export duty rate.

The Group reduces its overall UPT expense accrued for gas condensate production volumes by applying a UPT tax deduction on gas condensate volumes produced for processing into NGL. The amount of the tax deduction is calculated monthly by multiplying a coefficient of NGL recovery from gas condensate processing, the quantity of gas condensate produced and processed, and the tax deduction rate in Russian roubles per ton of NGL derived. The tax deduction rate was set at RR 147 per ton for January 2018 and since then is increasing monthly by the same amount until the end of 2020. Starting from January 2021, the tax deduction rate will be fixed at RR 5,280 per ton of produced NGL.

During the six years starting from January 2019, the UPT rate for gas condensate will be increased on an annual basis by 75% of a decrease in the crude oil export duty rate. The share of 75% is deemed to represent volumes of produced gas condensate excluding the share of NGL received from gas condensate processing.

Excise and fuel taxes

Starting from January 2019, a new excisable type of product was introduced – "raw oil", which represents a mixture of hydrocarbons composed of one or more components of crude oil, stable gas condensate, vacuum gasoil, tar, and fuel oil. The tax base for raw oil excise tax is the volume of raw oil sent by the owner for processing.

The amount of excise tax accrued on raw oil volumes may be claimed for deduction at a double rate. This deduction is introduced to compensate economic losses of oil and gas refining companies arising as a result of the tax maneuver and the transfer of tax burden from export duties to the UPT in the amount of full export duty rate for crude oil while export duties for oil products are paid at a discount to crude oil export duty rate.

The excise tax rate for raw oil is calculated based on the average Urals crude oil prices, the mix of processed products, region of processing, and the adjusting coefficient, which will be gradually increased on an annual basis from 0.167 in 2019 to 1.0 in 2024 as part of the completion stage of the tax maneuver in the oil and gas industry.

Starting from January 2019, we accrue excise tax on volumes of stable gas condensate sent for processing to our Ust-Luga Complex on a monthly basis and simultaneously claim the double excise tax deduction. The net result, or so called "reverse excise", is reported as a deduction to our "Purchases of natural gas and liquid hydrocarbons" in our consolidated statement of income as most of our unstable gas condensate volumes used to produce stable gas condensate we purchase from our joint ventures.

In both reporting periods, most of our LPG sales in Poland were subject to excise and fuel taxes in accordance with the local legislation. The amount of excise and fuel tax payments depends on the volume of excisable goods sold and the respective tax rates (the excise tax rate in both reporting periods amounted to 670 Polish zloty per ton, and the fuel tax rate was increased from 162.27 Polish zloty per ton in 2018 to 164.61 Polish zloty per ton in 2019). We disclose LPG revenues net of excise and fuel taxes expense accrued on LPG volumes sold in Poland in our consolidated statement of income.

Social contributions

The Group makes contributions to the Pension Fund, the Federal Compulsory Medical Insurance Fund and the Social Insurance Fund on behalf of employees in Russia. The base for social contributions accrual is the amount of salaries and similar employee compensation stipulated by the employment contracts.

The rates for social contributions depending on the fund and the employee's annual income:

	2019		**2018**	
	Base, RR thousand	**Rate, %**	**Base, RR thousand**	**Rate, %**
	less 1,150	22.0%	less 1,021	22.0%
Pension Fund of the Russian Federation	above 1,150	10.0%	above 1,021	10.0%
Federal Compulsory Medical Insurance Fund	No limit	5.1%	No limit	5.1%
	less 865	2.9%	less 815	2.9%
Social Insurance Fund of the Russian Federation	above 865	0.0%	above 815	0.0%

OPERATIONAL HIGHLIGHTS

Hydrocarbon production and sales volumes

Our total natural gas and liquids production including the proportionate share in the production of our joint ventures increased by 15.2% and by 3.7%, respectively. The main factor positively impacting our production growth was the commencement of LNG production at the second and third LNG trains at Yamal LNG in the second half of 2018. In addition, our liquids production growth was influenced by the commencement of crude oil commercial production at the Yaro-Yakhinskoye field of our joint venture Arcticgas in December 2018.

In the three months ended 30 June 2019, our total natural gas sales volumes increased by 3,615 mmcm, or 23.9%, due to increased sales of LNG on international markets purchased primarily from our joint ventures OAO Yamal LNG and OOO Cryogas-Vysotsk.

In the three months ended 30 June 2019, our liquids sales volumes decreased by 143 thousand tons, or 3.3%, mainly due to changes in inventory balances that vary period-to-period depending on shipping schedules and final destinations of our liquid hydrocarbons shipments.

Natural gas production volumes

The following table presents natural gas production of the Group's subsidiaries by major production fields and our proportionate share in natural gas production of joint ventures by entities:

millions of cubic meters if not stated otherwise	**Three months ended 30 June: 2019**	**2018**	**Change %**
Production by subsidiaries from:			
Yurkharovskoye field	6,446	6,975	(7.6%)
East-Tarkosalinskoye field	1,492	1,677	(11.0%)
Beregovoye field	485	336	44.3%
Yarudeyskoye field	451	356	26.7%
Khancheyskoye field	409	501	(18.4%)
East-Urengoyskoye + North-Esetinskoye field (West-Yaroyakhinskiy license area)	167	178	(6.2%)
Other fields	485	539	(10.0%)
Total natural gas production by subsidiaries (1)	**9,935**	**10,562**	**(5.9%)**
Group's proportionate share in the production of joint ventures:			
Yamal LNG (2)	4,303	1,219	253.0%
Arcticgas	3,467	3,424	1.3%
Nortgas	888	898	(1.1%)
Terneftegas	316	315	0.3%
Arctic LNG 2	1	-	n/a
Total Group's proportionate share in the natural gas production of joint ventures (1)	**8,975**	**5,856**	**53.3%**
Total natural gas production including proportionate share in the production of joint ventures	**18,910**	**16,418**	**15.2%**
The Group's proportionate share in LNG production of joint ventures (thousands of tons) (2)	*2,912*	*773*	*276.7%*

(1) Natural gas production includes natural gas volumes consumed in oil and gas production and development activities (primarily, as fuel gas):

in subsidiaries	405	342	18.4%
in joint ventures (Group's proportionate share)	85	81	4.9%

(2) Natural gas and LNG production at Yamal LNG are reported at 60% (see "Basis of presentation" above).

In the three months ended 30 June 2019, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 2,492 mmcm, or 15.2%, to 18,910 mmcm from 16,418 mmcm in the corresponding period in 2018. The main factor positively impacting our production growth was the increase of natural gas production at Yamal LNG resulting from the start of LNG production at the second and third LNG trains of the LNG liquefaction plant in the second half of 2018. In addition, our production increased at the Beregovoye field due to the commissioning of new wells and at the Yarudeyskoye field as a result of natural gas treatment efficiency measures. These allowed us to fully compensate for the decrease in production at mature fields of our subsidiaries (the Yurkharovskoye, the East-Tarkosalinskoye and the Khancheyskoye fields) and at our joint venture Nortgas, which resulted mainly from natural declines in the reservoir pressure at the current gas producing horizons.

Natural gas sales volumes

In the three months ended 30 June 2019, our total natural gas sales volumes increased by 3,615 mmcm, or 23.9%, to 18,764 mmcm from 15,149 mmcm in the corresponding period in 2018.

	Three months ended 30 June:		**Change**
millions of cubic meters	**2019**	**2018**	**%**
Production by subsidiaries	9,935	10,562	(5.9%)
Purchases from the Group's joint ventures	7,909	4,420	78.9%
Other purchases	1,971	1,708	15.4%
Total production and purchases	**19,815**	**16,690**	**18.7%**
Own usage [(1)]	(437)	(368)	18.8%
Decrease (increase) in natural gas inventory balance	(614)	(1,173)	(47.7%)
Total natural gas sales volumes	**18,764**	**15,149**	**23.9%**
Sold to end-customers	*14,514*	*13,569*	*7.0%*
Sold ex-field	*600*	*927*	*(35.3%)*
Subtotal sold in the Russian Federation	***15,114***	***14,496***	***4.3%***
Sold on international markets	***3,650***	***653***	***n/a***

[(1)] Own usage represents volumes of natural gas consumed in oil and gas producing and development activities (primarily, as fuel gas), as well as used to maintain the refining process at the Purovsky Plant and methanol production.

In the three months ended 30 June 2019, natural gas purchases from our joint ventures increased by 3,489 mmcm, or 78.9%, to 7,909 mmcm from 4,420 mmcm in the corresponding period in 2018 primarily due to an increase in purchases of LNG produced by Yamal LNG for subsequent sale on international markets.

Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as to optimize our end-customers portfolios. In the three months ended 30 June 2019, we purchased from third parties 1,863 mmcm of natural gas on the Russian domestic market, and 108 mmcm of natural gas on international markets. In the corresponding period in 2018, we purchased almost all natural gas volumes from third parties on the Russian domestic market.

As of 30 June 2019, our cumulative natural gas inventory balance, mainly representing our inventory balances of natural gas in the UGSF, aggregated 1,427 mmcm and increased by 614 mmcm during the quarter as compared to an increase by 1,173 mmcm in the corresponding period in 2018. Natural gas inventory balances tend to fluctuate period-to-period depending on the Group's demand for natural gas withdrawal from the UGSF for the sale in the subsequent periods.

Liquids production volumes

The following table presents liquids production of the Group's subsidiaries by major production fields and our proportionate share in the liquids production of joint ventures by entities:

thousands of tons	**Three months ended 30 June: 2019**	**2018**	**Change %**
Production by subsidiaries from:			
Yarudeyskoye field	817	874	(6.5%)
East-Tarkosalinskoye field	362	329	10.0%
Yurkharovskoye field	303	314	(3.5%)
Khancheyskoye field	46	57	(19.3%)
Other fields	79	76	3.9%
Total liquids production by subsidiaries	**1,607**	**1,650**	**(2.6%)**
including crude oil	*1,167*	*1,182*	*(1.3%)*
including gas condensate	*440*	*468*	*(6.0%)*
Group's proportionate share in the production of joint ventures:			
Arcticgas	1,045	1,000	4.5%
Yamal LNG [(1)]	211	100	111.0%
Terneftegas	100	102	(2.0%)
Nortgas	72	76	(5.3%)
Total Group's proportionate share in the liquids production of joint ventures	**1,428**	**1,278**	**11.7%**
Total liquids production including proportionate share in the production of joint ventures	**3,035**	**2,928**	**3.7%**

[(1)] Production at South-Tambeyskoye field of Yamal LNG is reported at 60% (see "Basis of presentation" above).

In the three months ended 30 June 2019, our total liquids production (including our proportionate share in the production of joint ventures) increased by 107 thousand tons, or 3.7%, to 3,035 thousand tons from 2,928 thousand tons in the corresponding period in 2018. The increase was due to gas condensate production growth at Yamal LNG resulting from the launch of the second and third LNG trains of the LNG liquefaction plant in the second half of 2018 and the commencement of crude oil commercial production at the Yaro-Yakhinskoye field of Arcticgas in December 2018. This allowed us to fully compensate for a decrease in gas condensate production at mature fields of our subsidiaries and joint ventures mainly due to natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons.

Liquids sales volumes

In the three months ended 30 June 2019, our total liquids sales volumes decreased by 143 thousand tons, or 3.3%, to 4,130 thousand tons from 4,273 thousand tons in the corresponding period in 2018.

thousands of tons	Three months ended 30 June: 2019	2018	Change %
Production by subsidiaries	1,607	1,650	(2.6%)
Purchases from the Group's joint ventures	2,366	2,322	1.9%
Other purchases	51	56	(8.9%)
Total production and purchases	**4,024**	**4,028**	**(0.1%)**
Losses [(1)] and own usage [(2)]	(49)	(51)	(3.9%)
Decreases (increases) in liquids inventory balances	155	296	(47.6%)
Total liquids sales volumes	**4,130**	**4,273**	**(3.3%)**
Naphtha export	*1,221*	*1,317*	*(7.3%)*
Other stable gas condensate refined products export [(3)]	*588*	*681*	*(13.7%)*
Other stable gas condensate refined products domestic [(3)]	*32*	*30*	*6.7%*
Subtotal stable gas condensate refined products	***1,841***	***2,028***	***(9.2%)***
Crude oil export	*428*	*385*	*11.2%*
Crude oil domestic	*786*	*763*	*3.0%*
Subtotal crude oil	***1,214***	***1,148***	***5.7%***
LPG export	*148*	*153*	*(3.3%)*
LPG domestic	*526*	*505*	*4.2%*
Subtotal LPG	***674***	***658***	***2.4%***
Stable gas condensate export	*35*	*1*	*n/a*
Stable gas condensate domestic	*361*	*435*	*(17.0%)*
Subtotal stable gas condensate	***396***	***436***	***(9.2%)***
Other oil products	***5***	***3***	***66.7%***

(1) Losses associated with processing at the Purovsky Plant, the Ust-Luga Complex and the Tobolsk Refining Facilities, as well as during railroad, trunk pipeline and tanker transportation.

(2) Own usage associated primarily with the maintaining of refining process at the Ust-Luga Complex, as well as bunkering of chartered tankers.

(3) Other stable gas condensate refined products include jet fuel, gasoil and fuel oil received from the processing of stable gas condensate at the Ust-Luga Complex.

Our sales volumes of naphtha and other stable gas condensate refined products fluctuate from period-to-period depending on changes in inventory balances, with volumes of the products received from processing at the Ust-Luga Complex staying relatively flat. Our sales volumes of stable gas condensate represent the volumes remaining after we deliver most of our stable gas condensate for further processing to our Ust-Luga Complex, as well as volumes purchased by the Group for subsequent sale on international markets, including purchases from our joint venture Yamal LNG.

In the 2019 reporting period, our liquids inventory balances decreased by 155 thousand tons to 852 thousand tons as of 30 June 2019 as compared to a decrease in inventory balances by 296 thousand tons to 806 thousand tons in the corresponding period in 2018. Our liquids inventory balances may vary period-to-period depending on shipping schedules and final destinations (see "Changes in natural gas, liquid hydrocarbons and work-in-progress" below).

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 JUNE 2019 COMPARED TO THE CORRESPONDING PERIOD IN 2018

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 June 2019 and 2018. Each line item is also shown as a percentage of our total revenues.

	Three months ended 30 June:			
millions of Russian roubles	**2019**	**% of total revenues**	**2018**	**% of total revenues**
Total revenues [1]	**218,513**	***100.0%***	**195,822**	***100.0%***
including:				
natural gas sales	99,987	*45.8%*	66,798	*34.1%*
liquids' sales	115,802	*53.0%*	128,020	*65.4%*
Operating expenses	(157,507)	*(72.1%)*	(135,606)	*(69.3%)*
Other operating income (loss)	(247)	*(0.1%)*	(621)	*(0.3%)*
Profit from operations	**60,759**	***27.8%***	**59,595**	***30.4%***
Finance income (expense)	(277)	*(0.1%)*	7,380	*3.8%*
Share of profit (loss) of joint ventures, net of income tax	23,282	*10.6%*	(18,215)	*(9.3%)*
Profit before income tax	**83,764**	***38.3%***	**48,760**	***24.9%***
Total income tax expense	(9,866)	*(4.5%)*	(11,486)	*(5.9%)*
Profit	**73,898**	***33.8%***	**37,274**	***19.0%***
Less: profit (loss) attributable to non-controlling interest	(4,723)	*(2.1%)*	(5,233)	*(2.6%)*
Profit attributable to shareholders of PAO NOVATEK	**69,175**	***31.7%***	**32,041**	***16.4%***
Profit attributable to shareholders of PAO NOVATEK, excluding the effect of foreign exchange gains (losses)	**64,296**	***29.4%***	**54,289**	***27.7%***

[1] Net of VAT, export and import duties, excise and fuel taxes expense, where applicable.

Total revenues

The following table sets forth our sales (excluding VAT and export duties, as well as excise and fuel taxes incurred on LPG sales in Poland) for the three months ended 30 June 2019 and 2018:

	Three months ended 30 June:		Change	Change (1)		
millions of Russian roubles	**2019**	**2018**	**%**	**Total**	**Due to volume (2)**	**Due to price (3)**
Natural gas sales	99,987	66,798	49.7%	33,189	15,941	17,248
Stable gas condensate refined products sales	62,390	75,937	(17.8%)	(13,547)	(6,974)	(6,573)
Naphtha	*40,106*	*49,539*	*(19.0%)*	*(9,433)*	*(3,631)*	*(5,802)*
Other refined products	*22,284*	*26,398*	*(15.6%)*	*(4,114)*	*(3,343)*	*(771)*
Crude oil sales	30,238	28,425	6.4%	1,813	1,638	175
Liquefied petroleum gas sales	12,573	13,310	(5.5%)	(737)	329	(1,066)
Stable gas condensate sales	10,402	10,208	1.9%	194	(930)	1,124
Other products sales	199	140	42.1%	59	n/a	n/a
Total oil and gas sales	**215,789**	**194,818**	**10.8%**	**20,971**	**n/a**	**n/a**
Other revenues	2,724	1,004	171.3%	1,720	n/a	n/a
Total revenues	**218,513**	**195,822**	**11.6%**	**22,691**	**n/a**	**n/a**

(1) The figures reflect the impact of sales volumes and average realized net prices factors on the change in total revenues from hydrocarbons sales in millions of Russian roubles for the respective periods.

(2) The amount of the change in total revenues due to sales volumes is calculated for each product category as a product of the average realized net price for the previous reporting period and the change in sales volumes.

(3) The amount of the change in total revenues due to average realized net prices is calculated for each product category as a product of the volume sold in the current reporting period and the change in average realized net prices.

Natural gas sales

Revenues from natural gas sales represent our revenues from natural gas sales in the Russian Federation (to end-customers and wholesale traders), revenues from LNG sales to international markets, as well as revenues from sales of regasified LNG to customers in Europe.

The increase in LNG sales volumes purchased primarily from our joint ventures, OAO Yamal LNG and OOO Cryogas-Vysotsk, as well as an increase in sales prices in the Russian domestic market resulted in an increase in our aggregate average price by 20.9% and sales volumes by 23.9% (see "Natural gas prices" and "Natural gas sales volumes" above). As a result, in the three months ended 30 June 2019, our total revenues from natural gas sales increased by RR 33,189 million, or 49.7%, compared to the corresponding period in 2018.

Stable gas condensate refined products sales

Stable gas condensate refined products sales represent revenues from sales of naphtha, jet fuel, gasoil and fuel oil produced from our stable gas condensate at the Ust-Luga Complex.

In the three months ended 30 June 2019, our revenues from sales of stable gas condensate refined products decreased by RR 13,547 million, or 17.8%, to RR 62,390 million from RR 75,937 million in the corresponding period in 2018 due to decreases in average realized prices and sales volumes.

In the three months ended 30 June 2019, our revenues from sales of naphtha decreased by RR 9,433 million, or 19.0%, as compared to the corresponding period in 2018. In the three months ended 30 June 2019 and 2018, we exported 1,221 thousand and 1,317 thousand tons of naphtha, respectively, mainly to the APR, and the European and North America markets. We sold naphtha at different delivery terms: CFR, CIF, DES, FOB and DAP. Our average realized net price, excluding export duties, where applicable, decreased by RR 4,751 per ton, or 12.6%, to RR 32,844 per ton from RR 37,595 per ton in the corresponding period in 2018 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

In the three months ended 30 June 2019, our total revenues from sales of jet fuel, gasoil and fuel oil on the domestic and export markets decreased by RR 4,114 million, or 15.6%, as compared to the corresponding period in 2018. In the three months ended 30 June 2019 and 2018, we exported in aggregate 588 thousand and 681 thousand tons of these products mainly to the European markets, or 94.8% and 95.8% of total sales volumes (on both the domestic and export markets), respectively. The export delivery terms in both reporting periods were FOB, CIF and DES, and also DAP in the second quarter of 2019. Our average realized net price, excluding export duties, where applicable, decreased by RR 1,241 per ton, or 3.3%, to RR 35,937 per ton from RR 37,178 per ton in the corresponding period in 2018 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Crude oil sales

In the three months ended 30 June 2019, our revenues from crude oil sales increased by RR 1,813 million, or 6.4%, compared to the corresponding period in 2018 primarily due to an increase in sales volumes (see "Liquids sales volumes" above).

In the three months ended 30 June 2019, we sold 786 thousand tons, or 64.7% of our total crude oil sales volumes, domestically as compared to sales of 763 thousand tons, or 66.5%, in the corresponding period in 2018. The remaining 428 thousand tons of crude oil, or 35.3% of our total crude oil sales volumes, in the current reporting period and 385 thousand tons, or 33.5%, in the corresponding period in 2018 were sold under FOB delivery terms with destination points in the APR, the European and North America (only in the second quarter of 2019) markets.

Our average realized net price, excluding export duties, where applicable, increased by RR 144 per ton, or 0.6%, to RR 24,911 per ton from RR 24,767 per ton in the corresponding period in 2018 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Liquefied petroleum gas sales

In the three months ended 30 June 2019, our revenues from sales of LPG decreased by RR 737 million, or 5.5%, compared to the corresponding period in 2018 due to a decrease in average realized prices.

In the three months ended 30 June 2019, we sold 526 thousand tons of LPG, or 78.0% of our total LPG sales volumes, on the domestic market compared to sales of 505 thousand tons, or 76.7%, in the corresponding period in 2018. The remaining 148 thousand tons of LPG, or 22.0% of our total LPG sales volumes, in the current reporting period and 153 thousand tons, or 23.3%, in the corresponding period in 2018 were sold to the Polish market under free carrier FCA delivery terms.

Our average realized LPG net price, excluding export and import duties, excise and fuel taxes expense, where applicable, in the three months ended 30 June 2019 decreased by RR 1,582 per ton, or 7.8%, to RR 18,657 per ton from RR 20,239 per ton in the corresponding period in 2018 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Stable gas condensate sales

In the three months ended 30 June 2019, our revenues from sales of stable gas condensate increased by RR 194 million, or 1.9%, compared to the corresponding period in 2018 due to an increase in average realized net prices.

In the three months ended 30 June 2019, we sold 361 thousand tons of stable gas condensate, or 91.2% of our total stable gas condensate sales volumes, on the domestic market compared to sales of 435 thousand tons, or 99.8%, in the corresponding period in 2018. The remaining 35 thousand tons of stable gas condensate, or 8.8% of our total stable gas condensate sales volumes, in the second quarter of 2019, and one thousand tons, or 0.2%, in the second quarter of 2018, were sold to the European markets under DAP and DAF delivery terms, respectively.

Our average realized net price, excluding export duties, where applicable, increased by RR 2,832 per ton, or 12.1%, to RR 26,244 per ton from RR 23,412 per ton in the corresponding period in 2018 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Other products sales

Other products sales represent our revenues from the domestic sales of purchased oil products (diesel fuel and petrol) through our retail stations, sales of other purchased liquid hydrocarbons, and sales of our produced methanol. In the three months ended 30 June 2019, our revenues from other products sales increased by RR 59 million, or 42.1%, to RR 199 million from RR 140 million in the corresponding period in 2018.

Other revenues

Other revenues include revenue from transportation, geological and geophysical research services, repair and maintenance of energy equipment services, and other services.

In the three months ended 30 June 2019, other revenues increased by RR 1,720 million, or 171.3%, to RR 2,724 million from RR 1,004 million in the corresponding period in 2018. The increase was primarily due to an increase in revenues from tanker transportation rendered to our joint ventures and third parties by RR 1,285 million, as well as from power generation, repair and maintenance of energy equipment services by RR 208 million.

Operating expenses

In the three months ended 30 June 2019, our total operating expenses increased by RR 21,901 million, or 16.2%, to RR 157,507 million compared to RR 135,606 million in the corresponding period in 2018 mainly due to an increase in volumes of LNG purchased from our joint venture OAO Yamal LNG with the launch of LNG production at the second and third LNG trains in the second half of 2018 (see "Purchases of natural gas and liquid hydrocarbons" below). The increase in hydrocarbons purchase volumes in turn allowed us to earn higher revenues.

	Three months ended 30 June:			
millions of Russian roubles	**2019**	**% of total revenues**	**2018**	**% of total revenues**
Purchases of natural gas and liquid hydrocarbons	81,814	*37.4%*	63,585	*32.5%*
Transportation expenses	36,918	*16.9%*	34,554	*17.6%*
Taxes other than income tax	16,254	*7.4%*	14,871	*7.6%*
Depreciation, depletion and amortization	8,007	*3.7%*	8,655	*4.4%*
Materials, services and other	6,137	*2.8%*	5,826	*3.0%*
General and administrative expenses	4,765	*2.2%*	5,079	*2.6%*
Exploration expenses	2,530	*1.2%*	2,004	*1.0%*
Impairment expenses (reversals), net	(10)	*n/a*	89	*n/a*
Changes in natural gas, liquid hydrocarbons and work-in-progress	1,092	*0.5%*	943	*0.5%*
Total operating expenses	**157,507**	***72.1%***	**135,606**	***69.3%***

Purchases of natural gas and liquid hydrocarbons

In the three months ended 30 June 2019, our purchases of natural gas and liquid hydrocarbons increased by RR 18,229 million, or 28.7%, to RR 81,814 million from RR 63,585 million in the corresponding period in 2018.

	Three months ended 30 June:		Change
millions of Russian roubles	**2019**	**2018**	**%**
Natural gas	41,254	19,884	107.5%
Unstable gas condensate	37,299	42,209	(11.6%)
Other hydrocarbons	4,476	1,492	200.0%
Reverse excise	(1,215)	-	n/a
Total purchases of natural gas and liquid hydrocarbons	**81,814**	**63,585**	**28.7%**

In the three months ended 30 June 2019, our purchases of natural gas significantly increased by RR 21,370 million, or 107.5%, as compared to the corresponding period in 2018 due primarily to an increase in LNG purchases from our joint ventures, OAO Yamal LNG and OOO Cryogas-Vysotsk, for subsequent sale on international markets, as well as an increase in purchase prices on the domestic market that are influenced by the regulated natural gas prices (see "Natural gas prices" above).

In the three months ended 30 June 2019, our purchases of unstable gas condensate from our joint ventures decreased by RR 4,910 million, or 11.6%, as compared to the corresponding period in 2018 mainly due to a decrease in purchase prices, which are primarily impacted by international crude oil prices excluding export duties (see "Selected macro-economic data" above).

Other hydrocarbons purchases represent our purchases of crude oil, LPG, stable gas condensate and oil products for subsequent resale depending on the demand for these types of products. In the three months ended 30 June 2019, our purchases of other hydrocarbons increased by RR 2,984 million, or 200.0%, as compared to the corresponding period in 2018 mainly due to purchases of crude oil produced at the Yaro-Yakhinskoye field of Arcticgas and stable gas condensate from Yamal LNG for subsequent sale.

Starting from January 2019, we accrue excise tax on volumes of stable gas condensate sent for processing to our Ust-Luga Complex on a monthly basis and simultaneously claim the double excise tax deduction (see "Our tax burden and obligatory payments" above). The net result from these operations is reported as a deduction to our purchases of natural gas and liquid hydrocarbons expenses in the line "Reverse excise" above as most of our unstable gas condensate volumes used to produce stable gas condensate we purchase from our joint ventures.

Transportation expenses

In the three months ended 30 June 2019, our total transportation expenses increased by RR 2,364 million, or 6.8%, to RR 36,918 million as compared to RR 34,554 million in the corresponding period in 2018.

millions of Russian roubles	**Three months ended 30 June: 2019**	**2018**	**Change %**
Natural gas transportation by trunk and low-pressure pipelines	22,876	21,688	5.5%
Stable gas condensate and liquefied petroleum gas transportation by rail	8,533	8,755	(2.5%)
Crude oil transportation by trunk pipelines	2,335	2,194	6.4%
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	1,974	1,680	17.5%
Other	1,200	237	n/a
Total transportation expenses	**36,918**	**34,554**	**6.8%**

In the three months ended 30 June 2019, our expenses for natural gas transportation by trunk and low-pressure pipelines increased by RR 1,188 million, or 5.5%, to RR 22,876 million from RR 21,688 million in the corresponding period in 2018 primarily due to a 7.0% increase in our natural gas sales volumes to our end-customers, for which we incurred transportation expenses.

In the three months ended 30 June 2019, our total expenses for stable gas condensate and LPG transportation by rail decreased by RR 222 million, or 2.5%, to RR 8,533 million from RR 8,755 million in the corresponding period in 2018 due to a 9.8% decrease in volumes of liquids sold and transported via rail. The impact of this factor was partially offset by an 8.1% increase in weighted average transportation cost per unit resulted from a 3.56% increase in the regulated railroad transportation tariffs effective 1 January 2019 (see "Transportation tariffs" above) and the depreciation of the Russian rouble average exchange rate relative to the US dollar since part of our transportation expenses by rail is US dollar denominated.

In the three months ended 30 June 2019, our expenses for crude oil transportation to customers by trunk pipeline increased by RR 141 million, or 6.4%, to RR 2,335 million from RR 2,194 million in the corresponding period in 2018 mainly due to a 5.7% increase in sales volumes, as well as an increase in the regulated transportation tariffs for crude oil by 3.87% effective 1 January 2019 (see "Transportation tariffs" above).

In the three months ended 30 June 2019, our total transportation expenses for our hydrocarbons delivered by tankers to international markets increased by RR 294 million, or 17.5%, to RR 1,974 million from RR 1,680 million in the corresponding period in 2018. The increase was primarily due to an increase in volumes of LNG transshipped, as well as a 4.5% depreciation of the Russian rouble average exchange rate relative to the US dollar since all our tankers transportation expenses are US dollar denominated.

Other transportation expenses include largely our short-term vessels time charter expenses related to our revenues from hydrocarbons transportation by tankers rendered to our joint ventures and third parties (see "Other revenues" above), as well as expenses for hydrocarbons transportation by trucks. In the three months ended 30 June 2019, our short-term vessels time charter expenses increased by RR 928 million to RR 1,115 million compared to RR 187 million in the corresponding period in 2018 in line with an increase in our revenues from tanker transportation.

Taxes other than income tax

In the three months ended 30 June 2019, taxes other than income tax increased by RR 1,383 million, or 9.3%, to RR 16,254 million from RR 14,871 million in the corresponding period in 2018 primarily due to an increase in unified natural resources production tax expense.

millions of Russian roubles	Three months ended 30 June: 2019	2018	Change %
Unified natural resources production tax (UPT)	15,157	13,734	10.4%
Property tax	952	978	(2.7%)
Other taxes	145	159	(8.8%)
Total taxes other than income tax	**16,254**	**14,871**	**9.3%**

In the three months ended 30 June 2019, our unified natural resources production tax expense increased by RR 1,423 million, or 10.4%, to RR 15,157 million from RR 13,734 million in the corresponding period in 2018 mainly due to an increase in UPT rates for crude oil and gas condensate. The increase was mainly the result of changes in the UPT rates formulas effective 1 January 2019 caused by the completion of the tax maneuver in the oil and gas industry (see "Our tax burden and obligatory payments" above).

Depreciation, depletion and amortization

In the three months ended 30 June 2019, our depreciation, depletion and amortization ("DDA") expense decreased by RR 648 million, or 7.5%, to RR 8,007 million from RR 8,655 million in the corresponding period in 2018 mainly due to an increase in total proved reserves in our subsidiaries as at the end of 2018 compared to the previous period. We accrue depreciation and depletion using the "units-of-production" method for our oil and gas assets and using a straight-line method for other facilities.

Materials, services and other

In the three months ended 30 June 2019, our materials, services and other expenses increased by RR 311 million, or 5.3%, to RR 6,137 million compared to RR 5,826 million in the corresponding period in 2018.

millions of Russian roubles	Three months ended 30 June: 2019	2018	Change %
Employee compensation	2,917	2,364	23.4%
Repair and maintenance	668	818	(18.3%)
Complex of services for preparation, transportation and processing of hydrocarbons	531	518	2.5%
Materials and supplies	454	544	(16.5%)
Electricity and fuel	351	339	3.5%
Liquefied petroleum gas volumes reservation expenses	290	296	(2.0%)
Fire safety and security expenses	260	245	6.1%
Transportation services	214	206	3.9%
Rent expenses	119	109	9.2%
Insurance expense	61	77	(20.8%)
Other	272	310	(12.3%)
Total materials, services and other	**6,137**	**5,826**	**5.3%**

Employee compensation relating to operating personnel increased by RR 553 million, or 23.4%, to RR 2,917 million compared to RR 2,364 million in the corresponding period in 2018 due to an indexation of base salaries effective from 1 July 2018, an increase in average number of employees, particularly, in our service subsidiary NOVATEK-Energo due to the expansion of its operations and servicing new assets, an increase in accrued provision for bonuses and the related increase in social contributions for medical and social insurance and to the Pension Fund of the Russian Federation.

Repair and maintenance services expenses, as well as material and supplies, decreased in the second quarter of 2019 compared to the corresponding period in the prior year mainly due to a decrease in current repair and maintenance works performed on wells and production facilities at our core production subsidiaries and the related decrease in materials used for repair works. Repair expenses fluctuate period-to-period depending on the assets repair schedule at our production subsidiaries.

Other items of our materials, services and other expenses changed marginally.

General and administrative expenses

In the three months ended 30 June 2019, our general and administrative expenses decreased by RR 314 million, or 6.2%, to RR 4,765 million compared to RR 5,079 million in the corresponding period in 2018.

millions of Russian roubles	**Three months ended 30 June: 2019**	**2018**	**Change %**
Employee compensation	3,130	3,924	(20.2%)
Social expenses and compensatory payments	594	190	212.6%
Business travel expense	188	143	31.5%
Advertising expenses	164	140	17.1%
Fire safety and security expenses	127	116	9.5%
Legal, audit and consulting services	117	183	(36.1%)
Rent expense	76	53	43.4%
Repair and maintenance expenses	46	64	(28.1%)
Other	323	266	21.4%
Total general and administrative expenses	**4,765**	**5,079**	**(6.2%)**

Employee compensation relating to administrative personnel decreased by RR 794 million, or 20.2%, to RR 3,130 million in the three months ended 30 June 2019 from RR 3,924 million in the corresponding period in 2018 due primarily to a decrease in accrued provision for bonuses to key management and the related decrease in social contributions for medical and social insurance and to the Pension Fund of the Russian Federation.

In the three months ended 30 June 2019, our social expenses and compensatory payments amounted to RR 594 million compared to RR 190 million in the corresponding period in 2018 and in both reporting periods related mainly to continued support of charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-to-period depending on the implementation schedules of specific programs we support.

Other items of our general and administrative expenses changed marginally.

Exploration expenses

In the three months ended 30 June 2019, our exploration expenses increased by RR 526 million, or 26.2%, to RR 2,530 million from RR 2,004 million in the corresponding period in 2018 mainly due to an increase in the volume of activities related to exploration works. In the current reporting period, a major portion of our exploration works were performed at the Gydanskiy, the Nyakhartinskiy, the Verhnetiuteyskiy and the West-Seyakhinskiy, as well as the Nyavuyakhskiy license areas. In the corresponding period in 2018, our exploration expenses primarily related to the Gydanskiy, the Verhnetiuteyskiy and the West-Seyakhinskiy, the North-Tanamskiy, the West-Solpatinskiy and the North-Russkiy license areas.

The increase in exploration works will ensure timely preparation of reserves at our promising fields for development and further progress of the Group's hydrocarbons production projects in line with our long-term strategy. Exploration expenses include geological and geophysical research services expenditures, expenditures associated with the maintenance of license areas with non-proven reserves and other expenditures relating to exploration activity, as well as expenses of our science and technology center associated with the exploration activities at our fields. Exploration expenses fluctuate period-to-period in accordance with the approved exploration work schedule at our production subsidiaries.

Changes in natural gas, liquid hydrocarbons and work-in-progress

In the three months ended 30 June 2019 and 2018, we recorded charges of RR 1,092 million and RR 943 million, respectively, to changes in inventory expense due to a decrease in most of our liquid hydrocarbons inventory balances in both reporting periods.

In 2019 and 2018 reporting periods, our cumulative natural gas inventory balance representing mainly our inventory balances of natural gas in the Underground Gas Storage Facilities ("UGSF") increased by 614 mmcm and 1,173 mmcm, respectively, due to seasonal injection of natural gas for the subsequent sale in the period of higher seasonal demand in both reporting periods. Natural gas inventory balances tend to fluctuate period-to-period depending on the Group's demand for natural gas withdrawal for the sale in the subsequent periods.

In the three months ended 30 June 2019 and 2018, our cumulative liquid hydrocarbons inventory balances, recognized as inventory in transit or in storage, decreased by 155 thousand tons and 296 thousand tons, respectively, mainly due to a decrease in inventory balances of stable gas condensate refined products in tankers in transit not realized at the reporting date. Inventory balances of stable gas condensate and refined products tend to fluctuate period-to-period depending on shipment schedules and final destination of our shipments.

The following table highlights movements in our hydrocarbons inventory balances:

	2019			**2018**		
Inventory balances in transit or in storage	**At 30 June**	**At 31 March**	**Increase / (decrease)**	**At 30 June**	**At 31 March**	**Increase / (decrease)**
Natural gas (millions of cubic meters)	**1,427**	**813**	**614**	**1,252**	**79**	**1,173**
incl. Gazprom's UGSF	*1,278*	*765*	*513*	*1,170*	-	*1,170*
Liquid hydrocarbons (thousand tons)	**852**	**1,007**	**(155)**	**806**	**1,102**	**(296)**
incl. stable gas condensate						
refined products	*322*	*504*	*(182)*	*334*	*631*	*(297)*
stable gas condensate	*307*	*268*	*39*	*259*	*261*	*(2)*
crude oil	*114*	*127*	*(13)*	*107*	*107*	-

Other operating income (loss)

Other operating income (loss) includes realized income (loss) from hydrocarbons trading on the international markets, income (loss) from the change in the fair value of the aforementioned contracts, as well as other income (loss) relating to penalty charges, disposal of materials, fixed assets and other transactions. In the three months ended 30 June 2019, we recognized other operating loss of RR 247 million compared to other operating loss of RR 621 million in the corresponding period in 2018.

In the three months ended 30 June 2019, we purchased and sold approximately 2.1 bcm of natural gas, as well as various derivative commodity instruments within our trading activities, and recognized the aggregate realized income from trading activities of RR 227 million as compared to RR 63 million of income in the corresponding period in 2018. At the same time, we recognized non-cash loss of RR 928 million in the three months ended 30 June 2019 as a result of a decrease in the fair value of the aforementioned contracts as compared to RR 619 million of non-cash loss in the corresponding period in 2018. The effect of the change in fair value of the commodity contracts fluctuate from period to period depending on the forecast prices for hydrocarbons on international markets and other macroeconomic parameters and may or may not reflect actual future cash flows from trading activities.

Profit from operations and EBITDA

In the three months ended 30 June 2019, our profit from operations and EBITDA including our proportionate share of joint ventures increased to RR 89,912 million and RR 115,835 million, respectively, compared to RR 85,106 million and RR 101,339 million in the corresponding period in 2018.

Profit from operations and EBITDA of our subsidiaries also increased to RR 60,759 million and RR 69,193 million, respectively, compared to RR 59,595 million and RR 68,958 million in the corresponding period in 2018.

The main factor increasing the above performance measures was the commencement of LNG production at the second and third LNG trains at Yamal LNG in the second half of 2018.

Finance income (expense)

In the three months ended 30 June 2019, we recorded net finance loss of RR 277 million compared to net finance income of RR 7,380 million in the corresponding period in 2018.

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2019**	**2018**	**%**
Accrued interest expense on loans received	(2,287)	(2,172)	5.3%
Less: capitalized interest	1,486	1,260	17.9%
Provisions for asset retirement obligations:			
effect of the present value discount unwinding	(176)	(157)	12.1%
Interest expense on lease liabilities	(135)	(141)	(4.3%)
Interest expense	**(1,112)**	**(1,210)**	**(8.1%)**
Interest income	4,646	3,395	36.8%
Change in fair value of non-commodity financial instruments	3,969	679	n/a
Foreign exchange gain (loss), net	(7,780)	4,516	n/a
Total finance income (expense)	**(277)**	**7,380**	**n/a**

In the three months ended 30 June 2019, our interest expense decreased by RR 98 million, or 8.1%, to RR 1,112 million primarily due to an increase in the amount of capitalised interest costs on borrowings as a result of the increased volume of capital expenditures and assets under construction.

Interest income increased by RR 1,251 million, or 36.8%, to RR 4,646 million in the three months ended 30 June 2019 from RR 3,395 million in the corresponding period in 2018. In both reporting periods, interest income primarily related to loans provided to our joint ventures for the development and expansion of their activities. According to IFRS 9 "*Financial instruments*", the Group accounts for the most of these loans as at fair value through profit or loss with a portion of changes in fair value relating to interest income (calculated based on the amortised cost of the loans using the effective interest method) presented separately from other factors of changes in fair value (such as changes in interest rates and expected maturities).

In the three months ended 30 June 2019, we recognized a non-cash gain of RR 3,969 million compared to a non-cash gain of RR 679 million in the corresponding period in 2018 due to the remeasurement of the shareholders' loans issued by the Group to our joint ventures in accordance with IFRS 9 *"Financial instruments"*. The effect of the fair value remeasurement of shareholders' loans may change period-to-period due to the change in market interest rates and other macroeconomic parameters and does not affect real future cash flows of loans repayments.

The Group continues to record non-cash foreign exchange gains and losses each reporting period due to movements between currency exchange rates. In the three months ended 30 June 2019, we recorded a net foreign exchange loss of RR 7,780 million compared to a net foreign exchange gain of RR 4,516 million in the corresponding period in 2018 due to the revaluation of our foreign currency denominated borrowings and loans received and provided, as well as cash balances in foreign currency.

Share of profit (loss) of joint ventures, net of income tax

In the three months ended 30 June 2019, the Group's proportionate share of profit of joint ventures amounted to RR 23,282 million as compared to the share of loss of joint ventures in the amount of RR 18,215 million in the corresponding period in 2018.

millions of Russian roubles	Three months ended 30 June: 2019	2018	Change %
Share in profit from operations	**29,153**	**25,511**	**14.3%**
Share in finance income (expense)			
Share in interest income (expense), net	(16,236)	(8,482)	91.4%
Share in foreign exchange gain (loss), net	13,351	(30,987)	n/a
Share in change in fair value of non-commodity financial instruments	1,208	(7,438)	n/a
Total share in finance income (expense)	**(1,677)**	**(46,907)**	**(96.4%)**
Share in total income tax benefit (expense)	(4,194)	3,181	n/a
Total share of profit (loss) of joint ventures, net of income tax	**23,282**	**(18,215)**	**n/a**

Our proportionate share in the profit from operations of our joint ventures increased by RR 3,642 million, or 14.3%, mainly due to the commencement of LNG production at the second and third LNG trains at Yamal LNG in the second half of 2018.

In the three months ended 30 June 2019, our proportionate share in the finance expense of our joint ventures amounted to RR 1,677 million representing a decrease of RR 45,230 million, or 96.4%, compared to the corresponding period in 2018.

The main factor impacting the change in our share in finance expense was the recognition of a non-cash foreign exchange gain in the current reporting period (our share amounted to RR 13.4 billion) as compared to a non-cash foreign exchange loss (our share of RR 31.0 billion) in the corresponding period of the prior year, which in both reporting periods primarily related to the revaluation of foreign currency denominated loans in our joint venture Yamal LNG. We assess that the impact of foreign currency risk relating to the debt portfolio of Yamal LNG is to a large extent mitigated by the fact that all of its products are delivered to international markets and its revenues are denominated in foreign currencies.

In addition, our share in interest expense increased by RR 7.8 billion mainly due to the launch of the second and third LNG trains at Yamal LNG in the second half of 2018 and ceasing capitalizing the respective interest expense.

The remaining change in our share in finance expense related to the recognition of a non-cash gain from the remeasurement of the fair value of shareholders' loans mainly in Yamal LNG (our share amounted to RR 1.2 billion) in the current reporting period as compared to the recognition of a non-cash loss (our share amounted to RR 7.4 billion) in the corresponding period in 2018.

Income tax expense

The Russian statutory income tax rate for both reporting periods was 20%.

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

Without the effect of net profit (loss) and dividends from joint ventures and excluding net gain on disposal of interests in subsidiaries and joint ventures, the effective income tax rate (total income tax expense calculated as a percentage of profit before income tax) in the three months ended 30 June 2019 and 2018, was 16.2% and 17.1%, respectively.

Profit attributable to shareholders and earnings per share

As a result of the factors discussed in the respective sections above, profit attributable to shareholders of PAO NOVATEK increased by RR 37,134 million, or 115.9%, to RR 69,175 million in the three months ended 30 June 2019 compared to RR 32,041 million in the corresponding period in 2018.

In each reporting period, as a result of currency exchange rates fluctuations, we record non-cash foreign exchange gains and/or losses primarily related to the revaluation of foreign currency denominated borrowings and loans provided in the Group and the joint ventures. Excluding the effect of foreign exchange gains and losses, our profit attributable to shareholders of PAO NOVATEK increased by RR 10,007 million, or 18.4%, and amounted to RR 64,296 million in the three months ended 30 June 2019 compared to RR 54,289 million in the corresponding period in 2018 (see the table below):

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2019**	**2018**	**%**
Profit attributable to shareholders of PAO NOVATEK	**69,175**	**32,041**	**115.9%**
Foreign exchange (gains) losses	7,780	(4,516)	n/a
Income tax expense (benefit) relating to foreign exchange (gains) losses	(1,556)	903	n/a
Share of foreign exchange (gains) losses of joint ventures	(13,351)	30,987	n/a
Share of income tax expense (benefit) relating to foreign exchange (gains) losses of joint ventures	2,248	(5,126)	n/a
Profit attributable to shareholders of PAO NOVATEK, excluding the effect of foreign exchange gains (losses)	**64,296**	**54,289**	**18.4%**

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of PAO NOVATEK increased by RR 12.34 per share, or 116.1%, to RR 22.97 per share in the three months ended 30 June 2019 from RR 10.63 per share in the corresponding period in 2018. Excluding the effects of foreign exchange gains and losses, our weighted average basic and diluted earnings per share increased by RR 3.34, or 18.5%, to RR 21.35 per share in the three months ended 30 June 2019 from RR 18.01 per share in the corresponding period in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

The following table shows our net cash flows from operating, investing and financing activities for the three months ended 30 June 2019 and 2018:

millions of Russian roubles	Three months ended 30 June: 2019	2018	Change %
Net cash provided by **operating** activities	111,312	61,885	79.9%
Net cash used for **investing** activities	(82,937)	(51,851)	60.0%
Net cash used for **financing** activities	(58,504)	(32,465)	80.2%

Net cash provided by operating activities

Our net cash provided by operating activities increased by RR 49,427 million, or 79.9%, to RR 111,312 million compared to RR 61,885 million in the corresponding period in 2018 primarily due to an increase in dividends and interest on loans issued received from our joint ventures.

millions of Russian roubles	Three months ended 30 June: 2019	2018	Change %
Profit from operations	60,759	59,595	2.0%
Non-cash adjustments [(1)]	8,104	9,785	(17.2%)
Changes in working capital and long-term advances given	(6,482)	(1,604)	304.1%
Dividends received from joint ventures	38,500	4,100	n/a
Interest received	15,384	307	n/a
Income taxes paid excluding actual payments relating to disposal of subsidiaries	(4,953)	(10,298)	(51.9%)
Total net cash provided by operating activities	**111,312**	**61,885**	**79.9%**

[(1)] Include adjustments for depreciation, depletion and amortization, net impairment expenses (reversals), change in fair value of non-commodity financial instruments and some other adjustments.

In the second quarter of 2019, we received RR 38,500 million of dividends from our joint venture Arcticgas. In the second quarter of 2018, we received RR 4,100 million of dividends from our joint venture Nortgas.

In the three months ended 30 June 2019, we received approximately RR 15 billion of interest on loans provided to our joint ventures Yamal LNG and Terneftegas.

Net cash used for investing activities

In the three months ended 30 June 2019, our net cash used for investing activities increased by RR 31,086 million, or 60.0%, to RR 82,937 million compared to RR 51,851 million in the corresponding period in 2018.

millions of Russian roubles	Three months ended 30 June: 2019	2018	Change %
Cash used for capital expenditures	(31,203)	(22,052)	41.5%
Payments for mineral licenses	(59)	(65)	(9.2%)
Actual income tax payments relating to disposal of subsidiaries	(16,700)	-	n/a
Loans provided to joint ventures	(16,295)	-	n/a
Repayments of loans provided to joint ventures	262	389	(32.6%)
Net decrease (increase) in bank deposits with original maturity more than three months	(18,022)	(29,671)	(39.3%)
Other	(920)	(452)	103.5%
Net cash used for investing activities	**(82,937)**	**(51,851)**	**60.0%**

Cash used for capital expenditures increased by RR 9,151 million, or 41.5%, as compared to the 2018 reporting period primarily due to investments in the ongoing development of the North-Russkoye field, the construction of infrastructure for the Group's future LNG projects (the LNG construction center located in the Murmansk region), the ongoing development of the East-Tarkosalinskoye and Yarudeyskoye field's crude oil deposits and other Group's projects (see "Capital expenditures" below).

In May 2019 and 2018, we paid a part of a one-time payment fee for the exploration and production license for our discovered Kharbeyskoye field in the amount of RR 59 million. In addition, in April 2018, we made a final payment in the amount of RR six million for the acquisition of a license to use the Payutskiy license area (an advance payment in the amount of RR 60 million was made in the first quarter of 2018).

In the second quarter of 2019, we paid income tax accrued for the sale of a 10% participation interest in Arctic LNG 2 project to TOTAL S.A. group in March 2019 in the amount of RR 16,700 million.

In the second quarter of 2019, we provided loans to our joint ventures Arctic LNG 2 and Yamal LNG in the amount of RR 12,816 million and RR 3,479 million, respectively. In addition, in the three months ended 30 June 2019 and 2018, we received RR 262 million and RR 389 million, respectively, due to partial repayments of the loans provided to Terneftegas.

The Group's cash management involves periodic cash placement on bank deposits with different maturities. Deposits are reported in "Cash and cash equivalents" if opened for three months or less, or otherwise in "Short-term bank deposits with original maturity more than three months". Transactions with bank deposits with original maturity more than three months are classified as investing activities in the Consolidated Statement of Cash Flows. In the second quarter of 2019 and 2018, the net increase in bank deposits with original maturity more than three months amounted to approximately RR 18 billion and RR 30 billion, respectively.

Net cash used for financing activities

In the three months ended 30 June 2019, our net cash used for financing activities increased by RR 26,039 million, or 80.2%, to RR 58,504 million as compared to RR 32,465 million in the corresponding period in 2018.

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2019**	**2018**	**%**
Dividends paid to shareholders of PAO NOVATEK	(50,618)	(24,109)	110.0%
Dividends paid to non-controlling interest	(5,880)	(3,136)	87.5%
Proceeds from (repayments of) short-term debt with original maturity three months or less, net	-	(1,332)	n/a
Interest on debt paid	(1,106)	(1,321)	(16.3%)
Payments of lease liabilities	(564)	(548)	2.9%
Purchases of treasury shares	(336)	(2,019)	(83.4%)
Net cash used for financing activities	**(58,504)**	**(32,465)**	**80.2%**

In both reporting periods, our major financing cash flows related to payment of dividends, interest on loans received and shares buy-back.

In the second quarter of 2018, we also obtained short-term loans to finance trade activities. Net repayments of these short-term loans amounted to RR 1,332 million.

Liquidity and working capital

The following table shows the Group's liquidity and credit measures as of 30 June 2019 and 31 December 2018:

	30 June 2019	31 December 2018	Change, %
Absolute amounts, RR million			
Net debt [(1)]	75,010	102,903	(27.1%)
Net working capital position [(2)]	272,132	186,297	46.1%
Liquidity and credit ratios			
Current ratio [(3)]	3.48	2.74	n/a
Total debt to total equity	0.12	0.19	n/a
Long-term debt to long-term debt and total equity	0.10	0.16	n/a
Net debt to total capitalization [(4)]	0.05	0.09	n/a
Net debt to normalized EBITDA from subsidiaries [(5)]	0.28	0.40	n/a

(1) Net debt represents total debt less cash, cash equivalents and bank deposits with original maturity more than three months.

(2) Net working capital position represents current assets less current liabilities.

(3) Current ratio is calculated as current assets divided by current liabilities.

(4) Total capitalization represents total debt, total equity and deferred income tax liability.

(5) Net debt to normalized EBITDA from subsidiaries ratio is calculated as Net debt divided by EBITDA from subsidiaries excluding the effect from the disposal of interests in subsidiaries and joint ventures for the last twelve months.

In each quarter of 2018 and 2019, the Group demonstrated high operating results and achieved positive free cash flows. The Group's management believes that it presently has and will continue to have the ability to generate sufficient cash flows (from operating and financing activities) to repay all its current liabilities as they become due and to finance the Group's capital construction programs.

Capital expenditures

In both reporting periods, our capital expenditures represent our investments primarily relating to developing our oil and gas assets. The following table shows capital expenditures at our main fields, processing facilities and other assets:

	Three months ended 30 June:	
millions of Russian roubles	2019	2018
North-Russkoye and East-Tazovskoye fields	9,831	4,963
Infrastructure for future LNG projects [(1)]	7,732	2,951
East-Tarkosalinskoye field	1,902	1,268
Beregovoye field	1,876	5
Dorogovskoye field	1,790	158
Yarudeyskoye field	1,723	1,233
Gydanskiy license area	1,247	820
West-Yurkharovskoye field	1,231	372
Verhnetiuteyskiy and West-Seyakhinskiy license area	1,095	142
Yurkharovskoye field	883	1,073
Geofizicheskoye field	686	29
South-Khadyryakhinskiy license area	633	58
Shtormovoy license area	510	-
Office buildings	2,080	1,053
Arctic LNG 2 project [(2)]	-	6,266
Other	2,662	1,586
Capital expenditures	**35,881**	**21,977**

(1) Includes, among others, the project for the LNG construction center located in the Murmansk region.

(2) Capital expenditures are reported before the sale of a 10% participation interest in OOO Arctic LNG 2 to TOTAL S.A. group in March 2019 (see "Recent developments" above).

Total capital expenditures on property, plant and equipment in the three months ended 30 June 2019 significantly increased by RR 13,904 million, or 63.3%, to RR 35,881 million from RR 21,977 million.

A significant portion of our capital expenditures related to the ongoing development at the North-Russkoye field, consisting mainly of the construction of field facilities. We also continued the development activities at the East-Tarkosalinskoye and the Yarudeyskoye field's crude oil deposits. In addition, in the current reporting period, we increased our capital investments to develop the Beregovoye and the Dorogovskoye fields, as well as to conduct exploratory drilling at the Gydanskiy, the Verhnetiuteyskiy and West-Seyakhinskiy, the Shtormovoy license areas and the Geofizicheskoye field.

In both reporting periods, we made significant investments to the LNG construction center located in the Murmansk region, which will be used to construct and fabricate the gravity-based platforms and topside modules for the Arctic LNG 2 plant, as well as for the Group's future LNG projects. Our capital expenditures for the second quarter of 2018 also included expenditures of OOO Arctic LNG 2, which became our joint venture in March 2019 after the disposal of a 10% participation interest to TOTAL E&P Salmanov (see "Recent developments" above).

The "Office buildings" line in the table above represents our capital expenditures related to construction of our new office buildings in Moscow and Novy Urengoy.

The "Other" line represents our capital expenditures related to other fields and processing facilities of the Group, as well as unallocated capital expenditures as of the reporting date. The allocation of capital expenditures by fields or processing facilities takes place upon the completion of the fixed assets construction stages and depends on the approved fixed assets launch schedule.

The following table presents the reconciliation of our capital expenditures and additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements, and cash used for capital expenditures:

	Three months ended 30 June:		**Change**
millions of Russian roubles	**2019**	**2018**	**%**
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	**40,172**	**21,997**	**82.6%**
Less: acquisition of mineral licenses	-	(6)	n/a
Less: right-of-use assets [1] additions	(4,291)	(14)	n/a
Capital expenditures	**35,881**	**21,977**	**63.3%**
Add (less): change in accounts payable, capitalized foreign exchange losses and other non-cash adjustments	(4,678)	75	n/a
Cash used for capital expenditures [2]	**31,203**	**22,052**	**41.5%**

(1) Related mainly to long-term agreements on time chartering of marine tankers.

(2) Represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries and joint ventures.

In the second quarter of 2018, we made a final payment in the amount of RR six million for the right to use the Payutskiy license area won at the auction held in March 2018 (an advance payment of RR 60 million was made in the first quarter of 2018).

QUANTITATIVE AND QUALITATIVE DISCLOSURES AND MARKET RISKS

We are exposed to market risk from changes in commodity prices, foreign currency exchange rates and interest rates. We are exposed to commodity price risk as our prices for crude oil, stable gas condensate and refined products destined for export sales are linked to international crude oil prices and other benchmark price references. We are exposed to foreign exchange risk to the extent that a portion of our sales, costs, receivables, loans and debt are denominated in currencies other than Russian roubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. From time to time we may use derivative instruments, such as commodity forward contracts, commodity price swaps, commodity options, foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks, and we may hold or issue derivative or other financial instruments for trading purposes.

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar and the Euro. As of 30 June 2019, the total amount of our debt denominated in foreign currency was RR 155,801 million, or 98.7% of our total borrowings at that date. Changes in the value of the Russian rouble relative to foreign currencies will impact the value in Russian rouble terms of our foreign currency-denominated costs, debt, receivables at our foreign subsidiaries and loans provided to our joint ventures. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that a portion of our total revenues, 53.9% in the three months ended 30 June 2019, was denominated in foreign currencies.

In addition, our share of profit (loss) of joint ventures is also exposed to foreign currency exchange rate movements due to the significant amount of foreign currency-denominated borrowings in our joint ventures, mostly in Yamal LNG. We assess that the impact of foreign currency risk relating to the debt portfolio of Yamal LNG is to a large extent mitigated by the fact that all of its products are delivered to international markets and its revenues are denominated in foreign currencies.

As of 30 June 2019, the Russian rouble appreciated by 9.2% and 9.6% against the US dollar and the Euro, respectively, compared to 30 June 2018.

Commodity risk

Our export prices for natural gas, stable gas condensate and refined products, LPG and crude oil are primarily linked to international natural gas, crude oil and oil products prices and/or a combination thereof. External factors such as geopolitical developments, natural disasters and the actions of the Organization of Petroleum Exporting Countries affect crude oil prices and thus our export prices.

The weather is another factor affecting demand for natural gas. Changes in weather conditions from year to year can influence demand for natural gas and to some extent stable gas condensate and refined products.

From time to time we may employ derivative instruments to mitigate the price risk of our sales activities. In our consolidated financial statements all derivative instruments are recognized at their fair values. Unrealized gains or losses on derivative instruments are recognized within other operating income (loss), unless the underlying arrangement qualifies as a hedge.

Within our trading activities, the Group purchases and sells natural gas on the European market under long-term contracts based on formulas with reference to benchmark natural gas prices quoted for the North-Western European natural gas hubs, crude oil and oil products prices and/or a combination thereof. Therefore, the Group's financial results from natural gas foreign trading activities are subject to commodity price volatility based on fluctuations or changes in the respective benchmark reference prices.

Pipeline access

We transport substantially all of our natural gas within the Russian Federation territory through the Gas Transmission System ("GTS") owned and operated by PAO Gazprom, which is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in the domestic market. Under existing legislation, Gazprom must provide access to the GTS to all independent suppliers on a non-discriminatory basis provided there is capacity available that is not being used by Gazprom. In practice, Gazprom exercises considerable discretion over access to the GTS because it is the sole owner of information relating to capacity. There can be no assurance that Gazprom will continue to provide us with access to the GTS; however, we have not been denied access in prior periods.

Ability to reinvest

Our business requires significant ongoing capital expenditures in order to grow our production and meet our strategic plans. An extended period of reduced demand for our hydrocarbons available for sale and the corresponding revenues generated from these sales would limit our ability to maintain an adequate level of capital expenditures, which in turn could limit our ability to increase or maintain current levels of production and deliveries of natural gas, gas condensate, crude oil and other associated products; thereby, adversely affecting our financial and operating results.

Forward-looking statements

This report includes forward-looking statements concerning future possible events that can impact operational and financial results of the Group. Forward-looking statements can be identified by words such as "believes", "anticipates", "expects", "estimates", "intends", "plans" and similar expressions. Forward-looking statements are made based on the current situation with definite and indefinite risks and uncertainties. Actual future results could differ materially from those discussed in the forward-looking statements as they are dependent on various factors beyond and under the control of management.

Off balance sheet activities

As of 30 June 2019, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.

TERMS AND ABBREVIATIONS

APR	Asian-Pacific Region
bbl	barrel
bcm	billion cubic meters
boe	barrels of oil equivalent
btu	British thermal unit
CBR	Central Bank of Russian Federation
CFR	"Cost and freight"
CIF	"Cost, insurance and freight"
DAP	"Delivery at point of destination"
DDA	depreciation, depletion and amortization
DES	"Delivery to the port of destination ex-ship"
FCA	"Free carrier"
FEED	Front-End Engineering Design
FOB	"Free on board"
Forecast of the Ministry of Economic Development	The document *"Forecast of Socio-economic Development of the Russian Federation for the period till 2024"* prepared by the Ministry of Economic Development of the Russian Federation or the similar document prepared for another period
GTS	Gas Transmission System part of the UGSS
IFRS	International Financial Reporting Standards
List	the OFAC's Sectoral Sanctions Identification List
LNG	liquefied natural gas
LPG	liquefied petroleum gas
mcm	thousand cubic meters
MET	mineral extraction tax
Murmansk yard	LNG construction center located in the Murmansk region
NGL	natural gas liquids
OFAC	U.S. Treasury Department's Office of Foreign Assets Control
PRMS	Petroleum Resources Management System
Purovsky Plant	Purovsky Gas Condensate Plant
Regulator	A federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation. Effective July 2015, Federal Anti-Monopoly Service fulfills the Regulator's role.
RR	Russian rouble(s)
RZD	OAO Russian Railways, Russia's state-owned monopoly railway operator
SEC	Securities and Exchange Commission
Tobolsk Refining Facilities	Refining facilities of OOO SIBUR Tobolsk
UGSF	Underground Gas Storage Facilities
UGSS	Unified Gas Supply System owned and operated by PAO Gazprom
UPT	unified natural resources production tax
USD, US dollar	United States Dollar
Ust-Luga Complex	Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea
VAT	value added tax
Yamal LNG project	A large-scale project on constructing a liquefied natural gas plant with an annual capacity of 17.4 million tons based on the feedstock resources of the South-Tambeyskoye field located at the northeast of the Yamal Peninsula that Group undertakes jointly with TOTAL S.A., China National Petroleum Corporation and China's Silk Road Fund Co. Ltd., through its joint venture OAO Yamal LNG
YNAO	Yamal-Nenets Autonomous Region