PAO NOVATEK

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

FOR THE THREE MONTHS ENDED 30 JUNE 2021

CONTENTS **Page**

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 2021 together with our unaudited consolidated interim condensed financial statements as of and for the three and six months ended 30 June 2021. 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 2020 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 mainly to international markets.

The Group's LNG producing projects are Yamal LNG, Cryogas-Vysotsk and an LNG plant in the Chelyabinsk region.

The Group through its joint venture OAO Yamal LNG undertakes a project on natural gas production, liquefaction and shipping based on the feedstock resources of the South-Tambeyskoye field located in YNAO (the "Yamal LNG project"). The total annual nameplate capacity of the liquefaction plant is 17.4 million tons of LNG, including first three LNG trains with an annual capacity of 5.5 million tons for each and the fourth train, launched in May 2021, with an annual capacity of 0.9 million tons of LNG. Yamal LNG is one of the largest suppliers of LNG to international markets and one of the lowest in terms of greenhouse gas emissions per ton of produced LNG globally. We purchase a part of the LNG volumes produced by Yamal LNG and sell these volumes to international markets via tankers under long-term contracts and on a spot basis.

Through its joint venture OOO Cryogas-Vysotsk, the Group undertakes a project on a medium-scale LNG production at the plant located at the Russian port of Vysotsk on the Baltic Sea. We purchase a part of the LNG volumes produced at the project and sell these volumes mainly to international markets via tankers and trucks, as well as sell LNG used for marine bunkering.

We also produce LNG at our small-scale domestic plant in the Chelyabinsk region. The LNG is sold through the Group's refueling complexes in the Chelyabinsk region and neighboring areas, as well as directly from the LNG plant without incurring additional transportation expenses.

In addition, through our joint venture OOO Arctic LNG 2, we are presently undertaking a project on LNG plant construction on the Gydan peninsula that will utilize the hydrocarbon resources of the Salmanovskoye (Utrenneye) field (the "Arctic LNG 2 project"). The project includes the construction of an LNG plant built on gravity-based platforms with an annual capacity of 19.8 million tons of LNG per annum (three processing trains of 6.6 million tons of LNG each) and up to 1.6 million tons of stable gas condensate. The launch of the first train is expected to be in 2023, with the launches of the second and third trains in 2024 and 2026, respectively.

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 13 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 Tobolsk petrochemical complex of PAO SIBUR Holding group (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

The launch of the fourth train of the LNG plant at Yamal LNG project

In May 2021, the Groups' joint venture OAO Yamal LNG launched the plant's fourth liquefaction train with a nameplate annual capacity of 0.9 million tons of LNG. The fourth LNG train was constructed using equipment almost entirely manufactured in Russia and based on a proprietary natural gas liquefaction technology developed by the Group's specialists utilizing our patented technology "Arctic Cascade". The launch of the fourth train increased the total nameplate capacity of the plant from 16.5 million tons to 17.4 million tons of LNG per annum.

External financing for Arctic LNG 2 project

In April 2021, the Groups' joint venture OOO Arctic LNG 2 signed an agreement with a syndicate of Russian banks to obtain a credit line facility in the amount of EUR 3.11 billion for a period of 15 years. The agreement was signed as part of the external financing package for the Arctic LNG 2 project and is a vital step in implementing the project. Total amount of external financing for the project is planned at about EUR 9.2 billion.

Sale of a 10% participation interest in OOO Arctic Transshipment

In June 2021, the Group signed an agreement on the sale of a 10% participation interest in its subsidiary OOO Arctic Transshipment to TOTAL E&P Transshipment SAS, a member of the TotalEnergies SE group. Arctic Transshipment will be an operator of the two LNG transshipment complexes currently under construction in the Kamchatka and Murmansk regions. The terminals will ensure efficient LNG transportation from the Arctic LNG 2 and other Group's projects through arranging LNG transshipments from Arc7 ice-class tankers to conventional tankers.

Upon closing the transaction in July 2021, the Groups' participation interest in OOO Arctic Transshipment amounted to 90%. According to the terms of the transaction, 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 started to treat Arctic Transshipment as a joint venture and to account for the investment retained under the equity method.

Increasing our resource base

In June 2021, PAO NOVATEK and PAO Gazprom Neft entered into a transaction to form a joint venture to develop the North-Vrangelevskiy license area. The transaction was closed in July 2021. As part of the transaction, the Group purchased a 49% participation interest in OOO Gazpromneft-Sakhalin, which was a subsidiary of PAO Gazprom Neft. Gazpromneft-Sakhalin owns a license for geological research works, exploration and production of hydrocarbons at the North-Vrangelevskiy license area located in the eastern part of the East Siberian Sea and the western part of the Chukchi Sea. The creation of a new joint venture to develop the North-Vrangelevskiy license area expands our long-term resource base for implementation of new projects in the Arctic Zone of Russia.

In March 2021, the Group won an auction for the right for geological research works, exploration and production of hydrocarbons at the North-Gydanskiy license area. The license area has estimated hydrocarbon resources of 1,244 billion cubic meters of natural gas and 209 million tons of liquids, or approximately 9.8 billion barrels of oil equivalent, under the Russian resource classification. The North-Gydanskiy license area is located in the Yamal-Nenets Autonomous Region on the Gydan peninsula and partly in the shallow waters of the Gydan Bay of the Kara Sea and borders with the Group's other license areas: Salmanovskiy (Utrenniy), Gydanskiy, Shtormovoy and the flank of Ladertoyskiy license area. The acquisition of this license area expands our resource base for implementing new LNG projects. The payment for the license was set at RR 775 million.

Renaming OOO Obskiy LNG to OOO Obskiy GCC

In June 2021, the Group's subsidiary OOO Obskiy LNG was renamed to OOO Obskiy GCC. The Group is considering the possibility for this subsidiary to construct a gas-chemical complex that will produce "blue" ammonia, other low-carbon emitting products, and hydrogen near the Sabetta village. Currently, the Group has commenced pre-front-end engineering design works (Pre-FEED) with engineering companies and licensors possessing advance low-carbon technologies to select the most efficient technical solutions for the gas-chemical complex and define the key project parameters.

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, export duties, fuel taxes, where applicable, and excise on stable gas condensate refined products sales on the domestic market and hydrocarbons sales in Poland. The Group also 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: 2021	2020	Change %
Financial results			
Total revenues [1]	264,452	143,939	83.7%
Operating expenses	(195,164)	(116,239)	67.9%
Normalized EBITDA [2],[3]	163,230	71,270	129.0%
Normalized profit attributable to shareholders of PAO NOVATEK [3]	99,287	52,534	89.0%
Normalized profit attributable to shareholders of PAO NOVATEK [3], excluding the effect of foreign exchange gains (losses) [4]	88,958	21,220	319.2%
Normalized earnings per share [3] (in Russian roubles)	33.07	17.49	89.0%
Normalized earnings per share [3], excluding the effect of foreign exchange gains (losses) [4] (in Russian roubles)	29.63	7.07	319.3%
Net debt [5]	54,163	105,627	(48.7%)
Production volumes [6]			
Hydrocarbons production (million barrels of oil equivalent)	156.7	145.3	7.8%
Daily production (million barrels of oil equivalent per day)	1.72	1.60	7.9%
Sales volumes			
Natural gas (million cubic meters)	17,703	16,900	4.8%
Naphtha (thousand tons)	1,287	1,265	1.7%
Crude oil (thousand tons)	1,018	1,090	(6.6%)
Liquefied petroleum gas (thousand tons)	860	688	25.0%
Other stable gas condensate refined products (thousand tons)	625	628	(0.5%)
Stable gas condensate (thousand tons)	391	491	(20.4%)
Cash flow results			
Net cash provided by operating activities	151,511	4,359	n/a
Cash used for capital expenditures [7]	47,381	61,340	(22.8%)
Free cash flow [8]	104,130	(56,981)	n/a

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

[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. EBITDA includes EBITDA from subsidiaries and our proportionate share in the EBITDA of our joint ventures.

[3] Excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration).

[4] 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).

[5] Net debt represents our total debt net of cash, cash equivalents and bank deposits with original maturity more than three months.

[6] 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).

[7] 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.

[8] Free cash flow represents the difference between Net cash provided by operating activities and Cash used for capital expenditures. For the analysis of factors that impacted our free cash flow, please refer to "Net cash provided by operating activities" and "Capital expenditures" below.

Reconciliation of normalized EBITDA is as follows:

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Profit	**104,125**	**42,896**	**142.7%**
Depreciation, depletion and amortization	13,012	8,975	45.0%
Impairment expenses (reversals), net	(6)	(26)	(76.9%)
Loss (income) from changes in fair value of commodity derivative instruments	767	1,370	(44.0%)
Total finance expense (income)	14,648	50,903	(71.2%)
Total income tax expense (benefit)	9,065	(8,169)	n/a
Share of loss (profit) of joint ventures, net of income tax	(58,364)	(72,007)	(18.9%)
EBITDA from subsidiaries	**83,247**	**23,942**	**247.7%**
Changes in fair value of contingent consideration reported within the "Other operating income (loss)"	-	13,713	n/a
Normalized EBITDA from subsidiaries	**83,247**	**37,655**	**121.1%**
Share in EBITDA of joint ventures	**79,983**	**33,615**	**137.9%**
including:			
OAO Yamal LNG	54,116	23,704	128.3%
AO Arcticgas	22,138	9,287	138.4%
others	3,729	624	n/a
Normalized EBITDA	**163,230**	**71,270**	**129.0%**

SELECTED MACRO-ECONOMIC DATA

Exchange rate, Russian roubles for one foreign currency unit [1]	Three months ended 30 June: 2021	2020	Change %
US dollar (USD)			
Average for the period	74.22	72.36	2.6%
At the beginning of the period	75.70	77.73	(2.6%)
At the end of the period	72.37	69.95	3.5%
Depreciation (appreciation) of Russian rouble to US dollar	(4.4%)	(10.0%)	n/a
Euro			
Average for the period	89.39	79.65	12.2%
At the beginning of the period	88.88	85.74	3.7%
At the end of the period	86.20	78.68	9.6%
Depreciation (appreciation) of Russian rouble to Euro	(3.0%)	(8.2%)	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: 2021	2020	Change %
Benchmark natural gas prices, USD per mmbtu [2]			
NBP (National Balancing Point)	9.1	1.6	n/a
TTF (Title Transfer Facility)	9.0	1.7	n/a
Benchmark crude oil prices [3]			
Brent, USD per barrel	69.0	29.6	133.1%
Urals, USD per barrel	66.8	31.6	111.4%
Urals, Russian roubles per barrel	4,958	2,287	116.8%
Benchmark crude oil prices excluding export duties [4]			
Urals, USD per barrel	59.0	28.5	107.0%
Urals, Russian roubles per barrel	4,379	2,062	112.4%
Benchmark oil products [5] **and liquefied petroleum gas** [6] **prices, USD per ton**			
Naphtha Japan	606	276	119.6%
Naphtha CIF NWE	596	240	148.3%
Jet fuel	577	242	138.4%
Gasoil	555	281	97.5%
Fuel oil	432	196	120.4%
Liquefied petroleum gas	456	240	90.0%
Export duties, USD per ton [7]			
Crude oil, stable gas condensate	57.1	22.4	154.9%
Naphtha	31.3	12.3	154.5%
Jet fuel, gasoil	17.1	6.7	155.2%
Fuel oil	57.1	22.4	154.9%
Liquefied petroleum gas	11.8	0.0	n/a

[2] Based on spot natural gas prices at natural gas hubs in the United Kingdom (NBP) and the Netherlands (TTF).

[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 environment

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 demonstrated sustainable operating and financial results.

The declines in hydrocarbon prices on commodity markets in 2020 have negatively impacted oil and gas companies. The main reasons for the financial and economic stress on the global commodity markets were the spread of COVID-19 and its negative effect on economic activities, as well as the cancellation of the OPEC+ production agreement in the first quarter 2020. From the second quarter and through the end of 2020, global economic activity began a gradual recovery following the partial removals of restrictions aimed at preventing the epidemic spread, as well as a partial recovery in benchmark crude oil prices following the new OPEC+ production agreement reached and the compliance to the target cuts by its participants.

In the beginning of 2021, the OPEC+ participants continued to restrict their production targets due to the ongoing instability caused by the spread of the COVID-19 virus and stricter quarantine measures enforced by some countries. The maintenance of the restricted production targets as well as an increase in hydrocarbons consumption due to the severe cold weather in Europe, Asia and North America have led to a significant increase in benchmark hydrocarbons prices in the first quarter 2021. In the second quarter 2021, the benchmark hydrocarbons prices continued to rise despite the OPEC+ decision made in April 2021 to increase crude oil production starting from May 2021 due to the increased mobility of population and crude oil demand recovery in the major consumer countries. In July 2021, the OPEC+ participants made a decision to further increase crude oil production volumes and extended the agreement on production restrictions until the end of 2022.

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

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

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.

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

Our sales of natural gas in the Russian domestic market are mainly natural gas sales through trunk pipelines and regional distribution networks, as well as sales of LNG produced at our small-scale LNG plant in the Chelyabinsk region through our refueling complexes. Our sales of natural gas on international markets are sales of LNG purchased primarily from our joint ventures, OAO Yamal LNG and OOO Cryogas-Vysotsk. 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 and Germany.

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 2020, wholesale natural gas prices for sales to all customer categories on the domestic market were increased by the Regulator by 3.0% effective 1 August 2020 and remained unchanged through the end of the second quarter 2021. Effective 1 July 2021, the wholesale prices were increased by 3.0%.

In September 2020, the Ministry of Economic Development of the Russian Federation published the "Forecast of Socio-economic Development of the Russian Federation for 2021 and the planned period 2022 and 2023", providing for an increase in wholesale natural gas prices for sales to all customer from July 2022 to 2023 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 prices for LNG sold in Russia are based on oil products prices on the domestic market.

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
	2021	2020	%
Average natural gas price, RR per mcm	6,383	4,519	41.2%
Average natural gas price, USD per mcm [(1)]	86.1	62.3	38.2%

[(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 2021, our aggregate average price for natural gas in Russian roubles increased by 41.2% primarily due to an increase in LNG prices on international markets, as well as an increase in the regulated Russian domestic price (by 3.0% effective 1 August 2020).

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, natural disasters, or pandemics.

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, export duties, excise and fuel taxes, where applicable:

Russian roubles or US dollars per ton [1]	Three months ended 30 June: 2021	2020	Change %
Naphtha			
Average net price, RR per ton	46,268	21,602	114.2%
Average net price, USD per ton	622	304	104.6%
Other stable gas condensate refined products			
Average net price, RR per ton	39,496	17,161	130.1%
Average net price, USD per ton	532	240	121.7%
Crude oil			
Average net price, RR per ton	30,768	12,220	151.8%
Average net price, USD per ton	414	170	143.5%
LPG			
Average net price, RR per ton	22,464	9,474	137.1%
Average net price, USD per ton	303	131	131.3%
Stable gas condensate			
Average net price, RR per ton	31,961	12,455	156.6%
Average net price, USD per ton	431	172	150.6%

[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 2021, our weighted-average realized net prices for our liquid hydrocarbons increased compared to the corresponding period in prior year due to an increase in the underlying benchmark prices for these products excluding export duties (see "Selected macro-economic data" above).

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 that may significantly impact our average prices in periods of high benchmark prices volatility on international markets. In addition, the 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 2020 and during the first half 2021, 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 September 2019, the increase in tariffs for natural gas transportation through the trunk pipeline beginning in 2020 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 in 2020 and as of 1 July 2021, when wholesale gas prices were increased, and as of our report date, no information regarding the effective date and the size of the next adjustment of transportation tariffs was available.

In April 2021, the Ministry of Economic Development published new scenarios for 2022 and the planning periods for 2023 and 2024, which provide for an increase in the tariffs for natural gas transportation through the trunk pipeline by 4.0% in 2022 to 2024. At the same time, 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 product, and the 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 2021, railroad freight transportation tariffs for all types of hydrocarbons were increased by 3.7% relative to the 2020 tariffs.

In 2020 and during the first half 2021, 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.

In addition, from April and through the end of 2020, we applied discount coefficients to the existing railroad transportation tariffs for LPG deliveries within the Russian Federation territory from the Tobolsk rail station, which were temporarily introduced due to unfavorable macroeconomic environment. In the second quarter 2020, the coefficients were initially set at 0.75 and 0.872 depending on the transportation distance and, from mid-June, a single discount coefficient of 0.6 applied.

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 may also incur transshipment, bunkering, port charges and other expenses depending on the delivery terms, which are included in the transportation by tankers expense category. The distance to the final port of destination, tanker availability, seasonality of deliveries and other factors also influence our tanker transportation expenses.

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 2021, crude oil transportation tariffs through the pipeline network within the Russian Federation territory were increased by an average of 3.6% relative to the 2020 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 tax 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 is described below based on the current versions of the Tax Code of the Russian Federation and the law "On Customs Tariff".

In 2019, the completion stage of the tax maneuver in the oil and gas industry in the Russian Federation began and will continue until the end of 2024. The tax maneuver envisages 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, as well as the introduction of excise tax for raw oil and the double deductions for this tax.

The legislation changes aimed at the completion of the tax maneuver, with other factors being equal, 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 and our hydrocarbons purchases. The increase in our UPT expenses and cost of hydrocarbons purchases is offsetting by excise tax deductions for raw oil.

Export duties

Procedure for the 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):

Average Urals crude oil price for the monitoring period, USD per ton (P)	**Formula for export duty rate calculation**
less 109.5 (inclusive)	Zero rate
between 109.5 and 146 (inclusive)	K × [0.35 × (P – 109.5)]
between 146 and 182.5 (inclusive)	K × [0.45 × (P – 146) + 12.78]
above 182. 5	K × [0.3 × (P – 182.5) + 29.2]

K – adjusting coefficient

The adjusting coefficient (K) will gradually decrease on an annual basis from 0.833 in 2019 to zero in 2024, thus gradually decreasing the export duty rate for crude oil to zero by 2024. For 2020, the adjusting coefficient was set at 0.667; in 2021, the coefficient is set at 0.5.

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 record 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 a combination of factors including 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 (only in 2020), complexity of extraction, the region, crude oil properties). The result is then increased by a fixed amount (RR 428 per ton in both reporting periods). Further, the UPT rate for crude oil is gradually increased by the amount of the corresponding decrease in the crude oil export duty rate due to the completion of the tax maneuver (see "Export duties" above).

In both reporting periods, we applied a reduced UPT rate for crude oil produced at our 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.

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", which depend on the export and domestic price differentials for these products. 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 field and an adjusting coefficient of 6.5. The base value of a standard fuel equivalent is calculated by a taxpayer based on the combination of factors including 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 was increasing monthly by the same amount until the end of 2020. Starting from December 2020, the tax deduction rate is fixed at RR 5,280 per ton of produced NGL.

The UPT rate for gas condensate is increased by 75% of the 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 for raw oil

Starting from January 2019, a new excisable type of product was introduced in the Russian Federation – "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 from the tax maneuver and the transfer of tax burden from export duties to the UPT in the amount of full export duty rate for crude oil while export duties for oil products are paid at a discount to crude oil export duty rate.

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. For 2020, the adjusting coefficient was set at 0.333; in 2021, the coefficient is set at 0.5.

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.

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 depend on the fund and the employee's annual income:

	2021		2020	
	Base, RR thousand	Rate, %	Base, RR thousand	Rate, %
Pension Fund of the Russian Federation	less 1,465	22.0%	less 1,292	22.0%
	above 1,465	10.0%	above 1,292	10.0%
Federal Compulsory Medical Insurance Fund	No limit	5.1%	No limit	5.1%
Social Insurance Fund of the Russian Federation	less 966	2.9%	less 912	2.9%
	above 966	0.0%	above 912	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 7.8% and 6.5%, respectively, mainly due to the commissioning of gas condensate deposits within the fields of the North-Russkiy cluster (the North-Russkoye and East-Tazovskoye) in the third quarter 2020. The increase in the production at these fields completely offset the declines in production at mature fields of our subsidiaries and joint ventures.

In the three months ended 30 June 2021, our total natural gas sales volumes increased by 803 mmcm, or 4.8%, primarily due to an increase in natural gas volumes sold on the domestic market resulting from the launch of additional production facilities, as well as higher demand from end-customers due to weather conditions. This positive effect was partially offset by a decline in natural gas volumes sold on the international markets due to a decrease in LNG sales volumes purchased primarily from our joint venture OAO Yamal LNG as a result of an increase in the share of Yamal LNG's direct LNG sales under long-term contracts.

In the three months ended 30 June 2021, our liquids sales volumes marginally increased by 19 thousand tons, or 0.5%.

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: 2021	2020	Change %
Production by subsidiaries from:			
Yurkharovskoye field	5,468	5,734	(4.6%)
North-Russkiy cluster [(1)]	2,269	585	287.9%
East-Tarkosalinskoye field	1,169	1,380	(15.3%)
Beregovoye field	496	471	5.3%
Yarudeyskoye field	364	443	(17.8%)
Khancheyskoye field	265	333	(20.4%)
Olimpiyskiy license area [(2)]	251	275	(8.7%)
East-Urengoyskoye + North-Esetinskoye field (West-Yaroyakhinskiy license area)	120	132	(9.1%)
Other fields	395	214	84.6%
Total natural gas production by subsidiaries [(3),(4)]	**10,797**	**9,567**	**12.9%**
Group's proportionate share in the production of joint ventures:			
Yamal LNG [(5)]	4,434	4,065	9.1%
Arcticgas	3,732	3,803	(1.9%)
Nortgas	638	742	(14.0%)
Terneftegas	331	315	5.1%
Arctic LNG 2	19	8	137.5%
Total Group's proportionate share in the natural gas production of joint ventures [(3),(4)]	**9,154**	**8,933**	**2.5%**
Total natural gas production including proportionate share in the production of joint ventures	**19,951**	**18,500**	**7.8%**
Total LNG production including proportionate share in the production of joint ventures (thousands of tons) [(5)]	*2,992*	*2,734*	*9.4%*

(1) Including production at the North-Russkoye, East-Tazovskoye and Dorogovskoye fields.

(2) Including production at the Urengoyskoye, Dobrovolskoye and Sterkhovoye fields.

(3) Excluding natural gas volumes injected to maintain reservoir pressure.

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

in subsidiaries	541	429	26.1%
in joint ventures (Group's proportionate share)	136	115	18.3%

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

In the three months ended 30 June 2021, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 1,451 mmcm, or 7.8%, to 19,951 mmcm from 18,500 mmcm in the corresponding period in 2020.

The main factor positively impacting our production growth was an increase in natural gas production within the North-Russkiy cluster resulting from the launch of gas condensate deposits at the North-Russkoye field and the launch of the East-Tazovskoye field in the third quarter 2020. This fully compensated the production declines at mature fields of our subsidiaries (the Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields) and at our joint venture Nortgas, which resulted mainly from natural declines in the reservoir pressure at the current gas producing horizons.

In the second quarter 2020, Yamal LNG performed planned maintenance works on two liquefaction trains, which together with the launch of the fourth liquefaction train in May 2021 have led to an increase in the production in the current reporting period compared to the prior year period. In 2021, maintenance works at the LNG plant are scheduled for the third quarter.

Natural gas sales volumes

In the three months ended 30 June 2021, our total natural gas sales volumes increased by 803 mmcm, or 4.8%, to 17,703 mmcm from 16,900 mmcm in the corresponding period in 2020.

millions of cubic meters	Three months ended 30 June: 2021	2020	Change %
Production by subsidiaries	10,797	9,567	12.9%
Purchases from the Group's joint ventures	6,499	6,677	(2.7%)
Other purchases	1,633	1,805	(9.5%)
Total production and purchases	**18,929**	**18,049**	**4.9%**
Own usage [(1)]	(575)	(459)	25.3%
Decrease (increase) in natural gas inventory balance	(651)	(690)	(5.7%)
Total natural gas sales volumes	**17,703**	**16,900**	**4.8%**
Sold to end-customers	*14,708*	*13,834*	*6.3%*
Sold ex-field	*600*	*600*	*0.0%*
Subtotal sold in the Russian Federation	***15,308***	***14,434***	***6.1%***
Sold on international markets	***2,395***	***2,466***	***(2.9%)***

(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 production of LNG and methanol.

In the three months ended 30 June 2021, natural gas purchases from our joint ventures decreased by 178 mmcm, or 2.7%, to 6,499 mmcm from 6,677 mmcm in the corresponding period in 2020 primarily due to a decrease in spot LNG purchases from our joint venture Yamal LNG. The decrease in LNG purchases resulted from an increase in the share of Yamal LNG's direct sales under long-term contracts and the corresponding decrease in LNG spot sales to shareholders, including the Group.

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 2021 and 2020, we purchased from third parties 1,609 mmcm and 1,698 mmcm of natural gas, respectively, on the Russian domestic market, and 24 mmcm and 107 mmcm, respectively, on international markets.

At 30 June 2021, our cumulative natural gas inventory balance, mainly representing our inventory balances of natural gas in the UGSF, aggregated 775 mmcm and increased by 651 mmcm during the quarter as compared to an increase by 690 mmcm in the corresponding period in 2020. 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: 2021	2020	Change %
Production by subsidiaries from:			
Yarudeyskoye field	745	762	(2.2%)
East-Tarkosalinskoye field	291	330	(11.8%)
North-Russkiy cluster [(1)]	259	-	n/a
Yurkharovskoye field	242	256	(5.5%)
Beregovoye field	68	57	19.3%
Khancheyskoye field	35	40	(12.5%)
Other fields	62	38	63.2%
Total liquids production by subsidiaries	**1,702**	**1,483**	**14.8%**
including crude oil	*1,024*	*1,072*	*(4.5%)*
including gas condensate	*678*	*411*	*65.0%*
Group's proportionate share in the production of joint ventures:			
Arcticgas	1,105	1,094	1.0%
Yamal LNG [(2)]	155	187	(17.1%)
Terneftegas	97	96	1.0%
Nortgas	52	61	(14.8%)
Total Group's proportionate share in the liquids production of joint ventures	**1,409**	**1,438**	**(2.0%)**
Total liquids production including proportionate share in the production of joint ventures	**3,111**	**2,921**	**6.5%**

[(1)] Including production at the North-Russkoye and East-Tazovskoye fields.

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

In the three months ended 30 June 2021, our total liquids production (including our proportionate share in the production of joint ventures) increased by 190 thousand tons, or 6.5%, to 3,111 thousand tons from 2,921 thousand tons in the corresponding period in 2020 primarily due to the launch of gas condensate production within the North-Russkiy cluster (the North-Russkoye and East-Tazovskoye fields) in the third quarter 2020. This allowed us to fully offset a decrease in production at mature fields of our subsidiaries and joint ventures, which was mainly due to natural declines in the concentration of liquids as a result of decreasing reservoir pressure at the current producing horizons.

Liquids sales volumes

In the three months ended 30 June 2021, our total liquids sales volumes increased marginally by 19 thousand tons, or 0.5%, to 4,185 thousand tons from 4,166 thousand tons in the corresponding period in 2020.

thousands of tons	Three months ended 30 June: 2021	2020	Change %
Production by subsidiaries	1,702	1,483	14.8%
Purchases from the Group's joint ventures	2,432	2,537	(4.1%)
Other purchases	33	33	0.0%
Total production and purchases	**4,167**	**4,053**	**2.8%**
Losses [(1)] and own usage [(2)]	(57)	(52)	9.6%
Decreases (increases) in liquids inventory balances	75	165	(54.5%)
Total liquids sales volumes	**4,185**	**4,166**	**0.5%**
Naphtha export	*1,287*	*1,265*	*1.7%*
Other stable gas condensate refined products export [(3)]	*555*	*585*	*(5.1%)*
Other stable gas condensate refined products domestic [(3)]	*70*	*43*	*62.8%*
Subtotal stable gas condensate refined products	***1,912***	***1,893***	***1.0%***
Crude oil export	*300*	*380*	*(21.1%)*
Crude oil domestic	*718*	*710*	*1.1%*
Subtotal crude oil	***1,018***	***1,090***	***(6.6%)***
LPG export	*147*	*133*	*10.5%*
LPG domestic	*713*	*555*	*28.5%*
Subtotal LPG	***860***	***688***	***25.0%***
Stable gas condensate export	*-*	*124*	*n/a*
Stable gas condensate domestic	*391*	*367*	*6.5%*
Subtotal stable gas condensate	***391***	***491***	***(20.4%)***
Other oil products	***4***	***4***	***0.0%***

(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 reporting period of 2021, our liquids inventory balances decreased by 75 thousand tons to 829 thousand tons as of 30 June 2021 as compared to a decrease in inventory balances by 165 thousand tons to 659 thousand tons in the corresponding period in 2020. 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 2021 COMPARED TO THE CORRESPONDING PERIOD IN 2020

The following table and discussion is a summary of our consolidated results of operations for the three months ended 30 June 2021 and 2020. Each line item is also shown as a percentage of our total revenues.

	Three months ended 30 June:			
millions of Russian roubles	**2021**	**% of total revenues**	**2020**	**% of total revenues**
Total revenues [1]	**264,452**	***100.0%***	**143,939**	***100.0%***
including:				
natural gas sales	112,990	*42.7%*	76,372	*53.1%*
liquids sales	147,562	*55.8%*	64,269	*44.7%*
Operating expenses	(195,164)	*(73.8%)*	(116,239)	*(80.8%)*
Other operating income (loss)	186	*0.1%*	(14,077)	*(9.7%)*
Profit from operations	**69,474**	***26.3%***	**13,623**	***9.5%***
Normalized profit from operations [2]	**69,474**	***26.3%***	**27,336**	***19.0%***
Finance income (expense)	(14,648)	*(5.5%)*	(50,903)	*(35.4%)*
Share of profit (loss) of joint ventures, net of income tax	58,364	*22.0%*	72,007	*50.0%*
Profit before income tax	**113,190**	***42.8%***	**34,727**	***24.1%***
Total income tax benefit (expense)	(9,065)	*(3.4%)*	8,169	*5.7%*
Profit	**104,125**	***39.4%***	**42,896**	***29.8%***
Less: profit (loss) attributable to non-controlling interest	(4,838)	*(1.9%)*	(1,332)	*(0.9%)*
Profit attributable to shareholders of PAO NOVATEK	**99,287**	***37.5%***	**41,564**	***28.9%***
Normalized profit attributable to shareholders of PAO NOVATEK [2], excluding the effect of foreign exchange gains (losses)	**88,958**	***33.6%***	**21,220**	***14.7%***

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

[2] Excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration).

Total revenues

The following table sets forth our sales (excluding VAT, export duties, excise and fuel taxes, where applicable) for the three months ended 30 June 2021 and 2020:

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %	Change [1] Total	Due to volume [2]	Due to price [3]
Natural gas sales	112,990	76,372	47.9%	36,618	3,623	32,995
Stable gas condensate refined products sales	84,231	38,102	121.1%	46,129	424	45,705
Naphtha	*59,538*	*27,337*	*117.8%*	*32,201*	*460*	*31,741*
Other refined products	*24,693*	*10,765*	*129.4%*	*13,928*	*(36)*	*13,964*
Crude oil sales	31,323	13,326	135.1%	17,997	(886)	18,883
Liquefied petroleum gas sales	19,320	6,509	196.8%	12,811	1,638	11,173
Stable gas condensate sales	12,500	6,121	104.2%	6,379	(1,248)	7,627
Other products sales	188	211	(10.9%)	(23)	n/a	n/a
Total oil and gas sales	**260,552**	**140,641**	**85.3%**	**119,911**	**n/a**	**n/a**
Other revenues	3,900	3,298	18.3%	602	n/a	n/a
Total revenues	**264,452**	**143,939**	**83.7%**	**120,513**	**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), and revenues from LNG sales to international and domestic markets, as well as revenues from sales of regasified LNG to customers in Europe.

In the three months ended 30 June 2021, our total revenues from natural gas sales increased by RR 36,618 million, or 47.9%, compared to the corresponding period in 2020 due to higher gas prices on international markets, as well as an increase in sales prices and volumes in the Russian domestic market (see "Natural gas prices" and "Natural gas sales volumes" above).

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 2021, our revenues from sales of stable gas condensate refined products increased by RR 46,129 million, or 121.1%, to RR 84,231 million from RR 38,102 million in the corresponding period in 2020 mainly due to an increase in average realized prices (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" and "Liquids sales volumes" above).

Revenues from sales of naphtha increased by RR 32,201 million, or 117.8%, as compared to the corresponding period in 2020. In the three months ended 30 June 2021 and 2020, we exported 1,287 thousand tons and 1,265 thousand tons of naphtha, respectively, mainly to the APR, and the European and North American markets. Our average realized net price, excluding export duties, where applicable, increased by RR 24,666 per ton, or 114.2%, to RR 46,268 per ton from RR 21,602 per ton in the corresponding period in 2020.

Revenues from sales of jet fuel, gasoil and fuel oil increased by RR 13,928 million, or 129.4%, as compared to the corresponding period in 2020. In the three months ended 30 June 2021 and 2020, we exported in aggregate 555 thousand tons and 585 thousand tons of these products mainly to the European markets, or 88.8% and 93.2% of total sales volumes (on both the domestic and export markets), respectively. Our average realized net price, excluding export duties, where applicable, increased by RR 22,335 per ton, or 130.1%, to RR 39,496 per ton from RR 17,161 per ton in the corresponding period in 2020.

Crude oil sales

In the three months ended 30 June 2021, our revenues from crude oil sales increased by RR 17,997 million, or 135.1%, compared to the corresponding period in 2020 due to an increase in average realized prices.

We sold 718 thousand tons, or 70.5% of our total crude oil sales volumes, domestically as compared to sales of 710 thousand tons, or 65.1%, in the corresponding period in 2020 (see "Liquids sales volumes" above). The remaining 300 thousand tons of crude oil, or 29.5% of our total crude oil sales volumes, in the three months ended 30 June 2021, and 380 thousand tons, or 34.9%, in the corresponding period in 2020 were sold to customers with destination points in the APR and the European (only in the second quarter 2020) markets.

Our average realized net price, excluding export duties, where applicable, increased by RR 18,548 per ton, or 151.8%, to RR 30,768 per ton from RR 12,220 per ton in the corresponding period in 2020 (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 2021, our revenues from sales of LPG increased by RR 12,811 million, or 196.8%, compared to the corresponding period in 2020 mainly due to an increase in average realized prices and, to a lesser extent, sales volumes.

We sold 713 thousand tons of LPG, or 82.9% of our total LPG sales volumes, on the domestic market compared to sales of 555 thousand tons, or 80.7%, in the corresponding period in 2020 (see "Liquids sales volumes" above). The remaining 147 thousand tons of LPG, or 17.1% of our total LPG sales volumes, in the three months ended 30 June 2021 and 133 thousand tons, or 19.3%, in the corresponding period in 2020 were sold primarily to the Polish market.

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 2021 increased by RR 12,990 per ton, or 137.1%, to RR 22,464 per ton from RR 9,474 per ton in the corresponding period in 2020 (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 2021, our revenues from sales of stable gas condensate increased by RR 6,379 million, or 104.2%, compared to the corresponding period in 2020 due to an increase in average realized prices, the effect of which was partially offset by a decrease in sales volumes.

We sold 391 thousand tons of stable gas condensate, or 100.0% of our total stable gas condensate sales volumes, on the domestic market as compared to sales of 367 thousand tons, or 74.7%, in the corresponding period in 2020 (see "Liquids sales volumes" above). In addition, in the second quarter 2020, we sold 124 thousand tons, or 25.3% of our total stable gas condensate sales volumes, to the European and APR markets.

Our average realized net price, excluding export duties, where applicable, increased by RR 19,506 per ton, or 156.6%, to RR 31,961 per ton from RR 12,455 per ton in the corresponding period in 2020 (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 sales of purchased oil products (diesel fuel and petrol) through our retail stations, as well as sales of other liquid hydrocarbons, including methanol from our own production. In the three months ended 30 June 2021, our revenues from other products sales decreased by RR 23 million, or 10.9%, to RR 188 million from RR 211 million in the corresponding period in 2020.

Other revenues

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

In the three months ended 30 June 2021, other revenues increased by RR 602 million, or 18.3%, to RR 3,900 million from RR 3,298 million in the corresponding period in 2020 primarily due to an increase in revenues from leasing of facilities of our LNG construction center located in the Murmansk region, used for the construction of the LNG plant at the Arctic LNG 2 project.

Operating expenses

In the three months ended 30 June 2021, our total operating expenses increased by RR 78,925 million, or 67.9%, to RR 195,164 million compared to RR 116,239 million in the corresponding period in 2020 mainly due to an increase in global hydrocarbon commodity prices, which resulted in an increase in average hydrocarbon purchase prices (see "Purchases of natural gas and liquid hydrocarbons" below) and UPT rates (see "Taxes other than income tax" below).

	Three months ended 30 June:			
millions of Russian roubles	**2021**	**% of total revenues**	**2020**	**% of total revenues**
Purchases of natural gas and liquid hydrocarbons	104,531	*39.5%*	45,240	*31.4%*
Transportation expenses	38,879	*14.7%*	35,903	*24.9%*
Taxes other than income tax	21,926	*8.3%*	9,865	*6.9%*
Depreciation, depletion and amortization	13,012	*4.9%*	8,975	*6.2%*
Materials, services and other	8,443	*3.2%*	7,176	*5.0%*
General and administrative expenses	7,630	*2.9%*	4,326	*3.0%*
Exploration expenses	871	*0.3%*	3,345	*2.3%*
Impairment expenses (reversals), net	(6)	*n/a*	(26)	*n/a*
Changes in natural gas, liquid hydrocarbons and work-in-progress	(122)	*n/a*	1,435	*1.0%*
Total operating expenses	**195,164**	***73.8%***	**116,239**	***80.8%***

Purchases of natural gas and liquid hydrocarbons

In the three months ended 30 June 2021, our purchases of natural gas and liquid hydrocarbons increased by RR 59,291 million, or 131.1%, to RR 104,531 million as compared to RR 45,240 million in the corresponding period in 2020.

	Three months ended 30 June:		Change
millions of Russian roubles	**2021**	**2020**	**%**
Unstable gas condensate	54,166	14,225	280.8%
Natural gas	51,347	28,115	82.6%
Other hydrocarbons	2,747	3,777	(27.3%)
Reverse excise	(3,729)	(877)	325.2%
Total purchases of natural gas and liquid hydrocarbons	**104,531**	**45,240**	**131.1%**

Purchases of unstable gas condensate from our joint ventures increased by RR 39,941 million, or 280.8%, as compared to the corresponding period in 2020 mainly due to an increase in purchase prices, which are primarily impacted by international crude oil and LPG prices excluding export duties (see "Selected macro-economic data" above).

Purchases of natural gas increased by RR 23,232 million, or 82.6%, as compared to the corresponding period in 2020 mainly due to an increase in LNG purchase prices that are based on natural gas prices at major natural gas hubs and benchmark crude oil prices (see "Selected macro-economic data" above), as well as domestic gas prices indexation (see "Natural gas prices" above). The impact of these factors was partially offset by a decrease in volumes of LNG purchased from our joint venture OAO Yamal LNG for subsequent sale on international markets due to an increase in the share of direct sales of Yamal LNG under long-term contracts and the corresponding decrease in the share of LNG spot sales to shareholders, including the Group.

Other hydrocarbon purchases represent our purchases of crude oil, LPG, stable gas condensate, oil products and methanol for subsequent resale depending on the demand for these types of products. Purchases of other hydrocarbons decreased by RR 1,030 million, or 27.3%, as compared to the corresponding period in 2020 mainly due to purchases of stable gas condensate from Yamal LNG for subsequent sale in the second quarter 2020 (there were no such purchases in the current quarter).

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 2021, our total transportation expenses increased by RR 2,976 million, or 8.3%, to RR 38,879 million as compared to RR 35,903 million in the corresponding period in 2020.

	Three months ended 30 June:		Change
millions of Russian roubles	**2021**	**2020**	**%**
Natural gas transportation by trunk and low-pressure pipelines	24,623	21,853	12.7%
Stable gas condensate and liquefied petroleum gas transportation by rail	9,469	8,899	6.4%
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	2,644	2,781	(4.9%)
Crude oil transportation by trunk pipelines	1,751	1,994	(12.2%)
Other	392	376	4.3%
Total transportation expenses	**38,879**	**35,903**	**8.3%**

Expenses for natural gas transportation by trunk and low-pressure pipelines increased by RR 2,770 million, or 12.7%, to RR 24,623 million from RR 21,853 million in the corresponding period in 2020 due to a 6.3% increase in our natural gas sales volumes to our end-customers, for which we incurred transportation expenses, and an increase in the transportation distance as a result of, inter alia, production growth at the fields within the North-Russkiy cluster.

Expenses for stable gas condensate and LPG transportation by rail increased by RR 570 million, or 6.4%, to RR 9,469 million from RR 8,899 million in the corresponding period in 2020. The increase was mainly due to an increase in the weighted average transportation cost per unit resulted from a 3.7% increase in the regulated railroad transportation tariffs effective January 2021 (see "Transportation tariffs" above), as well as a 2.3% increase in volumes of liquids sold and transported via rail.

Transportation expenses for our hydrocarbons delivered by tankers to international markets decreased by RR 137 million, or 4.9%, to RR 2,644 million from RR 2,781 million in the corresponding period in 2020 due to reduction in freight rates, as well as a decrease in stable gas condensate volumes delivered.

Expenses for crude oil transportation to customers by trunk pipeline decreased by RR 243 million, or 12.2%, to RR 1,751 million from RR 1,994 million in the corresponding period in 2020 due to a 6.6% decrease in sales volumes and an increase in the proportion of sales to our domestic customers located at closer regions from our production fields.

Other transportation expenses mainly include our short-term vessels time charter expenses and other expenses related to our revenues from hydrocarbons transportation by tankers and transshipment services rendered to our joint ventures and third parties (see "Other revenues" above), as well as expenses for hydrocarbons transportation by trucks.

Taxes other than income tax

In the three months ended 30 June 2021, taxes other than income tax increased by RR 12,061 million, or 122.3%, to RR 21,926 million from RR 9,865 million in the corresponding period in 2020 due to an increase in unified natural resources production tax expense.

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Unified natural resources production tax (UPT)	20,766	8,950	132.0%
Property tax	1,072	834	28.5%
Other taxes	88	81	8.6%
Total taxes other than income tax	**21,926**	**9,865**	**122.3%**

Unified natural resources production tax expense increased by RR 11,816 million, or 132.0%, to RR 20,766 million from RR 8,950 million in the corresponding period in 2020 primarily due to an increase in UPT rates, as well as an increase in gas condensate and natural gas production volumes (see "Hydrocarbon production and sales volumes" above). The increase in UPT rates was due to an increase in benchmark crude oil prices and changes in the UPT rates formulas caused by the completion of the tax maneuver in the oil and gas industry (see "Our tax burden and obligatory payments" above).

Property tax expense increased by RR 238 million, or 28.5%, to RR 1,072 million from RR 834 million in the corresponding period in 2020 primarily due to the launch of new production assets in 2020.

Depreciation, depletion and amortization

In the three months ended 30 June 2021, our depreciation, depletion and amortization ("DDA") expense increased by RR 4,037 million, or 45.0%, to RR 13,012 million from RR 8,975 million in the corresponding period in 2020 primarily due to additions of new assets: launch of the fields within the North-Russkiy cluster and production facilities at our LNG construction center located in the Murmansk region, used for construction of LNG plant at our Arctic LNG 2 project. We accrue depreciation and depletion using the "units-of-production" method for our oil and gas producing assets and using a straight-line method for other facilities.

Materials, services and other

In the three months ended 30 June 2021, our materials, services and other expenses increased by RR 1,267 million, or 17.7%, to RR 8,443 million compared to RR 7,176 million in the corresponding period in 2020.

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Employee compensation	4,323	3,637	18.9%
Repair and maintenance	855	626	36.6%
Preparation and processing of hydrocarbons	573	552	3.8%
Materials and supplies	565	476	18.7%
Electricity and fuel	418	398	5.0%
Fire safety and security expenses	326	273	19.4%
Liquefied petroleum gas volumes reservation expenses	317	262	21.0%
Transportation services	290	262	10.7%
Labor safety expenses	168	184	(8.7%)
Rent expenses	154	153	0.7%
Insurance expense	139	102	36.3%
Other	315	251	25.5%
Total materials, services and other	**8,443**	**7,176**	**17.7%**

Employee compensation relating to operating personnel increased by RR 686 million, or 18.9%, to RR 4,323 million compared to RR 3,637 million in the corresponding period in 2020 due to an increase in average number of employees resulting from the launch of new production assets at our subsidiaries and provision of servicing of new assets to our joint ventures (mainly, Arctic LNG 2 and Arcticgas), as well as an indexation of base salaries effective from 1 January 2021, 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 increased by RR 229 million, or 36.6%, to RR 855 million compared to RR 626 million in the corresponding period in 2020 mainly due to an increase in current repair works performed on wells at our core production subsidiaries. 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 2021, our general and administrative expenses increased by RR 3,304 million, or 76.4%, to RR 7,630 million compared to RR 4,326 million in the corresponding period in 2020.

millions of Russian roubles	**Three months ended 30 June:**		**Change**
	2021	**2020**	**%**
Employee compensation	5,780	2,646	118.4%
Social expenses and compensatory payments	632	439	44.0%
Legal, audit and consulting services	286	243	17.7%
Repair and maintenance expenses	197	328	(39.9%)
Fire safety and security expenses	151	138	9.4%
Advertising expenses	121	134	(9.7%)
Business travel expense	67	19	252.6%
Rent expense	56	48	16.7%
Other	340	331	2.7%
Total general and administrative expenses	**7,630**	**4,326**	**76.4%**

Employee compensation relating to administrative personnel increased by RR 3,134 million, or 118.4%, to RR 5,780 million in the three months ended 30 June 2021 from RR 2,646 million in the corresponding period in 2020 primarily due to an increase in accrued provision for bonuses to management personnel.

Social expenses and compensatory payments increased by RR 193 million, or 44.0%, to RR 632 million compared to RR 439 million in the corresponding period in 2020. In both reporting periods, the major part of expenses represented our social expenses related 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.

Repair and maintenance expenses decreased by RR 131 million, or 39.9%, to RR 197 million from RR 328 million in the corresponding period in 2020 mainly due to settling in and furnishing of a new office building for our subsidiaries in Novy Urengoy last year.

Other items of our general and administrative expenses changed marginally.

Exploration expenses

In the three months ended 30 June 2021, our exploration expenses amounted to RR 871 million, of which the major part related to exploration works performed at the Soletsko-Khanaveyskiy license area and on the flank of the East-Tazovskoye field. In the corresponding period in 2020, our exploration expenses amounted to RR 3,345 million and related to exploration works performed at the Gydanskiy, Soletsko-Khanaveyskiy, Nyakhartinskiy, North-Russkiy license areas, and on an offshore block in Lebanon. 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 2021, we recorded a reversal of RR 122 million to changes in inventory expense primarily due to an increase in our stable gas condensate and natural gas inventory balances in the current reporting period. In the corresponding prior year period, we recorded a charge of RR 1,435 million to changes in inventory expense due to a decrease in most of our liquid hydrocarbons inventory balances as of 30 June compared to 31 March.

In the three months ended 30 June 2021 and 2020, our cumulative natural gas inventory balance increased by 651 mmcm and 690 mmcm, respectively, mainly due to seasonal injection of natural gas for the subsequent sale in the period of higher seasonal demand in both reporting periods.

In the three months ended 30 June 2021 and 2020, our cumulative liquid hydrocarbons inventory balances, recognized as inventory in transit or in storage, decreased by 75 thousand tons and 165 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 in the current reporting period and in storage at our Ust-Luga Complex in the second quarter 2020. 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:

	2021			**2020**		
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)	**775**	**124**	**651**	**978**	**288**	**690**
incl. Gazprom's UGSF	*710*	*2*	*708*	*673*	*38*	*635*
Liquid hydrocarbons (thousand tons)	**829**	**904**	**(75)**	**659**	**824**	**(165)**
incl. stable gas condensate						
refined products	*308*	*486*	*(178)*	*222*	*375*	*(153)*
stable gas condensate	*312*	*218*	*94*	*220*	*241*	*(21)*
crude oil	*98*	*93*	*5*	*100*	*102*	*(2)*

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 2021, we recognized other operating income of RR 186 million compared to other operating loss of RR 14,077 million in the corresponding period in 2020.

In the three months ended 30 June 2021, we purchased and sold approximately 2.9 bcm of natural gas, as well as various derivative commodity instruments within our trading activities, and recognized an aggregate realized income from trading activities of RR 854 million as compared to income of RR 907 million in the corresponding period in 2020. At the same time, we recognized a non-cash loss of RR 767 million in the three months ended 30 June 2021 due to a decrease in the fair value of the aforementioned contracts as compared to a non-cash loss of RR 1,370 million in the corresponding period in 2020. The effect of the change in fair value of the commodity contracts fluctuates 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.

In addition, in the second quarter 2020, we recognized a loss of RR 13,713 million due to the non-cash revaluation of fair value of contingent consideration related to the sale of a 40% participation interest in OOO Arctic LNG 2 in 2019, resulting from a decrease in long-term crude oil benchmark prices forecast, which may be revised subject to world market conditions and may or may not reflect actual future cash inflows.

Profit from operations and EBITDA

In the three months ended 30 June 2021, our profit from operations and EBITDA including our proportionate share of joint ventures, but excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition in the second quarter 2020 of a non-cash revaluation of fair value of contingent consideration related to the transactions on the sale of a 40% participation interest in OOO Arctic LNG 2 in 2019), amounted to RR 130,503 million and RR 163,230 million, respectively, compared to RR 42,254 million and RR 71,270 million in the corresponding period in 2020.

Profit from operations and EBITDA of our subsidiaries, excluding the effects from the disposal of participation interests, amounted to RR 69,474 million and RR 83,247 million, respectively, compared to RR 27,336 million and RR 37,655 million in the corresponding period in 2020.

Increases in normalized profit from operations and EBITDA were mainly due to an increase in hydrocarbon commodity prices on international markets in the current reporting period compared to the corresponding period in the prior year, as well as an increase in natural gas and gas condensate production with the commissioning of gas condensate deposits within the fields of the North-Russkiy cluster in the third quarter 2020.

Finance income (expense)

In the three months ended 30 June 2021, we recorded net finance expense of RR 14,648 million compared to RR 50,903 million in the corresponding period in 2020.

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Accrued interest expense on loans received	(1,972)	(2,476)	(20.4%)
Less: capitalized interest	1,099	1,618	(32.1%)
Provisions for asset retirement obligations:			
effect of the present value discount unwinding	(222)	(239)	(7.1%)
Interest expense on lease liabilities and other expenses	(112)	(145)	(22.8%)
Interest expense	**(1,207)**	**(1,242)**	**(2.8%)**
Interest income	4,197	5,885	(28.7%)
Change in fair value of non-commodity financial instruments	3,230	981	229.3%
Foreign exchange gain (loss), net	(20,868)	(56,527)	(63.1%)
Total finance income (expense)	**(14,648)**	**(50,903)**	**(71.2%)**

Interest expense decreased marginally by RR 35 million, or 2.8%.

Interest income decreased by RR 1,688 million, or 28.7%, to RR 4,197 million from RR 5,885 million in the corresponding period in 2020 as a result of the termination starting from 2021 of interest income recognition on the shareholders' loans issued to our joint venture Yamal LNG and accounted for at fair value in accordance with IFRS 9 *"Financial instruments"*. A portion of the change in fair value of such loans attributable to interest income is determined based on the amortized cost of the loans using the effective rate method based on initial interest rates and anticipated repayment schedules. Upon the expiration of initially anticipated repayment schedules, a portion of the change in the loans fair value reflecting the time value of money is no longer recorded within "Interest income" line but is instead recorded within "Change in fair value of non-commodity financial instruments" line, which also includes other effects of changes in the fair value of these loans (such as changes in interest rates and expected maturities).

In the three months ended 30 June 2021, we recognized a non-cash gain of RR 3,230 million compared to RR 981 million in the corresponding period in 2020 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 2021, we recorded a net foreign exchange loss of RR 20,868 million compared to RR 56,527 million in the corresponding period in 2020 due to the revaluation of our foreign currency denominated borrowings and loans received and provided, trade receivables and contingent consideration related to the transactions on the sale of participation interests in Arctic LNG 2, 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 2021, the Group's proportionate share of profit of joint ventures amounted to RR 58,364 million as compared to RR 72,007 million in the corresponding period in 2020.

millions of Russian roubles (Group's share)	Three months ended 30 June: 2021	2020	Change %
Share of profit from operations	**61,029**	**14,918**	**309.1%**
Share of finance income (expense) excluding foreign exchange effects	**(23,151)**	**(21,618)**	**7.1%**
Interest income (expense), net	(16,591)	(21,185)	(21.7%)
Change in fair value of non-commodity financial instruments	(6,560)	(433)	n/a
Share of income tax excluding foreign exchange effects	**(6,537)**	**2,171**	**n/a**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	**31,341**	**(4,529)**	**n/a**
Share of foreign exchange gain (loss), net	41,440	92,598	(55.2%)
Share of income tax related to foreign exchange gain (loss)	(7,221)	(15,560)	(53.6%)
Total	**65,560**	**72,509**	**(9.6%)**
Unrecognized share of loss (profit) of joint ventures	(7,196)	(502)	n/a
Total share of profit (loss) of joint ventures, net of income tax	**58,364**	**72,007**	**(18.9%)**

The following table presents the Group's proportionate share of profit (loss) of our joint ventures by entities:

	Yamal LNG		Arcticgas		Others	
millions of Russian roubles (Group's share)	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Share of profit (loss) from operations	**39,846**	**10,384**	**18,910**	**5,335**	**2,273**	**(801)**
Share of finance income (expense) excluding foreign exchange effects	**(22,506)**	**(20,717)**	**(598)**	**(364)**	**(47)**	**(537)**
Interest income (expense), net	(15,542)	(20,131)	(598)	(364)	(451)	(690)
Change in fair value of non-commodity financial instruments	(6,964)	(586)	-	-	404	153
Share of income tax excluding foreign exchange effects	**(3,561)**	**2,573**	**(2,972)**	**(688)**	**(4)**	**286**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	**13,779**	**(7,760)**	**15,340**	**4,283**	**2,222**	**(1,052)**
Share of foreign exchange gain (loss), net	29,869	82,793	7	(3)	11,564	9,808
Share of income tax related to foreign exchange gain (loss)	(4,928)	(13,661)	(1)	-	(2,292)	(1,899)
Total	**38,720**	**61,372**	**15,346**	**4,280**	**11,494**	**6,857**
Unrecognized share of loss (profit) of joint ventures	(6,289)	-	-	-	(907)	(502)
Total share of profit (loss) of joint ventures, net of income tax	**32,431**	**61,372**	**15,346**	**4,280**	**10,587**	**6,355**

Our proportionate share in the profit from operations of our joint ventures increased by RR 46,111 million, or 309.1%, from RR 14,918 million to RR 61,029 million mainly due to increases in LNG and liquids average realized prices.

Our proportionate share in interest expense decreased by RR 4.6 billion, or 21.7%, primarily due to the termination starting from 2021 of interest expense recognition on the shareholders' loans issued to our joint venture Yamal LNG and accounted for at fair value in accordance with IFRS 9 "*Financial Instruments*". A portion of the change in the fair value of these loans reflecting the time value of money is now recorded within "Change in fair value of non-commodity financial instruments" line (see "Finance income (expense)" above).

In the second quarter 2021, our share in foreign exchange gains amounted to RR 41.4 billion as compared to RR 92.6 billion in the corresponding period in 2020. These foreign exchange gains in both reporting periods were mainly non-cash and 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 largely mitigated by the fact that all of its products are delivered to international markets and its revenues are denominated in foreign currencies.

In the second quarter 2021, a portion of our share of profit of OAO Yamal LNG and OOO Cryogas-Vysotsk in the amount of RR 7.2 billion was not recognized in the consolidated statement of income as it was offset against the previously unrecognized share of losses resulted from the significant foreign exchange losses in 2020.

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) from joint ventures and excluding the effects from the 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) for the three months ended 30 June 2021 and 2020 was 16.4% and 23.7%, respectively, and the effective income tax rate for the six months ended 30 June 2021 and 2020 was 17.6% and 18.9%, 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 57,723 million, or 138.9%, to RR 99,287 million in the three months ended 30 June 2021 compared to RR 41,564 million in the corresponding period in 2020.

Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), our profit attributable to shareholders of PAO NOVATEK increased by RR 67,738 million, or 319.2%, and amounted to RR 88,958 million in the three months ended 30 June 2021 compared to RR 21,220 million in the corresponding period in 2020.

Reconciliation of normalized profit attributable to shareholders of PAO NOVATEK is as follows:

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Profit attributable to shareholders of PAO NOVATEK	**99,287**	**41,564**	**138.9%**
Changes in fair value of contingent consideration reported within the "Other operating income (loss)"	-	13,713	n/a
Income tax expense (benefit) related to changes in fair value of contingent consideration	-	(2,743)	n/a
Normalized profit attributable to shareholders of PAO NOVATEK	**99,287**	**52,534**	**89.0%**
including:			
profit (loss) from subsidiaries	40,923	(19,473)	n/a
share of profit (loss) of joint ventures	58,364	72,007	(18.9%)

Reconciliation of normalized profit attributable to shareholders of PAO NOVATEK excluding the effect of foreign exchange gains (losses) is as follows:

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Normalized profit (loss) from subsidiaries attributable to shareholders of PAO NOVATEK	**40,923**	**(19,473)**	**n/a**
Foreign exchange (gains) losses, net	20,868	56,527	(63.1%)
Income tax expense relating to foreign exchange (gains) losses	(4,174)	(11,305)	(63.1%)
Normalized profit from subsidiaries attributable to shareholders of PAO NOVATEK excluding the effect of foreign exchange gains (losses)	**57,617**	**25,749**	**123.8%**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects [(1)]	31,341	(4,529)	n/a
Normalized profit attributable to shareholders of PAO NOVATEK, excluding the effect of foreign exchange gains (losses)	**88,958**	**21,220**	**319.2%**

[(1)] See "Share of profit (loss) of joint ventures, net of income tax" above.

In the second quarter 2021, our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of PAO NOVATEK, increased by RR 19.23, or 138.9%, to RR 33.07 per share compared to RR 13.84 per share in the corresponding period in 2020. Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), our weighted average basic and diluted earnings per share increased by RR 22.56, or 319.3%, to RR 29.63 per share in the three months ended 30 June 2021 from RR 7.07 per share in the corresponding period in 2020.

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 2021 and 2020:

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Net cash provided by **operating** activities	151,511	4,359	n/a
Net cash used for **investing** activities	(109,840)	(1,954)	n/a
Net cash used for **financing** activities	(80,758)	(60,088)	34.4%

Net cash provided by operating activities

Our net cash provided by operating activities increased to RR 151,511 million compared to RR 4,359 million in the corresponding period in 2020 mainly due to an increase in profit from operations and dividends received from joint ventures in the second quarter 2021.

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Profit from operations, excluding the effects from the disposal of interests in subsidiaries and joint ventures	69,474	27,336	154.1%
Non-cash adjustments [(1)]	13,647	10,701	27.5%
Changes in working capital and long-term advances given	6,423	(16,807)	n/a
Dividends and cash received from joint ventures	67,377	-	n/a
Interest received	1,489	4,207	(64.6%)
Income taxes paid	(6,899)	(21,078)	(67.3%)
Total net cash provided by operating activities	**151,511**	**4,359**	**n/a**

[(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 2021, profit from operations, excluding the effects from the disposal of interests in subsidiaries and joint ventures, and adjusted for non-cash items increased primarily due to a strong growth in hydrocarbon prices on international markets.

At the same time, income tax payments decreased compared to the corresponding period in prior year due to additional income tax paid in the second quarter 2020 for the first quarter 2020 as a result of substantial positive foreign exchange differences in our subsidiaries. Moreover, the Group offset other taxes refund in the amount of RR 5.0 billion against income tax in the current reporting period.

In the second quarter 2021, we received RR 67,125 million of dividends from our joint venture Arcticgas, as well as RR 252 million of cash distributed in favor of the Group from our joint venture Terneftegas.

The "Interest received" line primarily represents interest on deposits, as well as interest on loans provided to our joint ventures. In the second quarter 2021 and 2020, we received RR 1.0 billion and RR 3.7 billion, respectively, of interest on loans provided to our joint venture Yamal LNG.

Net cash used for investing activities

In the three months ended 30 June 2021, our net cash used for investing activities amounted to RR 109,840 million compared to RR 1,954 million in the corresponding period in 2020.

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Cash used for capital expenditures	(47,381)	(61,340)	(22.8%)
Proceeds from disposal of interests in subsidiaries	216	-	n/a
Payments for mineral licenses	(70)	(213)	(67.1%)
Loans provided to joint ventures	(22,442)	(34,444)	(34.8%)
Repayments of loans provided to joint ventures	11,177	14,012	(20.2%)
Capital contributions to joint ventures	(57)	-	n/a
Net decrease (increase) in bank deposits with original maturity more than three months	(51,136)	80,755	n/a
Other	(147)	(724)	(79.7%)
Net cash used for investing activities	**(109,840)**	**(1,954)**	**n/a**

In the second quarter 2021, cash used for capital expenditures amounted to RR 47,381 million compared to RR 61,340 million in the corresponding period in 2020. A significant part of our capital investments related to the development of LNG projects, the ongoing development and the launch of the fields within the North-Russkiy cluster (the North-Russkoye, East-Tazovskoye, Dorogovskoye and Kharbeyskoye fields), the development of the Verhnetiuteyskiy and West-Seyakhinskiy license area, East-Tarkosalinskoye and Yarudeyskoye field's crude oil deposits, as well as exploratory drilling (see "Capital expenditures" below).

In the current reporting period, we received further payments in the amount of RR 216 million for the sale of a 100% participation interest in OOO Chernichnoye to our joint venture ZAO Terneftegas in the end of 2020.

In June 2021, we made a final payment in the amount of RR 70 million for the acquisition of the license for the right to use the North-Gydanskiy license area (an advance payment in the amount of RR 705 million was made in the first quarter 2021). In May 2020, we made a final payment in the amount of RR 213 million for the acquisition of the license for the Bukharinskiy license area (an advance payment in the amount of RR 2,133 million was made in the fourth quarter of 2019).

In the second quarter 2021, we provided loans in the aggregate amount of RR 22,442 million compared to RR 34,444 million in the corresponding period in 2020. In both reporting periods, we provided loans to our joint ventures for developing their activities, mainly to OOO Arctic LNG 2. At the same time, in the three months ended 30 June 2021 and 2020, we received RR 11,177 million and RR 14,012 million, respectively, due to partial repayments of the loans provided to Yamal LNG.

In the second quarter 2021, we made capital contributions to our joint venture OOO SMART LNG in the amount of RR 57 million.

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 2021, the net increase in bank deposits with original maturity more than three months amounted to approximately RR 51 billion compared to the net decrease in the amount of RR 81 billion in the corresponding period in 2020.

Net cash used for financing activities

In the three months ended 30 June 2021, our net cash used for financing activities increased by RR 20,670 million, or 34.4%, to RR 80,758 million as compared to RR 60,088 million in the corresponding period in 2020.

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Dividends paid to shareholders of PAO NOVATEK	(71,286)	(54,359)	31.1%
Dividends paid to non-controlling interest	(5,096)	(833)	n/a
Repayments of long-term debt	(2,506)	(2,400)	4.4%
Loan commitment fee	-	(534)	n/a
Proceeds from (repayments of) short-term debt with original maturity three months or less, net	258	-	n/a
Interest on debt paid	(1,137)	(1,033)	10.1%
Payments of lease liabilities	(991)	(929)	6.7%
Net cash used for financing activities	**(80,758)**	**(60,088)**	**34.4%**

In both reporting periods, our major financing cash flows related to payment of dividends.

In addition, in the three months ended 30 June 2021 and 2020, the Group partially repaid a loan obtained from China's investment fund Silk Road Fund in the amount of RR 2,506 million and RR 2,400 million (USD 35 million), respectively.

Other cash flows from financing activities related primarily to payments of interest on borrowings and payments of lease liabilities.

Liquidity and working capital

The following table shows the Group's liquidity and credit measures as of 30 June 2021 and 31 December 2020:

	30 June 2021	31 December 2020	Change, %
Absolute amounts, RR million			
Net debt [(1)]	54,163	39,557	36.9%
Net working capital position [(2)]	266,103	202,938	31.1%
Liquidity and credit ratios			
Current ratio [(3)]	2.45	2.27	n/a
Total debt to total equity	0.10	0.14	n/a
Long-term debt to long-term debt and total equity	0.08	0.09	n/a
Net debt to total capitalization [(4)]	0.03	0.02	n/a
Net debt to normalized EBITDA from subsidiaries [(5)]	0.19	0.20	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 effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration) for the last twelve months.

The Group has consistently demonstrated sustainable operating and financial results, and even in the periods of unfavorable macroeconomic conditions had generated cumulative positive free cash flow. This allowed to maintain sufficient liquidity to increase investments in our main projects in both reporting quarters. 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	**2021**	**2020**
North-Russkiy cluster [(1)]	11,179	10,948
Infrastructure for LNG projects [(2)]	10,603	22,743
Ust-Luga Complex	3,323	1,543
Geofizicheskoye field	2,075	1,442
Yevo-Yakhinskiy license area	1,977	614
Verhnetiuteyskiy and West-Seyakhinskiy license area	1,789	2,981
East-Tarkosalinskoye field	1,536	1,217
Novatek Montenegro	1,464	23
Yarudeyskoye field	1,398	1,711
Yurkharovskoye field	1,361	674
Olimpiyskiy license area	1,126	287
Gydanskiy license area	869	533
Ust-Yamsoveyskiy license area	823	1,950
Soletsko-Khanaveyskiy license area	716	-
Nyakhartinskiy license area	494	491
Novatek Green Energy	347	287
North-Chaselskiy license area	307	-
Beregovoye field	164	1,234
Administration facilities	5,601	1,176
Other	965	4,542
Capital expenditures	**48,117**	**54,396**

(1) Includes expenditures related to the North-Russkoye, East-Tazovskoye, Dorogovskoye and Kharbeyskoye fields.

(2) Mainly includes expenditures related to the project for the LNG construction center located in the Murmansk region.

Total capital expenditures on property, plant and equipment in the three months ended 30 June 2021 decreased by RR 6,279 million, or 11.5%, to RR 48,117 million from RR 54,396 million.

In both reporting periods, a significant part of our capital expenditures related to the development of the infrastructure for our LNG projects, mainly to the project for the LNG construction center located in the Murmansk region. We also invested in the development and launch of the fields within the North-Russkiy cluster: further development of the North-Russkoye field, the launch and the development of the East-Tazovskoye and Dorogovskoye fields, as well as the preparation for production commencement at the Kharbeyskoye field. In addition, we continued the development of the Verhnetiuteyskoye and West-Seyakhinskoye license area, our producing assets (the Yurkharovskoye field, the East-Tarkosalinskoye and Yarudeyskoye fields' crude oil deposits), the development of the Yevo-Yakhinskiy and Ust-Yamsoveyskiy license areas, as well as exploratory drilling, which in the second quarter 2021 mainly related to the Geofizicheskoye field, joint operations for offshore exploration in Montenegro, as well as the Gydanskiy, Ust-Yamsoveyskiy, Soletsko-Khanaveyskiy and Nyakhartinskiy license areas.

In both reporting periods, we continued to invest in the project for construction of a hydrocracker unit at our Ust-Luga Complex, which will increase the depth of processing of stable gas condensate and output of light oil products.

We also continued to develop our LPG and LNG wholesale and retail network in Germany and Poland through our subsidiary Novatek Green Energy Sp. z o.o.

The "Administration facilities" line in the table above represents our capital expenditures of an administrative nature, of which a significant part related to construction of our new office building in Moscow.

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:

millions of Russian roubles	Three months ended 30 June: 2021	2020	Change %
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	**48,187**	**54,883**	**(12.2%)**
Less: acquisition of mineral licenses	(70)	(213)	(67.1%)
Less: right-of-use assets [1] additions	-	(274)	n/a
Capital expenditures	**48,117**	**54,396**	**(11.5%)**
Add (less): change in accounts payable, capitalized foreign exchange losses and other non-cash adjustments	(736)	6,944	n/a
Cash used for capital expenditures [2]	**47,381**	**61,340**	**(22.8%)**

[1] Related mainly to long-term agreements on energy equipment leases in the second quarter 2020.

[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 current reporting period, we made a final payment in the amount of RR 70 million for the auction won in March 2021 for the usage of the North-Gydanskiy license area (an advance payment of RR 705 million was made in first quarter 2021) (see "Net cash used for investing activities" above).

In the second quarter 2020, we made a final payment in the amount of RR 213 million for the auction won in December 2019 for the usage of the Bukharinskiy license area (an advance payment of RR 2,133 million was made in December 2019).

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 2021, all our debt was denominated in foreign currencies. 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 54.2% of our total revenues in the three months ended 30 June 2021 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 2021, the Russian rouble appreciated by 2.0% and 4.9% against the US dollar and the Euro, respectively, compared to 31 December 2020.

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 2021, 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
CIF	"Cost, insurance and freight"
DDA	depreciation, depletion and amortization
FEED	Front-End Engineering Design
FID	Final Investment Decision
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
NBP	National Balancing Point
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	Tobolsk petrochemical complex of PAO SIBUR Holding group
TTF	Title Transfer Facility
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
YNAO	Yamal-Nenets Autonomous Region