



PAO NOVATEK

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

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2021

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GENERAL PROVISIONS

You should read the following discussion and analysis of our financial condition and results of operations for the three months ended 30 September 2021 together with our unaudited consolidated interim condensed financial statements as of and for the three and nine months ended 30 September 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 per annum. The launch of the first train is expected to be in 2023, the second train – in 2024 and the launch of the third train is planned in 2025.

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 (from the Purovsky Plant without incurring additional transportation expenses, by rail or 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.

In October 2021, an amendment to the loan agreement was signed in order to increase the maximum financing amount under this credit line facility to EUR 5.7 billion. The final amount of financing from the Russian banks within the maximum amount of up to EUR 5.7 billion will be determined once the international part of the project's external financing is finalized. Total amount of external financing for the project is planned at about EUR 9.5 billion.

Sale of a 10% participation interest in OOO Arctic Transshipment

In July 2021, the Group sold 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, 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

During the nine months ended 30 September 2021, the Group obtained rights for geological research works, exploration and production of hydrocarbons at three license areas located in the Yamal-Nenets Autonomous Region (YNAO) in close proximity to the Group's existing assets:

- In September 2021, we won auctions for the rights to use license areas, which include the Arkticheskoye and Neytinskoye fields. Combined hydrocarbon reserves of the two fields appraised under the Russian resource classification are estimated at 413 billion cubic meters (bcm) of natural gas and 28 million tons of liquids, or approximately 2.9 billion barrels of oil equivalent (boe). The license areas are located on the Yamal Peninsula in YNAO in close proximity to the Group's other license areas. The aggregate payment for the licenses was set at RR 13.2 billion. The licenses for the rights to use license areas, which include the Arkticheskoye and Neytinskoye fields, were obtained in October 2021.
- In March 2021, the Group won an auction for the right to use the North-Gydanskiy license area. The license area has estimated hydrocarbon resources of 1,244 bcm of natural gas and 209 million tons of liquids, or approximately 9.8 billion boe, under the Russian resource classification. The North-Gydanskiy license area is located in the YNAO 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: the Salmanovskiy (Utrenniy), Gydanskiy, Shtormovoy and the flank of the Ladertoyskiy license area. The payment for the license amounted to RR 775 million. The license for the right to use the North-Gydanskiy license area was obtained in June 2021.

The acquisition of these license area expands our resource base for implementing new LNG projects.

In July 2021, PAO NOVATEK and PAO Gazprom Neft closed a transaction to form a joint venture to develop the North-Vrangelevskiy license area. 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.

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 receives the reverse excise on raw oil based on volumes of stable gas condensate sent for processing to our Ust-Luga Complex and reports it as a deduction to our operating expenses in the line "Purchases of natural gas and liquid hydrocarbons" in our consolidated statement of income (see "Our tax burden and obligatory payments" below).

PAO NOVATEK
**Management's Discussion and Analysis of Financial Condition and Results of Operations
for the three months ended 30 September 2021**
SELECTED DATA

<i>millions of Russian roubles except as stated</i>	Three months ended 30 September:		Change %
	2021	2020	
Financial results			
Total revenues ⁽¹⁾	276,707	163,771	69.0%
Operating expenses	(207,057)	(125,570)	64.9%
Normalized EBITDA ^{(2),(3)}	181,800	93,883	93.6%
Normalized profit attributable to shareholders of PAO NOVATEK ⁽³⁾	112,317	13,172	n/a
Normalized profit attributable to shareholders of PAO NOVATEK ⁽³⁾ , excluding the effect of foreign exchange gains (losses) ⁽⁴⁾	104,937	35,720	193.8%
Normalized earnings per share ⁽³⁾ (in Russian roubles)	37.41	4.39	n/a
Normalized earnings per share ⁽³⁾ , excluding the effect of foreign exchange gains (losses) ⁽⁴⁾ (in Russian roubles)	34.95	11.89	193.8%
Net debt (net cash position) ⁽⁵⁾	15,075	(14,237)	n/a
Production volumes ⁽⁶⁾			
Hydrocarbons production (million barrels of oil equivalent)	149.5	150.4	(0.5%)
Daily production (million barrels of oil equivalent per day)	1.63	1.63	(0.5%)
Sales volumes			
Natural gas (million cubic meters)	16,574	16,563	0.1%
Crude oil (thousand tons)	985	1,093	(9.9%)
Liquefied petroleum gas (thousand tons)	863	723	19.4%
Naphtha (thousand tons)	856	806	6.2%
Stable gas condensate (thousand tons)	750	603	24.4%
Other stable gas condensate refined products (thousand tons)	557	542	2.8%
Cash flow results			
Net cash provided by operating activities	93,810	49,341	90.1%
Cash used for capital expenditures ⁽⁷⁾	47,566	39,821	19.4%
Free cash flow ⁽⁸⁾	46,244	9,520	385.8%

⁽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 (net cash position) 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-Tambeykoye 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.

PAO NOVATEK**Management's Discussion and Analysis of Financial Condition and Results of Operations
for the three months ended 30 September 2021**

Reconciliation of normalized EBITDA is as follows:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Profit	117,590	16,233	n/a
Depreciation, depletion and amortization	13,332	9,733	37.0%
Impairment expenses (reversals), net	(2)	(5)	(60.0%)
Loss (income) from changes in fair value of commodity derivative instruments	922	2,979	(69.1%)
Total finance expense (income)	2,743	(88,487)	n/a
Total income tax expense	12,941	24,003	(46.1%)
Share of loss (profit) of joint ventures, net of income tax	(61,978)	86,804	n/a
EBITDA from subsidiaries	85,548	51,260	66.9%
Net gain on disposal of interests in subsidiaries	(662)	-	n/a
Normalized EBITDA from subsidiaries	84,886	51,260	65.6%
Share in EBITDA of joint ventures	96,914	42,623	127.4%
including:			
OAO Yamal LNG	67,482	27,074	149.3%
AO Arcticgas	24,780	13,983	77.2%
others	4,652	1,566	197.1%
Normalized EBITDA	181,800	93,883	93.6%

SELECTED MACRO-ECONOMIC DATA

Exchange rate, Russian roubles for one foreign currency unit ⁽¹⁾	Three months ended 30 September:		Change %
	2021	2020	
US dollar (USD)			
Average for the period	73.47	73.56	(0.1%)
At the beginning of the period	72.37	69.95	3.5%
At the end of the period	72.76	79.68	(8.7%)
Depreciation (appreciation) of Russian rouble to US dollar	0.5%	13.9%	n/a
Euro			
Average for the period	86.66	85.97	0.8%
At the beginning of the period	86.20	78.68	9.6%
At the end of the period	84.88	93.02	(8.8%)
Depreciation (appreciation) of Russian rouble to Euro	(1.5%)	18.2%	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 September:		Change %
	2021	2020	
Benchmark natural gas prices, USD per mmbtu ⁽²⁾			
NBP (National Balancing Point)	16.4	2.7	n/a
TTF (Title Transfer Facility)	16.7	2.7	n/a
Benchmark crude oil prices ⁽³⁾			
Brent, USD per barrel	73.5	42.9	71.3%
Urals, USD per barrel	70.6	43.0	64.2%
Urals, Russian roubles per barrel	5,187	3,163	64.0%
Benchmark crude oil prices excluding export duties ⁽⁴⁾			
Urals, USD per barrel	61.8	37.0	67.0%
Urals, Russian roubles per barrel	4,540	2,722	66.8%
Benchmark oil products ⁽⁵⁾ and liquefied petroleum gas ⁽⁶⁾ prices, USD per ton			
Naphtha Japan	676	397	70.3%
Naphtha CIF NWE	667	376	77.4%
Jet fuel	627	336	86.6%
Gasoil	599	353	69.7%
Fuel oil	468	268	74.6%
Liquefied petroleum gas	642	362	77.3%
Export duties, USD per ton ⁽⁷⁾			
Crude oil, stable gas condensate	64.6	44.1	46.5%
Naphtha	35.5	24.2	46.7%
Jet fuel, gasoil	19.3	13.2	46.2%
Fuel oil	64.6	44.1	46.5%
Liquefied petroleum gas	26.3	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 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.

Starting from May 2021, OPEC+ began to gradually lift the restrictions on crude oil production targets due to the increased mobility of population, signs of renewed economic activities and crude oil demand recovery in 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. Nevertheless, the crude oil supply still lagged behind global demand due to faster than expected economic recovery. Benchmark crude oil prices continued to increase in the second and third quarters 2021.

The European and Asian natural gas markets were impacted by demand recovery, weather factor (cold winter and hot summer, low wind speeds in Europe and droughts in South America) and supply disruptions that have led to low storage levels in key consuming regions and a strong price rally in the third quarter 2021.

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 2021, the Ministry of Economic Development of the Russian Federation published the "Forecast of Socio-economic Development of the Russian Federation for 2022 and the planned period 2023 and 2024", providing for an increase in wholesale natural gas prices for sales to all customer categories, except for residential customers, from July 2022 by 5.0% and from July 2023 to 2024 by 4.0% on an annual basis. Wholesale natural gas prices for sales to residential customers are expected to be increased from July 2022 to 2024 by 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 September:		Change %
	2021	2020	
Average natural gas price, RR per mcm	7,027	4,705	49.4%
Average natural gas price, USD per mcm ⁽¹⁾	95.7	63.9	49.8%

⁽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 September 2021, our aggregate average price for natural gas in Russian roubles increased by 49.4% 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 and 1 July 2021).

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:

<i>Russian roubles or US dollars per ton ⁽¹⁾</i>	Three months ended 30 September:		Change %
	2021	2020	
Naphtha			
Average net price, RR per ton	49,186	29,053	69.3%
Average net price, USD per ton	668	395	69.1%
Other stable gas condensate refined products			
Average net price, RR per ton	43,000	23,271	84.8%
Average net price, USD per ton	585	317	84.5%
Crude oil			
Average net price, RR per ton	32,842	19,087	72.1%
Average net price, USD per ton	447	260	71.9%
LPG			
Average net price, RR per ton	32,699	19,252	69.8%
Average net price, USD per ton	445	262	69.8%
Stable gas condensate			
Average net price, RR per ton	35,483	20,330	74.5%
Average net price, USD per ton	482	275	75.3%

⁽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 September 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 nine months 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 in 2020 and 2021 should 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 September 2021, the Ministry of Economic Development published the Forecast for 2022 and the planning periods for 2023 and 2024, which does not provide for any increase in the tariffs for natural gas transportation through the trunk pipeline in 2022 to 2024. 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, and 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 nine months 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 reverse excise for raw oil.

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)	$K \times [0.35 \times (P - 109.5)]$
between 146 and 182.5 (inclusive)	$K \times [0.45 \times (P - 146) + 12.78]$
above 182.5	$K \times [0.3 \times (P - 182.5) + 29.2]$

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)	$0.5 \times (P - 490)$
between 640 and 740 (inclusive)	$75 + 0.6 \times (P - 640)$
above 740	$135 + 0.7 \times (P - 740)$

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, Khancheykoye 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

In 2019, with the commencement of the completion stage of the tax maneuver in the oil and gas industry in the Russian Federation, a reverse excise on raw oil was introduced. Raw oil represents a mixture of hydrocarbons composed of one or more components of crude oil, stable gas condensate, vacuum gasoil, tar, and fuel oil. This deduction was 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.

We receive the reverse excise on raw oil based on volumes of stable gas condensate sent for processing to our Ust-Luga Complex.

The excise tax rate on 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.

In 2021, an investment premium to the reverse excise on raw oil was introduced for companies, which concluded an investment agreement with the Ministry of Energy of the Russian Federation prior to 1 October 2021 for construction or modernization of raw oil deep processing facilities. Effective July 2021, the reverse excise we receive includes the investment premium, which we obtain under an investment agreement for construction of a hydrocracker unit with the respective expansion of our Ust-Luga Complex.

We report the reverse excise on raw oil as a deduction to our operating expenses in the line "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

In the third quarter 2021, our total natural gas and liquids production including the proportionate share in the production of our joint ventures marginally decreased by 0.7% and 0.4%, respectively, compared to the corresponding prior year period. The commissioning of gas condensate deposits within the fields of the North-Russkiy cluster (the North-Russkoye and East-Tazovskoye) in August 2020 almost offset the declines in hydrocarbons production at mature fields of our subsidiaries and joint ventures. In the nine months 2021, our total natural gas and liquids production increased by 4.2% and 2.9%, respectively.

In the three months ended 30 September 2021, our total natural gas sales volumes marginally increased by 11 mmcm, or 0.1%. An increase in natural gas sales volumes on the domestic market fully offset a decline in volumes sold on the international markets. The increase in volumes sold on the domestic market resulted from the launch of additional production facilities, as well as higher demand from end-customers due to weather conditions. The decline in natural gas volumes sold on the international markets was 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 September 2021, our liquids sales volumes increased by 243 thousand tons, or 6.4% primarily due to changes in inventory balances that vary period-to-period depending on shipping schedules and final destinations of our liquid hydrocarbons shipments.

Natural gas production volumes

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

millions of cubic meters if not stated otherwise	Three months ended 30 September:		Change %
	2021	2020	
Production by subsidiaries from:			
Yurkharovskoye field	5,362	5,677	(5.5%)
North-Russkiy cluster ⁽¹⁾	2,114	1,416	49.3%
East-Tarkosalinskoye field	1,144	1,301	(12.1%)
Beregovoye field	467	443	5.4%
Yarudeyskoye field	333	370	(10.0%)
Khancheyenskoye field	242	316	(23.4%)
Olimpiyskiy license area ⁽²⁾	235	265	(11.3%)
East-Urengoyenskoye + North-Esetinskoye field (West-Yaroyakhinskiy license area)	113	131	(13.7%)
Other fields	300	248	21.0%
Total natural gas production by subsidiaries ^{(3),(4)}	10,310	10,167	1.4%
Group's proportionate share in the production of joint ventures:			
Yamal LNG ⁽⁵⁾	4,029	4,071	(1.0%)
Arcticgas	3,724	3,873	(3.8%)
Nortgas	610	704	(13.4%)
Terneftegas	310	303	2.3%
Arctic LNG 2	18	13	38.5%
Total Group's proportionate share in the natural gas production of joint ventures ^{(3),(4)}	8,691	8,964	(3.0%)
Total natural gas production including proportionate share in the production of joint ventures	19,001	19,131	(0.7%)
<i>Total LNG production including proportionate share in the production of joint ventures (thousands of tons) ⁽⁵⁾</i>	<i>2,719</i>	<i>2,744</i>	<i>(0.9%)</i>
⁽¹⁾ Includes production at the North-Russkoye, East-Tazovskoye and Dorogovskoye fields.			
⁽²⁾ Includes production at the Urengoyenskoye, 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	431	433	(0.5%)
in joint ventures (Group's proportionate share)	125	121	3.3%
⁽⁵⁾ Natural gas and LNG production at Yamal LNG are reported at 60% (see "Basis of presentation" above).			

In the current reporting period, an increase in natural gas production within the North-Russkiy cluster almost offset the decrease in production at mature fields of our subsidiaries and joint ventures. The increase in production within the North-Russkiy cluster was a result of the launch of gas condensate deposits at the North-Russkoye field and the launch of the East-Tazovskoye field in August 2020. Production declines at mature fields of our subsidiaries (the Yurkharovskoye, East-Tarkosalinskoye and Khancheyskoye fields) and joint ventures (Nortgas and Arcticgas) resulted mainly from natural declines in the reservoir pressure at the current gas producing horizons.

In the third quarter 2021, Yamal LNG performed planned maintenance works on one of the LNG trains, the effect of which on production was partially offset by the launch of the fourth liquefaction train. In 2020, planned maintenance works at the LNG plant were performed in the second quarter.

As a result, in the three months ended 30 September 2021, our total natural gas production (including our proportionate share in the production of joint ventures) marginally decreased by 130 mmcm, or 0.7%, to 19,001 mmcm from 19,131 mmcm in the corresponding period in 2020. In the nine months 2021, our total natural gas production volumes increased by 2,397 mmcm, or 4.2%, to 59,107 mmcm from 56,710 mmcm mainly due the launch of new production facilities.

Natural gas sales volumes

In the three months ended 30 September 2021, our total natural gas sales volumes marginally increased by 11 mmcm, or 0.1%, to 16,574 mmcm from 16,563 mmcm in the corresponding period in 2020.

<i>millions of cubic meters</i>	Three months ended 30 September:		Change %
	2021	2020	
Production by subsidiaries	10,310	10,167	1.4%
Purchases from the Group's joint ventures	5,221	5,679	(8.1%)
Other purchases	2,479	1,755	41.3%
Total production and purchases	18,010	17,601	2.3%
Own usage ⁽¹⁾ and other movements	(448)	(471)	(4.9%)
Decrease (increase) in natural gas inventory balance	(988)	(567)	74.3%
Total natural gas sales volumes	16,574	16,563	0.1%
<i>Sold to end-customers</i>	<i>14,367</i>	<i>13,799</i>	<i>4.1%</i>
<i>Sold ex-field</i>	<i>500</i>	<i>560</i>	<i>(10.7%)</i>
<i>Subtotal sold in the Russian Federation</i>	<i>14,867</i>	<i>14,359</i>	<i>3.5%</i>
<i>Sold on international markets</i>	<i>1,707</i>	<i>2,204</i>	<i>(22.5%)</i>

⁽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 September 2021, natural gas purchases from our joint ventures decreased by 458 mmcm, or 8.1%, to 5,221 mmcm from 5,679 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 September 2021 and 2020, we purchased from third parties 2,363 mmcm and 1,740 mmcm of natural gas, respectively, on the Russian domestic market, and 116 mmcm and 15 mmcm, respectively, on international markets.

At 30 September 2021, our cumulative natural gas inventory balance, mainly representing our inventory balances of natural gas in the UGSF, aggregated 1,763 mmcm and increased by 988 mmcm during the quarter as compared to an increase by 567 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 September:		Change %
	2021	2020	
Production by subsidiaries from:			
Yarudeyskoye field	678	764	(11.3%)
East-Tarkosalinskoye field	317	324	(2.2%)
North-Russkiy cluster ⁽¹⁾	246	123	100.0%
Yurkharovskoye field	240	248	(3.2%)
Beregovoye field	66	68	(2.9%)
Khancheyskoye field	35	42	(16.7%)
Other fields	40	42	(4.8%)
Total liquids production by subsidiaries	1,622	1,611	0.7%
<i>including crude oil</i>	985	1,068	(7.8%)
<i>including gas condensate</i>	637	543	17.3%
Group's proportionate share in the production of joint ventures:			
Arcticgas	1,104	1,115	(1.0%)
Yamal LNG ⁽²⁾	146	150	(2.7%)
Terneftegas	88	90	(2.2%)
Nortgas	50	57	(12.3%)
Total Group's proportionate share in the liquids production of joint ventures	1,388	1,412	(1.7%)
Total liquids production including proportionate share in the production of joint ventures	3,010	3,023	(0.4%)

⁽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 September 2021, our total liquids production (including our proportionate share in the production of joint ventures) marginally decreased by 13 thousand tons, or 0.4%, to 3,010 thousand tons from 3,023 thousand tons in the corresponding period in 2020. At the same time, in the nine months 2021, our total liquids production increased by 258 thousand tons, or 2.9%, from 8,992 thousand tons to 9,250 thousand tons.

The launch of gas condensate production within the North-Russkiy cluster (the North-Russkoye and East-Tazovskoye fields) in August 2020 almost 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 September 2021, our total liquids sales volumes increased by 243 thousand tons, or 6.4%, to 4,014 thousand tons from 3,771 thousand tons in the corresponding period in 2020.

<i>thousands of tons</i>	Three months ended 30 September:		Change %
	2021	2020	
Production by subsidiaries	1,622	1,611	0.7%
Purchases from the Group's joint ventures	2,425	2,464	(1.6%)
Other purchases	124	40	210.0%
Total production and purchases	4,171	4,115	1.4%
Losses ⁽¹⁾ , own usage ⁽²⁾ and other movements ⁽³⁾	(74)	(58)	27.6%
Decreases (increases) in liquids inventory balances	(83)	(286)	(71.0%)
Total liquids sales volumes	4,014	3,771	6.4%
<i>Naphtha export</i>	856	806	6.2%
<i>Other stable gas condensate refined products export ⁽⁴⁾</i>	447	493	(9.3%)
<i>Other stable gas condensate refined products domestic ⁽⁴⁾</i>	110	49	124.5%
Subtotal stable gas condensate refined products	1,413	1,348	4.8%
<i>Crude oil export</i>	322	320	0.6%
<i>Crude oil domestic</i>	663	773	(14.2%)
Subtotal crude oil	985	1,093	(9.9%)
<i>LPG export</i>	137	146	(6.2%)
<i>LPG domestic</i>	726	577	25.8%
Subtotal LPG	863	723	19.4%
<i>Stable gas condensate export</i>	192	197	(2.5%)
<i>Stable gas condensate domestic</i>	558	406	37.4%
Subtotal stable gas condensate	750	603	24.4%
Other oil products	3	4	(25.0%)

⁽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 movements relate to volumes of natural gas received from the deethanization of unstable gas condensate purchased from third parties.

⁽⁴⁾ 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.

Other purchases of liquid hydrocarbons increased due to purchases of unstable gas condensate from a Gazprom group's company for deethanization and further processing at our Purovsky Plant.

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 increased by 83 thousand tons to 912 thousand tons as of 30 September 2021 as compared to an increase in inventory balances by 286 thousand tons to 945 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).

PAO NOVATEK
**Management's Discussion and Analysis of Financial Condition and Results of Operations
for the three months ended 30 September 2021**
**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2021 COMPARED
TO THE CORRESPONDING PERIOD IN 2020**

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

<i>millions of Russian roubles</i>	Three months ended 30 September:			
	2021	% of total revenues	2020	% of total revenues
Total revenues ⁽¹⁾	276,707	100.0%	163,771	100.0%
including:				
natural gas sales	116,461	42.1%	77,929	47.6%
liquids sales	153,416	55.4%	83,282	50.9%
Operating expenses	(207,057)	(74.8%)	(125,570)	(76.7%)
Gain on disposal of interests in subsidiaries, net	662	0.2%	-	n/a
Other operating income (loss)	984	0.4%	352	0.2%
Profit from operations	71,296	25.8%	38,553	23.5%
Normalized profit from operations ⁽²⁾	70,634	25.5%	38,553	23.5%
Finance income (expense)	(2,743)	(1.0%)	88,487	54.1%
Share of profit (loss) of joint ventures, net of income tax	61,978	22.4%	(86,804)	(53.0%)
Profit before income tax	130,531	47.2%	40,236	24.6%
Total income tax expense	(12,941)	(4.7%)	(24,003)	(14.7%)
Profit	117,590	42.5%	16,233	9.9%
Less: profit (loss) attributable to non-controlling interest	(4,684)	(1.7%)	(3,061)	(1.9%)
Profit attributable to shareholders of PAO NOVATEK	112,906	40.8%	13,172	8.0%
Normalized profit attributable to shareholders of PAO NOVATEK ⁽²⁾, excluding the effect of foreign exchange gains (losses)	104,937	37.9%	35,720	21.8%

⁽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 September 2021 and 2020:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %	Change ⁽¹⁾		
	2021	2020		Total	Due to volume ⁽²⁾	Due to price ⁽³⁾
Natural gas sales	116,461	77,929	49.4%	38,532	56	38,476
Stable gas condensate refined products sales	66,055	36,025	83.4%	30,030	1,807	28,223
<i>Naphtha</i>	42,090	23,421	79.7%	18,669	1,441	17,228
<i>Other refined products</i>	23,965	12,604	90.1%	11,361	366	10,995
Crude oil sales	32,363	20,861	55.1%	11,502	(2,052)	13,554
Liquefied petroleum gas sales	28,205	13,922	102.6%	14,283	2,685	11,598
Stable gas condensate sales	26,603	12,254	117.1%	14,349	2,988	11,361
Other products sales	190	220	(13.6%)	(30)	n/a	n/a
Total oil and gas sales	269,877	161,211	67.4%	108,666	n/a	n/a
Other revenues	6,830	2,560	166.8%	4,270	n/a	n/a
Total revenues	276,707	163,771	69.0%	112,936	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 September 2021, our total revenues from natural gas sales increased by RR 38,532 million, or 49.4%, 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 September 2021, our revenues from sales of stable gas condensate refined products increased by RR 30,030 million, or 83.4%, to RR 66,055 million from RR 36,025 million in the corresponding period in 2020 mainly due to an increase in average realized prices and, to a lesser extent, sales volumes (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 18,669 million, or 79.7%, as compared to the corresponding period in 2020. In the three months ended 30 September 2021 and 2020, we exported 856 thousand tons and 806 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 20,133 per ton, or 69.3%, to RR 49,186 per ton from RR 29,053 per ton in the corresponding period in 2020.

Revenues from sales of jet fuel, gasoil and fuel oil increased by RR 11,361 million, or 90.1%, as compared to the corresponding period in 2020. In the three months ended 30 September 2021 and 2020, we exported in aggregate 447 thousand tons and 493 thousand tons of these products mainly to the European markets, or 80.3% and 91.0% 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 19,729 per ton, or 84.8%, to RR 43,000 per ton from RR 23,271 per ton in the corresponding period in 2020.

Crude oil sales

In the three months ended 30 September 2021, our revenues from crude oil sales increased by RR 11,502 million, or 55.1%, compared to the corresponding period in 2020 due to an increase in average realized prices.

We sold 663 thousand tons, or 67.3% of our total crude oil sales volumes, domestically as compared to sales of 773 thousand tons, or 70.7%, in the corresponding period in 2020 (see "Liquids sales volumes" above). The remaining 322 thousand tons of crude oil, or 32.7% of our total crude oil sales volumes, in the three months ended 30 September 2021, and 320 thousand tons, or 29.3%, in the corresponding period in 2020 were sold to customers with destination points in the APR and the European (only in the third quarter 2020) markets.

Our average realized net price, excluding export duties, where applicable, increased by RR 13,755 per ton, or 72.1%, to RR 32,842 per ton from RR 19,087 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 September 2021, our revenues from sales of LPG increased by RR 14,283 million, or 102.6%, 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 726 thousand tons of LPG, or 84.1% of our total LPG sales volumes, on the domestic market compared to sales of 577 thousand tons, or 79.8%, in the corresponding period in 2020 (see "Liquids sales volumes" above). The remaining 137 thousand tons of LPG, or 15.9% of our total LPG sales volumes, in the three months ended 30 September 2021 and 146 thousand tons, or 20.2%, 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 September 2021 increased by RR 13,447 per ton, or 69.8%, to RR 32,699 per ton from RR 19,252 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 September 2021, our revenues from sales of stable gas condensate increased by RR 14,349 million, or 117.1%, compared to the corresponding period in 2020 due to an increase in average realized prices and, to a lesser extent, in sales volumes.

We sold 558 thousand tons of stable gas condensate, or 74.4% of our total stable gas condensate sales volumes, on the domestic market as compared to sales of 406 thousand tons, or 67.3%, in the corresponding period in 2020 (see "Liquids sales volumes" above). The remaining 192 thousand tons of stable gas condensate, or 25.6% of our total stable gas condensate sales volumes, in the third quarter 2021, and 197 thousand tons, or 32.7%, in the corresponding period in 2020 were sold to the European and APR markets.

Our average realized net price, excluding export duties, where applicable, increased by RR 15,153 per ton, or 74.5%, to RR 35,483 per ton from RR 20,330 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 September 2021, our revenues from other products sales decreased by RR 30 million, or 13.6%, to RR 190 million from RR 220 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 September 2021, other revenues increased by RR 4,270 million, or 166.8%, to RR 6,830 million from RR 2,560 million in the corresponding period in 2020 primarily due to additional license fees received from the joint venture Yamal LNG for our technology "Arctic Cascade" as a result of the launch of the fourth LNG train and 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 September 2021, our total operating expenses increased by RR 81,487 million, or 64.9%, to RR 207,057 million compared to RR 125,570 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).

<i>millions of Russian roubles</i>	Three months ended 30 September:			
	2021	% of total revenues	2020	% of total revenues
Purchases of natural gas and liquid hydrocarbons	120,888	43.7%	52,876	32.3%
Transportation expenses	36,485	13.2%	34,139	20.8%
Taxes other than income tax	22,522	8.1%	14,121	8.6%
Depreciation, depletion and amortization	13,332	4.8%	9,733	5.9%
Materials, services and other	8,506	3.1%	7,593	4.6%
General and administrative expenses	8,472	3.1%	8,424	5.1%
Exploration expenses	695	0.3%	2,415	1.5%
Impairment expenses (reversals), net	(2)	n/a	(5)	n/a
Changes in natural gas, liquid hydrocarbons and work-in-progress	(3,841)	n/a	(3,726)	n/a
Total operating expenses	207,057	74.8%	125,570	76.7%

Purchases of natural gas and liquid hydrocarbons

In the three months ended 30 September 2021, our purchases of natural gas and liquid hydrocarbons increased by RR 68,012 million, or 128.6%, to RR 120,888 million as compared to RR 52,876 million in the corresponding period in 2020.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Unstable gas condensate	65,472	28,740	127.8%
Natural gas	58,116	22,134	162.6%
Other hydrocarbons	2,352	3,340	(29.6%)
Reverse excise	(5,052)	(1,338)	277.6%
Total purchases of natural gas and liquid hydrocarbons	120,888	52,876	128.6%

Purchases of unstable gas condensate increased by RR 36,732 million, or 127.8%, 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 35,982 million, or 162.6%, 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). The impact of this factor 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 988 million, or 29.6%, as compared to the corresponding period in 2020 mainly due to purchases of stable gas condensate from Yamal LNG for subsequent sale in the third quarter 2020 (there were no such purchases in the current quarter).

We receive the reverse excise on raw oil based on volumes of stable gas condensate sent for processing to our Ust-Luga Complex on a monthly basis (see "Our tax burden and obligatory payments" above). We report the amount of reverse excise as a deduction to our operating expenses in the line "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.

Transportation expenses

In the three months ended 30 September 2021, our total transportation expenses increased by RR 2,346 million, or 6.9%, to RR 36,485 million as compared to RR 34,139 million in the corresponding period in 2020.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Natural gas transportation			
by trunk and low-pressure pipelines	23,786	22,483	5.8%
Stable gas condensate and			
liquefied petroleum gas transportation by rail	8,682	7,494	15.9%
Crude oil transportation by trunk pipelines	1,803	1,866	(3.4%)
Stable gas condensate and refined products,			
crude oil and liquefied natural gas transportation by tankers	1,713	1,887	(9.2%)
Other	501	409	22.5%
Total transportation expenses	36,485	34,139	6.9%

Expenses for natural gas transportation by trunk and low-pressure pipelines increased by RR 1,303 million, or 5.8%, to RR 23,786 million from RR 22,483 million in the corresponding period in 2020 due to a 4.1% 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 1,188 million, or 15.9%, to RR 8,682 million from RR 7,494 million in the corresponding period in 2020. The increase was mainly due to an 11.8% increase in volumes of liquids sold and transported via rail, as well as an increase in the weighted average transportation cost per unit resulted from a 3.7% growth in the regulated railroad transportation tariffs effective January 2021 (see "Transportation tariffs" above).

Expenses for crude oil transportation to customers by trunk pipeline decreased by RR 63 million, or 3.4%, to RR 1,803 million from RR 1,866 million in the corresponding period in 2020 due to a 9.9% decrease in sales volumes, the effect of which was partially offset by a 3.6% increase in crude oil transportation tariffs effective 1 January 2021 (see "Transportation tariffs" above).

Transportation expenses for our hydrocarbons delivered by tankers to international markets decreased by RR 174 million, or 9.2%, to RR 1,713 million from RR 1,887 million in the corresponding period in 2020 due to a decrease in volumes delivered, as well as changes in the LNG delivery terms and points of destination.

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 September 2021, taxes other than income tax increased by RR 8,401 million, or 59.5%, to RR 22,522 million from RR 14,121 million in the corresponding period in 2020 due to an increase in unified natural resources production tax expense.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Unified natural resources production tax (UPT)	21,265	13,060	62.8%
Property tax	1,155	988	16.9%
Other taxes	102	73	39.7%
Total taxes other than income tax	22,522	14,121	59.5%

Unified natural resources production tax expense increased by RR 8,205 million, or 62.8%, to RR 21,265 million from RR 13,060 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 167 million, or 16.9%, to RR 1,155 million from RR 988 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 September 2021, our depreciation, depletion and amortization ("DDA") expense increased by RR 3,599 million, or 37.0%, to RR 13,332 million from RR 9,733 million in the corresponding period in 2020 primarily due to additions of new assets: launch of the fields within the North-Ruskiy 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 September 2021, our materials, services and other expenses increased by RR 913 million, or 12.0%, to RR 8,506 million compared to RR 7,593 million in the corresponding period in 2020.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Employee compensation	3,758	3,448	9.0%
Repair and maintenance	1,166	1,098	6.2%
Materials and supplies	731	520	40.6%
Preparation and processing of hydrocarbons	556	537	3.5%
Electricity and fuel	431	384	12.2%
Transportation services	351	293	19.8%
Fire safety and security expenses	330	292	13.0%
Liquefied petroleum gas volumes reservation expenses	296	335	(11.6%)
Insurance expense	163	112	45.5%
Rent expenses	149	131	13.7%
Labor safety expenses	118	242	(51.2%)
Other	457	201	127.4%
Total materials, services and other	8,506	7,593	12.0%

Employee compensation relating to operating personnel increased by RR 310 million, or 9.0%, to RR 3,758 million compared to RR 3,448 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.

Materials and supplies expenses increased by RR 211 million, or 40.6%, to RR 731 million compared to RR 520 million in the corresponding period in 2020 mainly due to the launch of the fields within the North-Russkiy cluster and implementation of crude oil program at the East-Tarkosalinskoye field.

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

General and administrative expenses

In the three months ended 30 September 2021, our general and administrative expenses marginally increased by RR 48 million, or 0.6%, to RR 8,472 million compared to RR 8,424 million in the corresponding period in 2020.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Employee compensation	6,229	5,110	21.9%
Social expenses and compensatory payments	581	2,294	(74.7%)
Advertising expenses	534	145	268.3%
Legal, audit and consulting services	308	280	10.0%
Repair and maintenance expenses	203	193	5.2%
Fire safety and security expenses	157	135	16.3%
Business travel expense	101	36	180.6%
Rent expense	42	45	(6.7%)
Other	317	186	70.4%
Total general and administrative expenses	8,472	8,424	0.6%

Employee compensation relating to administrative personnel increased by RR 1,119 million, or 21.9%, to RR 6,229 million in the three months ended 30 September 2021 from RR 5,110 million in the corresponding period in 2020 due to an increase in average number of employees resulting from the expansion of the Group's activities, 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.

Social expenses and compensatory payments amounted to RR 581 million compared to RR 2,294 million in the corresponding period in 2020. In the current reporting period, the major part of expenses represented our social expenses related to continued support of charities and social programs in the regions where we operate. In the corresponding period in prior year, besides social expenses we also made compensatory payments of RR 1,545 million, which primarily related to the development of the Yurkharovskoye and West-Yurkharovskoye fields, the Nyakhartinskiy and West-Yaroyakhinskiy license areas. Social expenses and compensatory payments fluctuate period-to-period depending on the implementation schedules of specific programs we support.

Advertising expenses amounted to RR 534 million compared to RR 145 million in the corresponding period in 2020 and in both reporting periods mainly related to a corporate sponsorship contract for the Group's advertising during sporting events.

Other items of our general and administrative expenses changed marginally.

Exploration expenses

In the three months ended 30 September 2021, our exploration expenses amounted to RR 695 million, of which the major part related to exploration works performed at the Nyakhartinskiy license area. In the corresponding period in 2020, our exploration expenses amounted to RR 2,415 million, of which the major part related to exploration works at the Shtormovoy license area. 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 September 2021 and 2020, we recorded reversals of RR 3,841 million and RR 3,726 million, respectively, to changes in inventory expense primarily due to an increase in natural gas and stable gas condensate refined products inventory balances in both reporting periods.

In the reporting periods in 2021 and 2020, our cumulative natural gas inventory balance increased by 988 mmcm and 567 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 September 2021 and 2020, our cumulative liquid hydrocarbons inventory balances, recognized as inventory in transit or in storage, increased by 83 thousand tons and 286 thousand tons, respectively, mainly due to an increase in inventory balances of stable gas condensate refined products in tankers in transit not realized at the reporting date. Inventory balances of stable gas condensate and refined products tend to fluctuate period-to-period depending on shipment schedules and final destination of our shipments.

The following table highlights movements in our hydrocarbons inventory balances:

<i>Inventory balances in transit or in storage</i>	2021			2020		
	At 30 September	At 30 June	Increase / (decrease)	At 30 September	At 30 June	Increase / (decrease)
Natural gas (millions of cubic meters)	1,763	775	988	1,545	978	567
<i>incl. Gazprom's UGSF</i>	<i>1,451</i>	<i>710</i>	<i>741</i>	<i>1,353</i>	<i>673</i>	<i>680</i>
Liquid hydrocarbons (thousand tons)	912	829	83	945	659	286
<i>incl. stable gas condensate</i>						
<i>refined products</i>	<i>453</i>	<i>308</i>	<i>145</i>	<i>461</i>	<i>222</i>	<i>239</i>
<i>stable gas condensate</i>	<i>252</i>	<i>312</i>	<i>(60)</i>	<i>271</i>	<i>220</i>	<i>51</i>
<i>crude oil</i>	<i>94</i>	<i>98</i>	<i>(4)</i>	<i>101</i>	<i>100</i>	<i>1</i>

Net gain on disposal of interests in subsidiaries

In the third quarter 2021, the Group sold a 10% participation interest in its subsidiary OOO Arctic Transshipment to TOTAL E&P Transshipment SAS, a member of the TotalEnergies SE group, and recognized a gain on the disposal in the amount of RR 662 million before income tax (see "Recent developments" above).

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 September 2021, we recognized other operating income of RR 984 million compared to RR 352 million in the corresponding period in 2020.

In the three months ended 30 September 2021, we purchased and sold approximately 3.1 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 1,931 million as compared to income of RR 3,009 million in the corresponding period in 2020. At the same time, we recognized a non-cash loss of RR 922 million in the three months ended 30 September 2021 due to a decrease in the fair value of the aforementioned contracts as compared to a non-cash loss of RR 2,979 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.

Profit from operations and EBITDA

In the three months ended 30 September 2021, our profit from operations and EBITDA including our proportionate share of joint ventures, but excluding the effects from the disposal of participation interests in subsidiaries, increased to RR 149,069 million and RR 181,800 million, respectively, compared to RR 62,243 million and RR 93,883 million in the corresponding period in 2020.

Profit from operations and EBITDA of our subsidiaries, excluding the effects from the disposal of participation interests, also increased to RR 70,634 million and RR 84,886 million, respectively, compared to RR 38,553 million and RR 51,260 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 the commissioning of gas condensate deposits within the fields of the North-Russkiy cluster in August 2020.

Finance income (expense)

In the three months ended 30 September 2021, we recorded net finance expense of RR 2,743 million compared to net finance income RR 88,487 million in the corresponding period in 2020.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Accrued interest expense on loans received	(1,909)	(2,512)	(24.0%)
Less: capitalized interest	1,111	1,651	(32.7%)
Provisions for asset retirement obligations:			
effect of the present value discount unwinding	(204)	(241)	(15.4%)
Interest expense on lease liabilities and other expenses	(102)	(137)	(25.5%)
Interest expense	(1,104)	(1,239)	(10.9%)
Interest income	4,066	6,443	(36.9%)
Change in fair value of non-commodity financial instruments	2,034	(1,880)	n/a
Foreign exchange gain (loss), net	(7,739)	85,163	n/a
Total finance income (expense)	(2,743)	88,487	n/a

Interest expense decreased marginally by RR 135 million, or 10.9%.

Interest income decreased by RR 2,377 million, or 36.9%, to RR 4,066 million from RR 6,443 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 September 2021, we recognized a non-cash gain of RR 2,034 million compared to a non-cash loss of RR 1,880 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 September 2021, we recorded a net foreign exchange loss of RR 7,739 million compared to a net foreign exchange gain of RR 85,163 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 September 2021, the Group's proportionate share of profit of joint ventures amounted to RR 61,978 million as compared to the share of loss in the amount of RR 86,804 million in the corresponding period in 2020.

<i>millions of Russian roubles (Group's share)</i>	Three months ended 30 September:		Change %
	2021	2020	
Share of profit from operations	78,435	23,690	231.1%
Share of finance income (expense)			
excluding foreign exchange effects	(19,831)	(19,014)	4.3%
Interest income (expense), net	(16,093)	(22,048)	(27.0%)
Change in fair value of non-commodity financial instruments	(3,738)	3,034	n/a
Share of income tax excluding foreign exchange effects	(10,197)	(802)	n/a
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	48,407	3,874	n/a
Share of foreign exchange gain (loss), net	17,720	(179,240)	n/a
Share of income tax related to foreign exchange gain (loss)	(3,162)	30,446	n/a
Total	62,965	(144,920)	n/a
Unrecognized share of loss (profit) of joint ventures	(987)	58,116	n/a
Total share of profit (loss) of joint ventures, net of income tax	61,978	(86,804)	n/a

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

<i>millions of Russian roubles (Group's share)</i>	Yamal LNG		Arcticgas		Others	
	2021	2020	2021	2020	2021	2020
Share of profit from operations	53,845	13,622	21,414	9,897	3,176	171
Share of finance income (expense)						
excluding foreign exchange effects	(18,159)	(19,770)	(1,056)	(283)	(616)	1,039
Interest income (expense), net	(14,569)	(21,083)	(1,056)	(283)	(468)	(682)
Change in fair value of non-commodity financial instruments	(3,590)	1,313	-	-	(148)	1,721
Share of income tax excluding foreign exchange effects	(6,347)	1,177	(3,447)	(1,613)	(403)	(366)
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	29,339	(4,971)	16,911	8,001	2,157	844
Share of foreign exchange gain (loss), net	10,643	(150,713)	3	(21)	7,074	(28,506)
Share of income tax related to foreign exchange gain (loss)	(1,756)	24,868	(1)	3	(1,405)	5,575
Total	38,226	(130,816)	16,913	7,983	7,826	(22,087)
Unrecognized share of loss (profit) of joint ventures	-	55,033	-	-	(987)	3,083
Total share of profit (loss) of joint ventures, net of income tax	38,226	(75,783)	16,913	7,983	6,839	(19,004)

Our proportionate share in the profit from operations of our joint ventures increased by RR 54,745 million, or 231.1%, from RR 23,690 million to RR 78,435 million mainly due to increases in LNG and liquids average realized prices.

Our proportionate share in interest expense decreased by RR 6.0 billion, or 27.0%, 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 third quarter 2021, our share in foreign exchange gains amounted to RR 17.7 billion as compared to our share in foreign exchange losses of RR 179.2 billion in the corresponding period in 2020. These foreign exchange gains (losses) 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 current reporting period, a portion of our share of profit of OOO Cryogas-Vysotsk in the amount of approximately RR 1.0 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. In the third quarter 2020, as a result of the recognition of foreign exchange effects, the Group's proportionate share of accumulated losses in OAO Yamal LNG and OOO Cryogas-Vysotsk exceeded our cost of investments and the Group's investments in these joint ventures were valued at RR nil in the consolidated statement of financial position. The unrecognized share of losses in the third quarter 2020 amounted to RR 58.1 billion.

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, the effective income tax rate (total income tax expense calculated as a percentage of profit before income tax) for the three months ended 30 September 2021 and 2020 was 19.3% and 19.0%, 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 99,734 million, 8.6 times, to RR 112,906 million in the three months ended 30 September 2021 compared to RR 13,172 million in the corresponding period in 2020.

Excluding the effects from the disposal of interests in subsidiaries and foreign exchange gains (losses), our profit attributable to shareholders of PAO NOVATEK increased by RR 69,217 million, or 193.8%, and amounted to RR 104,937 million in the three months ended 30 September 2021 compared to RR 35,720 million in the corresponding period in 2020.

PAO NOVATEK**Management's Discussion and Analysis of Financial Condition and Results of Operations
for the three months ended 30 September 2021**

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

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change
	2021	2020	%
Profit attributable to shareholders of PAO NOVATEK	112,906	13,172	n/a
Gain on disposal of interests in subsidiaries, net	(662)	-	n/a
Income tax expense related to the disposal of interests in subsidiaries	73	-	n/a
Normalized profit attributable to shareholders of PAO NOVATEK	112,317	13,172	n/a
including:			
profit from subsidiaries	50,339	99,976	(49.6%)
share of profit (loss) of joint ventures	61,978	(86,804)	n/a

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

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change
	2021	2020	%
Normalized profit from subsidiaries attributable to shareholders of PAO NOVATEK	50,339	99,976	(49.6%)
Foreign exchange (gains) losses, net	7,739	(85,163)	n/a
Income tax expense relating to foreign exchange (gains) losses	(1,548)	17,033	n/a
Normalized profit from subsidiaries attributable to shareholders of PAO NOVATEK excluding the effect of foreign exchange gains (losses)	56,530	31,846	77.5%
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects ⁽¹⁾	48,407	3,874	n/a
Normalized profit attributable to shareholders of PAO NOVATEK, excluding the effect of foreign exchange gains (losses)	104,937	35,720	193.8%

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

In the third quarter 2021, our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of PAO NOVATEK, increased by RR 33.21, 8.6 times, to RR 37.60 per share compared to RR 4.39 per share in the corresponding period in 2020. Excluding the effects from the disposal of interests in subsidiaries and foreign exchange gains (losses), our weighted average basic and diluted earnings per share increased by RR 23.06, or 193.8%, to RR 34.95 per share in the three months ended 30 September 2021 from RR 11.89 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 September 2021 and 2020:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Net cash provided by operating activities	93,810	49,341	90.1%
Net cash used for investing activities	(47,978)	(76,572)	(37.3%)
Net cash provided by (used for) financing activities	(6,981)	3,065	n/a

Net cash provided by operating activities

Our net cash provided by operating activities increased to RR 93,810 million compared to RR 49,341 million in the corresponding period in 2020 mainly due to an increase in profit from operations and dividends received from joint ventures.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Profit from operations, excluding the effects from the disposal of interests in subsidiaries	70,634	38,553	83.2%
Non-cash adjustments ⁽¹⁾	14,891	14,042	6.0%
Changes in working capital and long-term advances given	(3,365)	2,478	n/a
Dividends and cash received from joint ventures	17,140	3,227	n/a
Interest received	1,599	90	n/a
Income taxes paid excluding actual payments relating to disposal of interests in subsidiaries	(7,089)	(9,049)	(21.7%)
Total net cash provided by operating activities	93,810	49,341	90.1%

⁽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 third quarter 2021, profit from operations, excluding the effects from the disposal of interests in subsidiaries, 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 recognition of substantial positive foreign exchange differences in our subsidiaries in the third quarter 2020. Moreover, the Group offset other taxes refund in the amount of RR 2.7 billion against income tax in the current reporting period.

In the third quarter 2021 and 2020, we received RR 16,250 million and RR 3,000 million, respectively, of dividends from our joint venture Arcticgas, as well as RR 890 million and RR 227 million, respectively, of dividends and 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 current reporting period, we received RR 1.3 billion of interest on loans provided to our joint venture Yamal LNG.

Net cash used for investing activities

In the three months ended 30 September 2021, our net cash used for investing activities amounted to RR 47,978 million compared to RR 76,572 million in the corresponding period in 2020.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Cash used for capital expenditures	(47,566)	(39,821)	19.4%
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	372	149,303	(99.8%)
Actual income tax payments relating to disposal of interests in subsidiaries	(73)	-	n/a
Payments for mineral licenses	(12,018)	(59)	n/a
Loans provided to joint ventures	-	(33,922)	n/a
Repayments of loans provided to joint ventures	14,182	-	n/a
Acquisition of joint ventures	(1,655)	-	n/a
Capital contributions to joint ventures	(1,002)	-	n/a
Net decrease (increase) in bank deposits with original maturity more than three months	-	(151,850)	n/a
Other	(218)	(223)	(2.2%)
Net cash used for investing activities	(47,978)	(76,572)	(37.3%)

In the third quarter 2021, cash used for capital expenditures amounted to RR 47,566 million compared to RR 39,821 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 construction of a hydrocracker unit at our Ust-Luga Complex, the development of the Verhnetiuteyskiy and West-Seyakhinskiy license area, East-Tarkosalinskoye and Yardeyskoye field's crude oil deposits, as well as exploratory drilling (see "Capital expenditures" below).

In July 2021, the Group sold a 10% participation interest in OOO Arctic Transshipment to TOTAL E&P Transshipment SAS, a member of the TotalEnergies SE group (see "Recent developments" above). Excluding the cash balance in OOO Arctic Transshipment as at the transaction closing date, the net cash inflow from the transaction amounted to RR 231 million. Income tax accrued in relation to this transaction in the amount of RR 73 million was paid in the current reporting period. In addition, in the third quarter 2021, we received final payments in the amount of RR 141 million for the sale of the 100% participation interest in OOO Chernichnoye to our joint venture ZAO Terneftegas in the end of 2020. In the third quarter 2020, the Group received the second part of cash payments in the aggregate amount of RR 149,303 million (the equivalent of USD 2.1 billion) from the sale of a 30% participation interest in OOO Arctic LNG 2 in 2019. Income tax related to this transaction was paid in 2019.

In the third quarter 2021, we paid RR 11,959 million for participation in auctions for the rights to use license areas, which include the Arkticheskoye and Neytinskoye fields (the aggregate payment for the licenses based on the results of the auctions was set at RR 13,155 million). In addition, in both reporting periods, we paid a part of a one-time payment fee for the exploration and production license for our discovered Kharbeyskoye field in the amount of RR 59 million.

In July 2021, the Group acquired a 49% participation interest in OOO Gazpromneft-Sakhalin for RR 1,655 million and made capital contributions to the company in the amount of RR 962 million. In addition, in the third quarter 2021, we made capital contributions to our joint venture OOO SMART LNG in the amount of RR 40 million.

In the third quarter 2021, we received RR 14,182 million as a result of partial repayment of loans mainly from Yamal LNG. In the corresponding period in 2020, we provided loans in the aggregate amount of RR 33,922 million mainly to OOO Arctic LNG 2 for developing its activities.

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 third quarter 2021, there were no cash movements on the Group's bank deposits with original maturity more than three months, while in the corresponding period in 2020 the net increase in bank deposits amounted to approximately RR 152 billion.

Net cash provided by (used for) financing activities

In the three months ended 30 September 2021, our net cash provided by financing activities amounted to RR 6,981 million as compared to RR 3,065 million used for financing activities in the corresponding period in 2020.

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Dividends paid to non-controlling interest	(3,430)	(4,018)	(14.6%)
Proceeds from long-term debt	-	8,998	n/a
Proceeds from (repayments of) short-term debt			
with original maturity three months or less, net	89	-	n/a
Interest on debt paid	(8)	(164)	(95.1%)
Payments of lease liabilities	(942)	(1,751)	(46.2%)
Purchase of treasury shares	(2,690)	-	n/a
Net cash provided by (used for) financing activities	(6,981)	3,065	n/a

In the three months ended 30 September 2021 and 2020, a Group subsidiary paid dividends in the amount of RR 3,430 million and RR 4,018 million, respectively, to its non-controlling shareholder.

In September 2020, the Group obtained a long-term loan from a Russian bank under a non-revolving credit line facility in the amount of RR 8,998 million (EUR 100 million).

Other cash flows from financing activities related primarily to shares buy-back and to payments of lease liabilities.

Liquidity and working capital

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

	30 September 2021	31 December 2020	Change, %
Absolute amounts, RR million			
Net debt ⁽¹⁾	15,075	39,557	(61.9%)
Net working capital position ⁽²⁾	207,079	202,938	2.0%
Liquidity and credit ratios			
Current ratio ⁽³⁾	1.46	2.27	n/a
Total debt to total equity	0.09	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⁾	0.01	0.02	n/a
Net debt to normalized EBITDA from subsidiaries ⁽⁵⁾	0.05	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:

<i>millions of Russian roubles</i>	Three months ended 30 September:	
	2021	2020
Infrastructure for LNG projects ⁽¹⁾	12,334	15,911
North-Russkiy cluster ⁽²⁾	7,407	8,393
Geofizicheskoye field	4,133	814
Ust-Luga Complex	4,107	1,340
Yevo-Yakhinskiy license area	2,164	784
Yarudeyskoye field	1,660	1,617
Verhnetiuteyskiy and West-Seyakhinskiy license area	1,500	1,295
Novatek Montenegro	1,278	40
Ust-Yamsoveyskiy license area	945	874
Olimpiyskiy license area	934	83
Gydanskiy license area	808	1,134
Nyakhartinskiy license area	615	124
East-Tarkosalinskoye field	589	336
Novatek Green Energy	538	329
Yurkharovskoye field	438	1,038
Soletsko-Khanaveyskiy license area	364	-
North-Chaselskiy license area	263	13
Administration facilities	4,651	2,574
Other	2,344	5,124
Capital expenditures	47,072	41,823

⁽¹⁾ Mainly includes expenditures related to the project for the LNG construction center located in the Murmansk region.

⁽²⁾ Includes expenditures related to the North-Russkoye, East-Tazovskoye, Dorogovskoye and Kharbeyskoye fields.

Total capital expenditures on property, plant and equipment in the three months ended 30 September 2021 increased by RR 5,249 million, or 12.6%, to RR 47,072 million from RR 41,823 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 third 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:

<i>millions of Russian roubles</i>	Three months ended 30 September:		Change %
	2021	2020	
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	59,047	41,823	41.2%
Less: acquisition of mineral licenses	(11,959)	-	n/a
Less: right-of-use assets additions	(16)	-	n/a
Capital expenditures	47,072	41,823	12.6%
Less: advance payments under lease agreements	-	(801)	n/a
Add (less): change in accounts payable, capitalized foreign exchange losses and other non-cash adjustments	494	(1,201)	n/a
Cash used for capital expenditures ⁽¹⁾	47,566	39,821	19.4%

⁽¹⁾ 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, the Group won auctions for geological research works, exploration and production of hydrocarbons at license areas, which include the Arkticheskoye and Neytinskoye fields, and paid RR 11,959 million in aggregate. The remaining amount of RR 1,196 million will be paid after the state registration of the license (see "Net cash used for investing activities" above).

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 September 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 49.8% of our total revenues in the three months ended 30 September 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 September 2021, the Russian rouble appreciated by 1.5% and 6.4% 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 September 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 " <i>Forecast of Socio-economic Development of the Russian Federation for the period till 2024</i> " 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