PAO NOVATEK

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

FOR THE YEAR ENDED 31 DECEMBER 2020

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GENERAL PROVISIONS

You should read the following discussion and analysis of our financial condition and results of operations as of 31 December 2020 and for the year then ended in conjunction with our audited consolidated financial statements as of and for the year ended 31 December 2020. The consolidated financial statements and the related notes thereto have been 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"). Annual nameplate capacity of the LNG plant after the launch of the first three LNG trains aggregates 16.5 million tons of LNG (5.5 million tons each) and up to 1.2 million tons of stable gas condensate. In addition, the fourth train with annual nameplate capacity of 0.9 mln tons of LNG is in the commissioning phase. Yamal LNG is one of the largest suppliers of LNG to international markets and one of the lowest in 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.

In 2019, our joint venture OOO Cryogas-Vysotsk commissioned its medium-scale LNG 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.

In the third quarter 2020, we launched our first small-scale domestic LNG 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 constructing an LNG plant on the Gydan peninsula that will eventually utilize the hydrocarbon resources of the Salmanovskoye (Utrenneye) field (the "Arctic LNG 2 project"). The project includes the construction of an LNG plant built on gravity-based platforms with an annual capacity of 19.8 million tons of LNG per annum (three processing trains of 6.6 million tons of LNG each) and up to 1.6 million tons of stable gas condensate. The launch of the first train is expected to be in 2023, with the launches of the second and third trains – in 2024 and 2026, respectively.

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

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

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

A significant part of our NGL volumes produced at the Purovsky Plant is dispatched via pipeline for further processing at the 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

Arctic LNG 2 project

The Group, jointly with international partners TOTAL S.A., China National Petroleum Corporation ("CNPC"), CNOOC Limited and Japan Arctic LNG B.V. (a joint venture of Mitsui & Co., Ltd and Japan Oil, Gas and Metals National Corporation ("JOGMEC")), through its joint venture OOO Arctic LNG 2 undertakes an integrated project on natural gas production, liquefaction and shipping based on the hydrocarbon resources of the Salmanovskoye (Utrenneye) field on the Gydan peninsula (the "Arctic LNG 2 project").

The Arctic LNG 2 plant will be built on gravity-based platforms and consist of three processing trains with an annual capacity of 6.6 million tons of LNG each, or an aggregated capacity of 19.8 million tons of LNG per annum, and up to 1.6 million tons of stable gas condensate. The final investment decision (FID) on the Arctic LNG 2 project was made in September 2019. The launch of the first train is expected to be in 2023, the launches of the second and third trains – in 2024 and 2026, respectively.

Gravity-based platforms and other major units for the plant will be produced at our own LNG construction center in the Murmansk region (the "Murmansk yard"), which will also be used for the Group's subsequent LNG projects. At present, facilities of workshop complex and the concrete plant necessary to produce gravity-based platforms are completed. Two dry docks, where the casting of gravity-based platforms is performed, were constructed. The topsides fabrication complex for LNG plants is in process of construction.

The use of gravity-based platforms technology for the plant construction, as well as localizing production in the Russian Federation will contribute to lower LNG liquefaction costs compared to other LNG projects and allows to minimize the impact on the environment.

The Salmanovskoye (Utrenneye) field's development is ongoing. Two power plants were completed with initial production wells drilled to supply their operation. The fuel depot was launched. Construction of the first gas treatment plant necessary for the launch and ongoing exploitation of the first train of the LNG plant, was commenced. Construction of two of the three sites for berthing facilities necessary for installation of gravity-based platforms is completed. These berthing facilities are currently used to unload the supplies simultaneously from six vessels.

In 2020, despite the challenging international LNG markets conditions, the Group signed the first series of long- and short-term agreements with Asian and European customers to supply LNG from the Arctic LNG 2 project. At present, we continue active negotiations on long-term LNG supply contracts with major players in the LNG industry.

To ensure LNG deliveries from the Arctic LNG 2 project, at present, construction contracts for 21 Arc7 ice-class tankers were signed: 15 tankers will be built by the Shipbuilding Complex Zvezda in Russia and six – by Daewoo Shipbuilding & Marine Engineering in South Korea.

Yamal LNG project

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 with an annual capacity of 0.9 million tons, and up to 1.2 million tons of stable gas condensate. The first three LNG trains of the liquefaction plant were launched in 2017 and in 2018. The fourth train is currently commissioning.

In total, during the reporting period, 18.8 million tons of LNG were produced (18.6 million tons were shipped from the port of Sabetta) exceeding the project capacity of the first three trains in aggregate by 2.3 million tons, or 13.9%. Volumes of stable gas condensate produced and shipped aggregated to 1.0 million tons.

In 2020, Yamal LNG delivered 2.4 million tons of LNG eastbound via the Northern Sea Route to the Asia-Pacific Region utilizing our Arc7 ice-class LNG tankers. In addition, in January 2021, three voyages were completed via the Northern Sea Route without icebreaker escort: two voyages eastbound from the port of Sabetta laden with LNG and one in the opposite direction to the port of Sabetta in ballast. These voyages took place in average ice conditions, two months after the end of the traditional navigation season in the Eastern part of the Arctic Ocean, which usually ends in November. Shipping via the Northern Sea Route reduces the LNG voyage period by more than one third as compared to the traditional route via the Suez Canal and the Strait of Malacca.

Obskiy LNG project

In 2019, the Group established OOO Obskiy LNG, a wholly owned subsidiary, to implement an LNG project based on the feedstock resources of the Verhnetiuteyskoye and the West-Seyakhinskoye fields located in YNAO (the "Obskiy LNG project"). The Obskiy LNG project envisages the construction of an LNG plant near the port of Sabetta. Currently, the Group is preparing infrastructure for the field development and the front-end engineering design (FEED) for the LNG plant construction.

Small-scale LNG production at the Chelyabinsk region

In August 2020, we launched our first small-scale domestic LNG plant in the Chelyabinsk region with a nameplate capacity of 40 thousand tons per annum. The LNG produced is used primarily as natural gas motor fuel and is delivered through the Group's refueling complexes for passenger, cargo transport and mining machinery in the Chelyabinsk region and neighboring areas.

Increasing our production facilities

In December 2019, the Group launched the North-Russkoye field and commenced natural gas production from the Cenomanian deposits and, in August 2020, started exploitation of the gas condensate deposits. In August 2020, we also launched the East-Tazovskoye field and commenced natural gas and gas condensate production at this field. In addition, in 2020, we launched the Dorogovskoye field and commenced natural gas production. The estimated annual production capacity of these three fields will total approximately eight billion cubic meters of natural gas and about one million tons of gas condensate. The North-Russkoye, East-Tazovskoye and Dorogovskoye fields belong to the North-Russkiy cluster, which also includes the Kharbeyskoye field scheduled for launch in 2021. It is expected that the cumulative gas production capacity from the North-Russkiy cluster will total more than 13 billion cubic meters per annum.

In the first quarter 2020, our joint venture AO Arcticgas expanded the gas condensate treatment facility by 1.2 million tons per annum, thereby increasing natural gas and gas condensate production at the Achimov horizons of the Urengoyskoye field.

Disposal of OOO Chernichnoye to a joint venture

In the fourth quarter 2020, the Group sold a 100% participation interest in OOO Chernichnoye to our joint venture ZAO Terneftegas for RR 730 million and recognized profit on disposal in the amount of RR 69 million before associated income tax of RR 23 million. Chernichnoye is a holder of the license for exploration and production of hydrocarbons within the Chernichniy license area located in YNAO, which will be developed using infrastructure of the Termokarstovoye field of Terneftegas.

Approval of a new Dividend Policy

In December 2020, the Board of Directors of PAO NOVATEK approved a new version of the Regulations on Dividend Policy, which increased the minimum target dividend payout level from 30% to 50% of the adjusted consolidated net profit under IFRS. The new Dividend Policy is aimed to strengthen the Group's investment case and increase total shareholder returns.

Negative macro-economic environment and COVID-19

The spread of the COVID-19 virus in 2020 has caused financial and economic stress to the global markets that is out of the Group's management control. In particular, the COVID-19 pandemic has led to lower demand for crude oil, natural gas and oil products, which combined with the increase in the supply of crude oil due to the cancellation of the OPEC+ production agreement in March 2020 has led to a fall in global hydrocarbon commodity prices.

Global economic activity had begun a gradual recovery during the second quarter 2020 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. This recovery has continued throughout the second half of 2020. Nevertheless, crude oil benchmark prices still have not reached their pre-crisis levels, the scale and duration of these events remain 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.

BASIS OF PRESENTATION

Oil and gas production and reserves in the current report are calculated based on 100% of our subsidiaries production and reserves and our proportionate share in the production and reserves of our joint ventures including volumes of natural gas consumed in oil and gas producing and development activities. Meanwhile, production costs per barrel of oil equivalent are calculated based on production volumes net of the volume of consumed natural gas. Production and reserves of the South-Tambeyskoye field developed by the Group's joint venture OAO Yamal LNG are 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, and fuel taxes, where applicable, and excise on fuel oil sales on the domestic market and hydrocarbons sales in Poland. The Group also accrues excise tax on raw oil and claims the double excise tax deduction. The net result, or so-called "reverse excise", is reported as a deduction to our "Purchases of natural gas and liquid hydrocarbons" in our consolidated statement of income (see "Our tax burden and obligatory payments" below).

SELECTED DATA

millions of Russian roubles except as stated	Year ended 31 December: 2020	2019	Change %
Financial results			
Total revenues [(1)]	711,812	862,803	(17.5%)
Operating expenses	(552,062)	(640,463)	(13.8%)
Normalized EBITDA [(2),(3)]	392,008	461,157	(15.0%)
Normalized profit attributable to shareholders of PAO NOVATEK [(3)]	106,044	302,418	(64.9%)
Normalized profit attributable to shareholders of PAO NOVATEK [(3)], excluding the effect of foreign exchange gains (losses) [(4)]	169,020	245,002	(31.0%)
Normalized earnings per share [(3)] (in Russian roubles)	35.30	100.42	(64.9%)
Normalized earnings per share [(3)], excluding the effect of foreign exchange gains (losses) [(4)] (in Russian roubles)	56.26	81.35	(30.9%)
Net debt [(5)]	39,557	15,106	161.9%
Production volumes [(6)]			
Hydrocarbons production (million barrels of oil equivalent)	608.2	589.9	3.1%
Daily production (million barrels of oil equivalent per day)	1.66	1.62	2.8%
Sales volumes			
Natural gas sales volumes (million cubic meters)	75,620	78,452	(3.6%)
Crude oil sales volumes (thousand tons)	4,468	4,834	(7.6%)
Naphtha sales volumes (thousand tons)	4,294	4,511	(4.8%)
Liquefied petroleum gas sales volumes (thousand tons)	2,959	2,777	6.6%
Other stable gas condensate refined products (thousand tons)	2,479	2,470	0.4%
Stable gas condensate sales volumes (thousand tons)	2,169	1,739	24.7%
Oil and gas SEC reserves [(6)]			
Total proved reserves (billion barrels of oil equivalent)	16.4	16.3	0.6%
Total natural gas proved reserves (trillion cubic meters)	2.24	2.23	0.4%
Total liquids proved reserves (million tons)	197	193	2.1%
Cash flow results			
Net cash provided by operating activities	171,896	307,433	(44.1%)
Cash used for capital expenditures [(7)]	204,577	162,502	25.9%
Free cash flow [(8)]	(32,681)	144,931	n/a

(1) Net of VAT, export duties, excise and fuel taxes, where applicable.

(2) EBITDA represents profit (loss) adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as income (loss) from changes in fair value of derivative financial instruments. EBITDA includes EBITDA from subsidiaries and our proportionate share in the EBITDA of our joint ventures.

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

(4) Excluding the effect of foreign exchange gains (losses) of subsidiaries and our proportionate share in foreign exchange gains (losses) of our joint ventures (see "Profit attributable to shareholders and earnings per share" below).

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

(6) Oil and gas production and reserves are calculated based on 100% of production and reserves of our subsidiaries and our proportionate share in the production and reserves of our joint ventures including fuel gas. Production and reserves of the South-Tambeyskoye field of Yamal LNG are 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.

The Groups' financial results in 2020 were negatively impacted by the financial and economic stress in the global markets caused by the COVID-19 pandemic that is out of the Group's management control. This resulted in a decrease in our hydrocarbon sales prices and the recognition of substantial foreign exchange effects due to the Russian rouble depreciation relative to the US dollar and Euro by 19.3% and 30.8%, respectively. Foreign exchange losses 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 produced LNG and stable gas condensate are delivered to international markets and its revenues are denominated in foreign currencies.

In addition, in both years, we recorded the effects from the disposal of interests in the Arctic LNG 2 project by recognizing a gain in the aggregate amount of RR 675.0 billion from the disposal of a 40% participation interest in the Arctic LNG 2 project in 2019 and recognizing in 2019 and 2020 losses in the amount of RR 34.5 billion and RR 47.8 billion, respectively, related to the subsequent non-cash revaluation of contingent consideration on these transactions. In 2019, we also recognized a gain from the reorganization of our joint venture AO Arcticgas in the amount of RR 7.8 billion.

As a result, in 2020, we recorded a profit attributable to shareholders of PAO NOVATEK in the amount of RR 67,832 million while in 2019 we recorded a profit of RR 865,477 million. Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), our normalized profit attributable to shareholders of PAO NOVATEK amounted to RR 169,020 million in 2020 compared to RR 245,002 million in 2019.

Reconciliation of normalized EBITDA is as follows:

	Year ended 31 December:		**Change**
millions of Russian roubles	**2020**	**2019**	**%**
Profit	**78,586**	**883,461**	**(91.1%)**
Depreciation, depletion and amortization	39,238	32,230	21.7%
Impairment expenses (reversals), net	254	162	56.8%
Loss (income) from changes in fair value of commodity derivative instruments	1,689	(238)	n/a
Total finance expense (income)	(160,565)	15,712	n/a
Total income tax expense	51,010	119,654	(57.4%)
Share of loss (profit) of joint ventures, net of income tax	143,981	(149,238)	n/a
EBITDA from subsidiaries	**154,193**	**901,743**	**(82.9%)**
Net gain on disposal of interests in subsidiaries and joint ventures	(69)	(682,733)	(100.0%)
Changes in fair value of contingent consideration reported within the "Other operating income (loss)"	47,823	34,542	38.4%
Normalized EBITDA from subsidiaries	**201,947**	**253,552**	**(20.4%)**
Share in EBITDA of joint ventures	**190,061**	**207,605**	**(8.5%)**
including:			
OAO Yamal LNG	131,085	133,478	(1.8%)
AO Arcticgas	52,885	64,088	(17.5%)
others	6,091	10,039	(39.3%)
Normalized EBITDA	**392,008**	**461,157**	**(15.0%)**

SELECTED MACRO-ECONOMIC DATA

Exchange rate, RR for one foreign currency unit [(1)]	1Q		2Q		3Q		4Q		Year		Change
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	Y-o-Y, %
US dollar (USD)											
Average for the period	66.38	66.13	72.36	64.56	73.56	64.57	76.22	63.72	72.15	64.74	11.4%
At the beginning of the period	61.91	69.47	77.73	64.73	69.95	63.08	79.68	64.42	61.91	69.47	(10.9%)
At the end of the period	77.73	64.73	69.95	63.08	79.68	64.42	73.88	61.91	73.88	61.91	19.3%
Depreciation (appreciation) of RR to US dollar	25.6%	(6.8%)	(10.0%)	(2.5%)	13.9%	2.1%	(7.3%)	(3.9%)	19.3%	(10.9%)	n/a
Euro											
Average for the period	73.23	75.17	79.65	72.52	85.97	71.83	90.81	70.54	82.45	72.50	13.7%
At the beginning of the period	69.34	79.46	85.74	72.72	78.68	71.82	93.02	70.32	69.34	79.46	(12.7%)
At the end of the period	85.74	72.72	78.68	71.82	93.02	70.32	90.68	69.34	90.68	69.34	30.8%
Depreciation (appreciation) of RR to Euro	23.7%	(8.5%)	(8.2%)	(1.2%)	18.2%	(2.1%)	(2.5%)	(1.4%)	30.8%	(12.7%)	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	1Q		2Q		3Q		4Q		Year		Change
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	Y-o-Y, %
Benchmark natural gas prices, USD per mmbtu [(2)]											
NBP (National Balancing Point)	3.2	6.3	1.6	4.1	2.7	3.4	5.4	4.1	3.2	4.4	(27.3%)
TTF (Title Transfer Facility)	3.1	6.1	1.7	4.3	2.7	3.3	5.1	4.1	3.2	4.5	(28.9%)
Benchmark crude oil prices [(3)]											
Brent, USD per barrel	50.1	63.1	29.6	68.9	42.9	62.0	44.2	63.1	41.8	64.2	(34.9%)
Urals, USD per barrel	48.0	63.2	31.6	67.9	43.0	61.3	44.5	61.4	41.9	63.4	(33.9%)
Urals, RR per barrel	3,186	4,179	2,287	4,384	3,163	3,958	3,392	3,912	3,023	4,105	(26.4%)
Benchmark crude oil prices excluding export duties [(4)]											
Urals, USD per barrel	37.8	51.3	28.5	53.6	37.0	48.3	38.6	49.2	35.6	50.6	(29.6%)
Urals, RR per barrel	2,509	3,392	2,062	3,460	2,722	3,119	2,942	3,135	2,569	3,276	(21.6%)
Benchmark oil products [(5)] **and liquefied petroleum gas** [(6)] **prices, USD per ton**											
Naphtha Japan	437	519	276	542	397	495	408	539	381	524	(27.3%)
Naphtha CIF NWE	411	497	240	527	376	477	393	519	357	505	(29.3%)
Jet fuel	484	625	242	646	336	629	374	627	360	632	(43.0%)
Gasoil	467	586	281	603	353	578	365	579	367	586	(37.4%)
Fuel oil	348	396	196	414	268	387	301	408	279	401	(30.4%)
Liquefied petroleum gas	322	363	240	404	362	339	388	446	331	387	(14.5%)
Export duties, USD per ton [(7)]											
Crude oil, stable gas condensate	74.2	87.0	22.4	104.1	44.1	95.0	43.2	88.7	46.0	93.7	(50.9%)
Naphtha	40.7	47.8	12.3	57.2	24.2	52.2	23.7	48.7	25.2	51.5	(51.1%)
Jet fuel, gasoil	22.2	26.1	6.7	31.2	13.2	28.5	12.9	26.5	13.7	28.1	(51.2%)
Fuel oil	74.2	87.0	22.4	104.1	44.1	95.0	43.2	88.7	46.0	93.7	(50.9%)
Liquefied petroleum gas	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	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. Starting from the second quarter, following the partial removals of restrictions aimed at preventing the epidemic spread of the COVID-19 virus, there has been a gradual recovery in global economic activity. Moreover, the new OPEC+ production agreement and the members compliance with these production targets has resulted in a partial recovery of benchmark crude oil prices. Nevertheless, hydrocarbon benchmark prices remain lower than their pre-crisis levels. These factors are out of the Group's management control, and their scale and duration are difficult to assess. Currently, the Group's management is taking necessary precautions to provide the uninterrupted delivery of our hydrocarbons to our customers and to protect the safety and well-being of our employees, contractors and families (see "Recent developments" above).

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 2019, wholesale natural gas prices for sales to all customer categories (excluding residential customers) on the domestic market were increased by the Regulator by 1.4% effective 1 July 2019 and remained unchanged through the end of July 2020. The wholesale prices increased by 3.0% effective 1 August 2020.

In September 2020, the Ministry of Economic Development of the Russian Federation published the "Forecast of Socio-economic Development of the Russian Federation for 2021 and the planned period 2022 and 2023" stating that wholesale natural gas prices for sales to all customer categories (excluding residential customers) will be increased from July 2021 to 2023 by an average of 3.0% on an annual basis. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth rates on the domestic market.

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

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

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

The Group's prices for LNG sold in Russia are based on oil products prices on the domestic market.

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

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

	Year ended 31 December:		Change
	2020	**2019**	**%**
Average natural gas price, RR per mcm	4,748	5,288	(10.2%)
Average natural gas price, USD per mcm [(1)]	65.9	81.6	(19.2%)

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

In 2020, our aggregate average price for natural gas in Russian roubles decreased by 10.2% due to a decrease in LNG prices on international markets, as well as a decrease in the share of LNG sales volumes in our total natural gas sales volumes, which was partially offset by Russian rouble average exchange rate depreciation relative to the US dollar and Euro and an increase in the regulated Russian domestic price (by 1.4% effective 1 July 2019 and by 3.0% effective 1 August 2020). The decrease in our share of LNG sales volumes was primarily due to a decrease in LNG purchases from our joint venture Yamal LNG resulting from an increase in the share of Yamal LNG direct sales under long-term contracts and the corresponding decrease in LNG spot sales to shareholders, including the Group.

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:

	Year ended 31 December:		Change
Russian roubles or US dollars per ton [(1)]	2020	2019	%
Naphtha			
Average net price, RR per ton	26,311	32,043	(17.9%)
Average net price, USD per ton	368	494	(25.5%)
Other stable gas condensate refined products			
Average net price, RR per ton	23,426	35,213	(33.5%)
Average net price, USD per ton	328	543	(39.6%)
Crude oil			
Average net price, RR per ton	17,541	23,716	(26.0%)
Average net price, USD per ton	245	367	(33.2%)
LPG			
Average net price, RR per ton	16,467	17,166	(4.1%)
Average net price, USD per ton	228	265	(14.0%)
Stable gas condensate			
Average net price, RR per ton	19,239	24,452	(21.3%)
Average net price, USD per ton	264	379	(30.3%)

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

In 2020, our weighted-average realized net prices for our liquid hydrocarbons decreased compared to the prior year period due to a decrease 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 2019 and 2020, the average tariff for natural gas transportation through the trunk pipeline did not change. The transportation rate amounted to RR 13.04 per mcm per 100 km (excluding VAT), and the rate for utilization of the trunk pipeline was set in the range from RR 62.57 to RR 2,014.16 per mcm (excluding VAT).

According to the Forecast of the Ministry of Economic Development of the Russian Federation published in September 2019, the increase in tariffs for natural gas transportation through the trunk pipeline beginning in 2021 through 2024 will not exceed the growth rate for wholesale natural gas prices (see "Natural gas prices" above). The Russian Federation Government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth on the domestic market.

Stable gas condensate and LPG by rail

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

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

Effective January 2020, railroad freight transportation tariffs for all types of hydrocarbons were increased by 3.5% relative to the 2019 tariffs and did not change until the end of 2020. In January 2021, the Regulator increased the aforementioned tariffs by 3.7% relative to the 2020 tariffs.

In 2019 and 2020, 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.

Effective April 2020, we started applying discount coefficients to the existing railroad transportation tariffs for LPG deliveries within the Russian Federation territory from the Tobolsk rail station. These discount coefficients were introduced to maintain freight volumes in the current unfavorable macroeconomic environment and were in effect until the end of 2020. During the second quarter, these discount 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 was set to the existing railroad tariffs.

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

We deliver part of our stable gas condensate and substantially all stable gas condensate refined products, as well as liquefied natural gas (excluding volumes purchased and sold to customers in the same location) to international markets by chartered tankers. In addition to time chartering expenses, we also may incur transshipment, bunkering, port charges and other expenses depending on the delivery terms, which are included in the transportation by tankers expense category. 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 2020, crude oil transportation tariffs through the pipeline network within the Russian Federation territory were increased by an average of 3.4% relative to the 2019 tariffs and remained unchanged until the end of 2020. Effective 1 January 2021, transportation tariffs 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 authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to an inspection of their activities for a period of three calendar years immediately preceding the year in which the audit is conducted. Previous audits do not completely exclude subsequent claims relating to the audited period. In addition, in some instances, new tax regulations may have a retroactive effect.

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

Detailed information regarding UPT, export duties, excise and social contributions to non-budget funds is described below based on the current versions of the Tax Code of the Russian Federation and the law "On Customs Tariff".

In 2019, the completion stage of the tax maneuver in the oil and gas industry in the Russian Federation began and will continue until the end of 2024. The tax maneuver envisages a gradual decrease in export duties for crude oil and oil products with a respective increase in unified production taxes for crude oil and gas condensate, as well as the introduction of excise tax for raw oil and the double deductions for this tax.

The legislation changes aimed at the completion of the tax maneuver, with other factors being equal, influence line items in our consolidated financial statements by increasing our liquids net prices and revenues due to a gradual decrease in export duties, increasing our UPT expenses and our hydrocarbons purchases. The increase in our UPT expenses and cost of hydrocarbons purchases is offsetting by excise tax deductions for raw oil.

Export duties

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

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

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

K – adjusting coefficient

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

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

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

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

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

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

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

UPT – natural gas

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

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

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

UPT – crude oil

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

The UPT rate is calculated as a product of a coefficient characterizing the dynamics of world crude oil prices and the base UPT rate (RR 919 per ton) adjusted for parameters characterizing crude oil production peculiarities (the reserves' depletion, complexity of extraction, the region, crude oil properties). The result is then increased by a fixed amount (RR 428 per ton in both reporting periods). Further, the UPT rate for crude oil is gradually increased by the amount of the corresponding decrease in the crude oil export duty rate due to the completion of the tax maneuver (see "Export duties" above).

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

Where the average export alternative prices for petrol and diesel fuel exceed the regulated wholesale prices for these products on the Russian domestic market, the UPT rate for crude oil is also increased by the so called "petrol and diesel fuel premiums" (set at RR 125 and RR 110 per ton, respectively, from 1 January to 30 September 2019, at RR 200 and RR 185 per ton, respectively, from 1 October to 31 December 2019, and at RR 105 and RR 92 per ton, respectively, starting from 1 January 2020). The petrol and diesel fuel premiums are payable by all crude oil producers regardless of whether the extracted crude oil volumes will be further sold or refined.

UPT – gas condensate

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

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

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

The UPT rate for gas condensate is increased by 75% of the decrease in the crude oil export duty rate. The share of 75% is deemed to represent volumes of produced gas condensate excluding the share of NGL received from gas condensate processing.

Excise for raw oil

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

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

The excise tax rate for raw oil is calculated based on the average Urals crude oil prices, the mix of processed products, region of processing, and the adjusting coefficient, which will be gradually increased on an annual basis from 0.167 in 2019 to 1.0 in 2024 as part of the completion stage of the tax maneuver in the oil and gas industry. For 2020, the adjusting coefficient was set at 0.333; in 2021, the coefficient is set at 0.5.

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

Social contributions

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

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

	2019		2020		2021	
	Base, RR thousand	Rate, %	Base, RR thousand	Rate, %	Base, RR thousand	Rate, %
Pension Fund of the Russian Federation	less 1,150	22.0%	less 1,292	22.0%	less 1,465	22.0%
	above 1,150	10.0%	above 1,292	10.0%	above 1,465	10.0%
Federal Compulsory Medical Insurance Fund	No limit	5.1%	No limit	5.1%	No limit	5.1%
Social Insurance Fund of the Russian Federation	less 865	2.9%	less 912	2.9%	less 966	2.9%
	above 865	0.0%	above 912	0.0%	above 966	0.0%

OIL AND GAS RESERVES

We do not file with the Securities and Exchange Commission ("SEC") nor we are obliged to report our reserves in compliance with these standards. However, we have consistently disclosed proved oil and gas reserves as unaudited supplemental information in the Group's IFRS audited consolidated financial statements. The Group's total proved reserves, comprised of proved developed and proved undeveloped reserves, as of 31 December 2020 and 2019, are provided using the SEC reserves reporting classification. We also provide additional information about our hydrocarbon reserves based on the widely-industry accepted PRMS reserves reporting classification, which in addition to total proved reserves discloses information on our probable and possible reserves.

The Group's reserves are located in the Russian Federation, primarily in the Yamal-Nenets Autonomous Region (Western Siberia), thereby representing one geographical area.

The Group's oil and gas estimation and reporting process involves an annual independent external appraisal, as well as internal technical appraisals of reserves. The internal technical appraisals of reserves are performed by the Group's qualified technical staff working directly with the oil and gas reserves and are periodically updated during the year based on evaluations of new wells, performance reviews, new technical information and other studies.

The annual independent external appraisal of our reserves is performed by independent petroleum engineers, DeGolyer and MacNaughton ("D&M"). The Group provides D&M annually with engineering, geological and geophysical data, actual production histories and other information necessary for reserves appraisal. The method or combination of methods used in the analysis of each reservoir is tempered by experience with similar reservoirs, stages of development, quality and completeness of basic data, and production history. Our reserves estimates were prepared using standard geological and engineering methods generally accepted in the oil and gas industry. The Group and D&M's technical staffs meet to review and discuss the information provided, and upon completion of the process, senior management reviews and approves the final reserves estimates issued by D&M.

The Reserves Management and Assessment Group ("RMAG") is comprised of qualified technical staff from various departments responsible for geology and geophysics, gas and liquids commercial operations, engineering and capital construction, production, and long-term financial planning, and also includes representatives from the Group's subsidiaries, which are the principal holders of the mineral licenses for geological research works, exploration and production of hydrocarbons. The person responsible for overseeing the work of the RMAG is a member of the Management Board.

The approval of the final reserve estimates is the sole responsibility of the Group's senior management.

The information below about the Group's oil and gas production and reserves under SEC and PRMS reserve classifications is presented based on 100% of production and reserves attributable to all consolidated subsidiaries (whether or not wholly owned) and our proportionate share in the production and reserves in companies accounted for by the equity method based on our equity ownership interest, including volumes of natural gas consumed in oil and gas production and development activities (primarily, as fuel gas). Production and reserves of the South-Tambeyskoye field of Yamal LNG are 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 (see "Basis of presentation" above).

The table below provides proved oil and gas reserves under SEC reserve classification and the change in reserves in metric units and on a total barrel of oil equivalent basis:

	As of and for the year ended 31 December:		Change
	2020	**2019**	**%**
Natural gas, billions of cubic meters	**2,244**	**2,234**	**0.4%**
Subsidiaries	1,156	1,149	0.6%
Share in joint ventures	1,088	1,085	0.3%
Liquids, millions of metric tons	**197**	**193**	**2.1%**
Subsidiaries	102	98	4.1%
Share in joint ventures	95	95	0.0%
Combined reserves, millions of boe	**16,366**	**16,265**	**0.6%**
Change in total reserves, millions of boe	**101**	**476**	
Production	(608)	(590)	
Acquisitions [(1)]	31	724	
Disposals [(2)]	-	(1,145)	
Organic growth [(3)]	678	1,487	
Reserves replacement ratio [(4)], %	**117%**	**181%**	
Normalized reserves replacement ratio [(4), (5)], %	**112%**	**252%**	

(1) In both reporting periods include the effect from changes in the Groups' reserves due to the reorganization of Acticgas conducted in 2019 (a part of these reserves were appraised in 2020) and, in 2019, also include reserves of the acquired Soletskoye-Khanaveyskoye field.

(2) Represent reserves attributable to the sale of a 40% participation interest in Arctic LNG 2 project in 2019.

(3) Represent change due to extensions and discoveries, revisions of previous estimates.

(4) The reserves replacement ratio is calculated as the change in reserves increased for the production for the year divided by production for the year.

(5) Excluding reserves acquisitions and disposals.

The Groups' total proved reserves under the SEC reserve classification methodology as at the end of 2020 increased by 101 million boe, or 0.6%, to 16,366 million boe, representing a reserve replacement ratio of 117%.

The increase in total proved hydrocarbons reserves under the SEC reserve classification was primarily due to successful exploration works and production drilling at our subsidiaries and joint ventures.

Our subsidiaries obtained positive exploration results at the Geofizicheskoye and Nyakhartinskoye fields, successfully performed production drilling at the Urengoyskoye field of the Yevo-Yakhinskiy license area, East-Tazovskoye and North-Russkoye fields, as well as increased recovery rates at the Yurkharovskoye and Yarudeyskoye fields. Additions to the reserves of our joint ventures were due to successful exploration and production drilling at the Salmanovskoye (Utrenneye) field of OOO Arctic LNG 2, as well as production drilling at the Urengoyskoye field of the Samburgskiy license area of Arcticgas and South-Tambeyskoye field of Yamal LNG.

The following table provides for the Group's PRMS proved, proved and probable, and proved, probable and possible reserves in metric units and on a total barrel of oil equivalent basis:

	Natural gas, billions of cubic meters		**Liquid hydrocarbons, millions of metric tons**		**Combined reserves, millions of boe**	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**	**31 December 2020**	**31 December 2019**
Proved reserves (1P reserves)	2,477	2,390	227	213	18,148	17,456
Proved and probable reserves (2P reserves)	3,981	3,901	380	373	29,318	28,725
Proved, probable and possible reserves (3P reserves)	5,257	5,065	529	514	38,986	37,581

As we continue to invest capital into the development of our fields, we anticipate that we will increase our resource base, as well as migrate reserves among the reserve categories.

The below table contains information about reserve to production ratios as of 31 December 2020 and 2019 under both reserves reporting methodologies:

	SEC		**PRMS**	
	At 31 December:		**At 31 December:**	
Number of years	**2020**	**2019**	**2020**	**2019**
Total proved reserves to production	27	28	30	30
Total proved and probable reserves to production	-	-	48	49
Total proved, probable and possible reserves to production	-	-	64	64

OPERATIONAL HIGHLIGHTS

Oil and gas production costs per unit of production

Oil and gas production costs on a barrel of oil equivalent basis are calculated by dividing oil and gas production costs by the barrel of oil equivalent of hydrocarbons produced during the year.

Oil and gas production costs include only the amounts directly related to the extraction of natural gas, gas condensate and crude oil and exclude processing costs incurred after saleable hydrocarbons are received, such as stable gas condensate processing costs and natural gas liquefaction costs, as well as transportation and other marketing expenses. Oil and gas production costs comprise of lifting costs (materials, services and other expenses, as well as administrative expenses being by nature operating expenses of oil and gas producing activities), taxes other than income tax and depreciation, depletion and amortization which are disclosed in the "Unaudited Supplemental Oil and Gas Disclosures" in the consolidated financial statements.

Natural gas, gas condensate and crude oil volumes produced are converted to a barrel of oil equivalent based on the relative energy content of each fields' hydrocarbons. Natural gas production volumes used for calculation of production costs per boe differ from the volumes presented in the section "Natural gas production volumes" as the former excludes volumes of natural gas consumed in oil and gas production and development activities (see "Basis of presentation" above).

The following tables set forth information with respect to oil and gas production costs on a barrel of oil equivalent basis of our subsidiaries and joint ventures, as well as combined weighted average oil and gas production costs for the Group's subsidiaries and joint ventures for the reporting periods in Russian roubles and US dollars.

	Year ended 31 December:		Change
RR per boe	**2020**	**2019**	**%**
Subsidiaries			
Production costs per boe:			
Lifting costs	61.2	53.6	14.2%
Taxes other than income tax	176.0	204.5	(13.9%)
Total production costs before DDA per boe	**237.2**	**258.1**	**(8.1%)**
Depreciation, depletion and amortization	97.4	83.9	16.1%
Total production costs of subsidiaries per boe	**334.6**	**342.0**	**(2.2%)**
Joint ventures			
Production costs per boe:			
Lifting costs	26.1	22.1	18.1%
Taxes other than income tax	121.9	141.4	(13.8%)
Total production costs before DDA per boe	**148.0**	**163.5**	**(9.5%)**
Depreciation, depletion and amortization	94.6	90.2	4.9%
Total weighted average production costs of joint ventures per boe (1)	**242.6**	**253.7**	**(4.4%)**
Subsidiaries and joint ventures			
Production costs per boe:			
Lifting costs	44.2	38.5	14.8%
Taxes other than income tax	149.8	174.1	(14.0%)
Total production costs before DDA per boe	**194.0**	**212.6**	**(8.7%)**
Depreciation, depletion and amortization	96.0	86.9	10.5%
Total weighted average production costs of subsidiaries and joint ventures per boe (2)	**290.0**	**299.5**	**(3.2%)**

(1) Calculated based on the Group's share in the production of each joint venture.

(2) Calculated based on 100% of the Group's subsidiaries production and our share in the production of each joint venture.

USD per boe (1)	Year ended 31 December: 2020	2019	Change %
Subsidiaries			
Production costs per boe:			
Lifting costs	0.85	0.83	2.4%
Taxes other than income tax	2.44	3.16	(22.8%)
Total production costs before DDA per boe	**3.29**	**3.99**	**(17.5%)**
Depreciation, depletion and amortization	1.35	1.29	4.7%
Total production costs of subsidiaries per boe	**4.64**	**5.28**	**(12.1%)**
Joint ventures			
Production costs per boe:			
Lifting costs	0.36	0.34	5.9%
Taxes other than income tax	1.69	2.18	(22.5%)
Total production costs before DDA per boe	**2.05**	**2.52**	**(18.7%)**
Depreciation, depletion and amortization	1.31	1.40	(6.4%)
Total weighted average production costs of joint ventures per boe (2)	**3.36**	**3.92**	**(14.3%)**
Subsidiaries and joint ventures			
Production costs per boe:			
Lifting costs	0.61	0.59	3.4%
Taxes other than income tax	2.08	2.69	(22.7%)
Total production costs before DDA per boe	**2.69**	**3.28**	**(18.0%)**
Depreciation, depletion and amortization	1.33	1.35	(1.5%)
Total weighted average production costs of subsidiaries and joint ventures per boe (3)	**4.02**	**4.63**	**(13.2%)**

(1) Production costs in US dollars per boe were translated from Russian roubles amounts using the average exchange rate for the period (see "Selected macro-economic data" above).

(2) Calculated based on the Group's share in the production of each joint venture.

(3) Calculated based on 100% of the Group's subsidiaries production and our share in the production of each joint venture.

Hydrocarbon production and sales volumes

Our total natural gas and liquids production including the proportionate share in the production of our joint ventures increased by 3.6% and 0.7%, respectively. The main factors positively impacting our production growth were the launch of the fields within the North-Russkiy cluster at the end of 2019 and in the third quarter 2020 (the Cenomanian and Valanginian horizons of the North-Russkoye field, and the East-Tazovskoye and Dorogovskoye fields), as well as an increase in hydrocarbon production from the Achimov horizons at Arcticgas's Urengoyskoye field. An increase in the production at these fields completely offset a decline in production at mature fields of our subsidiaries and joint ventures.

In 2020, our total natural gas sales volumes decreased by 2,832 mmcm, or 3.6%, primarily due to a decrease in LNG sales volumes purchased mainly from our joint venture OAO Yamal LNG for subsequent sale on international markets. We reduced our purchases of spot LNG volumes as Yamal LNG increased direct sales under long-term contracts. Natural gas volumes sold on the domestic market increased by 1.6% due to the launch of additional production facilities.

In 2020, our liquids sales volumes insignificantly increased by 32 thousand tons, or 0.2%.

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	Year ended 31 December: 2020	2019	Change %
Production by subsidiaries from:			
Yurkharovskoye field	23,104	25,590	(9.7%)
East-Tarkosalinskoye field	5,305	5,956	(10.9%)
North-Russkiy cluster (1)	4,831	84	n/a
Beregovoye field	1,905	1,927	(1.1%)
Yarudeyskoye field	1,648	1,731	(4.8%)
Khancheyskoye field	1,312	1,581	(17.0%)
Olimpiyskiy license area (2)	1,055	1,097	(3.8%)
East-Urengoyskoye + North-Esetinskoye field (West-Yaroyakhinskiy license area)	530	613	(13.5%)
Other fields	957	810	18.1%
Total natural gas production by subsidiaries (3),(4)	**40,647**	**39,389**	**3.2%**
Group's proportionate share in the production of joint ventures:			
Yamal LNG (5)	17,093	16,727	2.2%
Arcticgas	15,383	13,787	11.6%
Nortgas	2,931	3,529	(16.9%)
Terneftegas	1,269	1,249	1.6%
Arctic LNG 2	44	19	131.6%
Total Group's proportionate share in the natural gas production of joint ventures (3),(4)	**36,720**	**35,311**	**4.0%**
Total natural gas production including proportionate share in the production of joint ventures	**77,367**	**74,700**	**3.6%**
Average daily natural gas production including proportionate share in the production of joint ventures	*211.4*	*204.7*	*3.3%*
Total LNG production including proportionate share in the production of joint ventures (thousands of tons) (5)	*11,553*	*11,228*	*2.9%*

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

(2) Including production at the Urengoyskoye, the Dobrovolskoye and the 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	1,785	1,635	9.2%
in joint ventures (Group's proportionate share)	491	378	29.9%

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

In 2020, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 2,667 mmcm, or 3.6%, to 77,367 mmcm from 74,700 mmcm in 2019.

The main factors positively impacting our production growth were the field launches within the North-Russkiy cluster at the end of 2019 and in the third quarter 2020 (the Cenomanian and Valanginian horizons of the North-Russkoye field, the East-Tazovskoye and Dorogovskoye fields), as well as an increase in the production of hydrocarbons from the Achimov horizons at Arcticgas' Urengoyskoye field due to the expansion of the gas condensate treatment facility in January 2020 (see "Recent developments" above). These factors fully compensated the production declines at mature fields of our subsidiaries (the Yurkharovskoye, the East-Tarkosalinskoye and the Khancheyskoye fields) and at our joint venture Nortgas, which resulted mainly from natural declines in the reservoir pressure at the current gas producing horizons.

Natural gas sales volumes

In 2020, our total natural gas sales volumes decreased by 2,832 mmcm, or 3.6%, to 75,620 mmcm from 78,452 mmcm in 2019.

millions of cubic meters	**Year ended 31 December: 2020**	**2019**	**Change %**
Production by subsidiaries	40,647	39,389	3.2%
Purchases from the Group's joint ventures	28,870	31,296	(7.8%)
Other purchases	7,597	8,544	(11.1%)
Total production and purchases	**77,114**	**79,229**	**(2.7%)**
Own usage (1)	(1,920)	(1,763)	8.9%
Decrease (increase) in natural gas inventory balance	426	986	(56.8%)
Total natural gas sales volumes	**75,620**	**78,452**	**(3.6%)**
Sold to end-customers	*63,632*	*62,653*	*1.6%*
Sold ex-field	*3,060*	*3,000*	*2.0%*
Subtotal sold in the Russian Federation	***66,692***	***65,653***	***1.6%***
Sold on international markets	***8,928***	***12,799***	***(30.2%)***

(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 2020, natural gas purchases from our joint ventures decreased by 2,426 mmcm, or 7.8%, to 28,870 mmcm from 31,296 mmcm in 2019 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 years ended 31 December 2020 and 2019, we purchased from third parties 7,169 mmcm and 7,613 mmcm of natural gas, respectively, on the Russian domestic market, and 428 mmcm and 931 mmcm, respectively, on international markets.

At 31 December 2020, our cumulative natural gas inventory balance, mainly representing our inventory balances of natural gas in the UGSF, aggregated 797 mmcm and decreased by 426 mmcm during the year as compared to a decrease by 986 mmcm in 2019. 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	Year ended 31 December: 2020	2019	Change %
Production by subsidiaries from:			
Yarudeyskoye field	3,139	3,311	(5.2%)
East-Tarkosalinskoye field	1,294	1,438	(10.0%)
Yurkharovskoye field	1,021	1,178	(13.3%)
North-Russkiy cluster (1)	392	-	n/a
Beregovoye field	267	223	19.7%
Khancheyskoye field	162	176	(8.0%)
Other fields	158	154	2.6%
Total liquids production by subsidiaries	**6,433**	**6,480**	**(0.7%)**
including crude oil	*4,355*	*4,696*	*(7.3%)*
including gas condensate	*2,078*	*1,784*	*16.5%*
Group's proportionate share in the production of joint ventures:			
Arcticgas	4,479	4,166	7.5%
Yamal LNG (2)	701	826	(15.1%)
Terneftegas	383	392	(2.3%)
Nortgas	241	284	(15.1%)
Total Group's proportionate share in the liquids production of joint ventures	**5,804**	**5,668**	**2.4%**
Total liquids production including proportionate share in the production of joint ventures	**12,237**	**12,148**	**0.7%**
Average daily liquids production including proportionate share in the production of joint ventures	*33.4*	*33.3*	*0.5%*

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

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

In 2020, our total liquids production (including our proportionate share in the production of joint ventures) increased by 89 thousand tons, or 0.7%, to 12,237 thousand tons from 12,148 thousand tons in 2019.

An increase in the production at Arcticgas combined with the commencement of gas condensate extraction at the North-Russkiy cluster (see above) fully offset a decrease in production at mature fields of our subsidiaries and joint ventures, which was mainly due to natural declines in the concentration of liquids as a result of decreasing reservoir pressure at the current producing horizons. The increase in the production at Arcticgas was due to the expansion of gas condensate treatment facility for further development of the Achimov horizons at the Urengoyskoye field in January 2020.

Liquids sales volumes

In 2020, our total liquids sales volumes increased marginally by 32 thousand tons, or 0.2%, to 16,387 thousand tons from 16,355 thousand tons in 2019.

thousands of tons	**Year ended 31 December: 2020**	**2019**	**Change %**
Production by subsidiaries	6,433	6,480	(0.7%)
Purchases from the Group's joint ventures	10,028	9,566	4.8%
Other purchases	141	242	(41.7%)
Total production and purchases	**16,602**	**16,288**	**1.9%**
Losses [1] and own usage [2]	(215)	(201)	7.0%
Decreases (increases) in liquids inventory balances	-	268	n/a
Total liquids sales volumes	**16,387**	**16,355**	**0.2%**
Naphtha export	*4,294*	*4,511*	*(4.8%)*
Other stable gas condensate refined products export [3]	*2,259*	*2,268*	*(0.4%)*
Other stable gas condensate refined products domestic [3]	*220*	*202*	*8.9%*
Subtotal stable gas condensate refined products	***6,773***	***6,981***	***(3.0%)***
Crude oil export	*1,559*	*1,869*	*(16.6%)*
Crude oil domestic	*2,909*	*2,965*	*(1.9%)*
Subtotal crude oil	***4,468***	***4,834***	***(7.6%)***
LPG export	*568*	*591*	*(3.9%)*
LPG domestic	*2,391*	*2,186*	*9.4%*
Subtotal LPG	***2,959***	***2,777***	***6.6%***
Stable gas condensate export	*589*	*332*	*77.4%*
Stable gas condensate domestic	*1,580*	*1,407*	*12.3%*
Subtotal stable gas condensate	***2,169***	***1,739***	***24.7%***
Other oil products	***18***	***24***	***(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 stable gas condensate refined products include jet fuel, gasoil and fuel oil received from the processing of stable gas condensate at the Ust-Luga Complex.

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

As of 31 December 2020 and 2019, our cumulative liquid hydrocarbons inventory balances, recognized as inventory in transit or in storage, did not change and amounted to 801 thousand tons.

RESULTS OF OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2020 COMPARED TO THE YEAR ENDED 31 DECEMBER 2019

The following table and discussion are a summary of our consolidated results of operations for the years ended 31 December 2020 and 2019. Each line item is also shown as a percentage of our total revenues.

	Year ended 31 December:			
millions of Russian roubles	**2020**	**% of total revenues**	**2019**	**% of total revenues**
Total revenues [(1)]	**711,812**	***100.0%***	**862,803**	***100.0%***
including:				
natural gas sales	359,040	*50.4%*	414,844	*48.1%*
liquids sales	340,710	*47.9%*	437,388	*50.7%*
Operating expenses	(552,062)	*(77.6%)*	(640,463)	*(74.2%)*
Gain on disposal of interests in subsidiaries and joint ventures, net	69	*n/a*	682,733	*79.1%*
Other operating income (loss)	(46,807)	*(6.6%)*	(35,484)	*(4.1%)*
Profit from operations	**113,012**	***15.9%***	**869,589**	***100.8%***
Normalized profit from operations [(2)]	**160,766**	***22.6%***	**221,398**	***25.7%***
Finance income (expense)	160,565	*22.6%*	(15,712)	*(1.8%)*
Share of profit (loss) of joint ventures, net of income tax	(143,981)	*(20.2%)*	149,238	*17.3%*
Profit before income tax	**129,596**	***18.2%***	**1,003,115**	***116.3%***
Total income tax expense	(51,010)	*(7.2%)*	(119,654)	*(13.9%)*
Profit	**78,586**	***11.0%***	**883,461**	***102.4%***
Less: profit (loss) attributable to non-controlling interest	(10,754)	*(1.5%)*	(17,984)	*(2.1%)*
Profit attributable to shareholders of PAO NOVATEK	**67,832**	***9.5%***	**865,477**	***100.3%***
Normalized profit attributable to shareholders of PAO NOVATEK [(2)]**, excluding the effect of foreign exchange gains (losses)**	**169,020**	***23.7%***	**245,002**	***28.4%***

(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 years ended 31 December 2020 and 2019:

	Year ended 31 December:		**Change**	**Change (1)**		
millions of Russian roubles	**2020**	**2019**	**%**	**Total**	**Due to volume (2)**	**Due to price (3)**
Natural gas sales	359,040	414,844	(13.5%)	(55,804)	(14,974)	(40,830)
Stable gas condensate refined products sales	171,038	231,536	(26.1%)	(60,498)	(6,667)	(53,831)
Naphtha	*112,963*	*144,541*	*(21.8%)*	*(31,578)*	*(6,970)*	*(24,608)*
Other refined products	*58,075*	*86,995*	*(33.2%)*	*(28,920)*	*303*	*(29,223)*
Crude oil sales	78,381	114,641	(31.6%)	(36,260)	(8,669)	(27,591)
Liquefied petroleum gas sales	48,725	47,668	2.2%	1,057	3,125	(2,068)
Stable gas condensate sales	41,728	42,528	(1.9%)	(800)	10,507	(11,307)
Other products sales	838	1,015	(17.4%)	(177)	n/a	n/a
Total oil and gas sales	**699,750**	**852,232**	**(17.9%)**	**(152,482)**	**n/a**	**n/a**
Other revenues	12,062	10,571	14.1%	1,491	n/a	n/a
Total revenues	**711,812**	**862,803**	**(17.5%)**	**(150,991)**	**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 2020, our total revenues from natural gas sales decreased by RR 55,804 million, or 13.5%, compared to 2019 primarily due to a decrease in LNG sales volumes and lower gas prices on international markets. The decrease in our LNG sales volumes was due to a decrease in LNG purchases from our joint venture Yamal LNG resulting from an increase in the share of Yamal LNG direct sales under long-term contracts and the corresponding decrease in LNG spot sales to shareholders, including the Group. The impact of these factors was partially offset by 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 2020, our revenues from sales of stable gas condensate refined products decreased by RR 60,498 million, or 26.1%, to RR 171,038 million from RR 231,536 million in 2019 mainly due to a decrease in average realized prices (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" and "Liquids sales volumes" above).

Revenues from sales of naphtha decreased by RR 31,578 million, or 21.8%, as compared to 2019. In the years ended 31 December 2020 and 2019, we exported 4,294 thousand tons and 4,511 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, decreased by RR 5,732 per ton, or 17.9%, to RR 26,311 per ton from RR 32,043 per ton in 2019.

Revenues from sales of jet fuel, gasoil and fuel oil decreased by RR 28,920 million, or 33.2%, as compared to 2019. In the years ended 31 December 2020 and 2019, we exported in aggregate 2,259 thousand tons and 2,268 thousand tons of these products mainly to the European markets, or 91.1% and 91.8% of total sales volumes (on both the domestic and export markets), respectively. Our average realized net price, excluding export duties, where applicable, decreased by RR 11,787 per ton, or 33.5%, to RR 23,426 per ton from RR 35,213 per ton in 2019.

Crude oil sales

In 2020, our revenues from crude oil sales decreased by RR 36,260 million, or 31.6%, compared to 2019 mainly due to a decrease in average realized prices and, to a lesser extent, a decrease in sales volumes.

We sold 2,909 thousand tons, or 65.1% of our total crude oil sales volumes, domestically as compared to sales of 2,965 thousand tons, or 61.3%, in 2019 (see "Liquids sales volumes" above). The remaining 1,559 thousand tons of crude oil, or 34.9% of our total crude oil sales volumes, in 2020, and 1,869 thousand tons, or 38.7%, in 2019 were sold to customers with destination points in the APR, the European, the Middle East and the North American (only in 2019) markets.

Our average realized net price, excluding export duties, where applicable, decreased by RR 6,175 per ton, or 26.0%, to RR 17,541 per ton from RR 23,716 per ton in 2019 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Liquefied petroleum gas sales

In 2020, our revenues from sales of LPG increased by RR 1,057 million, or 2.2%, compared to 2019 due to an increase in sales volumes, the effect of which was offset by a decrease in average realized prices.

We sold 2,391 thousand tons of LPG, or 80.8% of our total LPG sales volumes, on the domestic market compared to sales of 2,186 thousand tons, or 78.7%, in 2019 (see "Liquids sales volumes" above). The remaining 568 thousand tons of LPG, or 19.2% of our total LPG sales volumes, in 2020 and 591 thousand tons, or 21.3%, in 2019 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 2020 decreased by RR 699 per ton, or 4.1%, to RR 16,467 per ton from RR 17,166 per ton in 2019 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Stable gas condensate sales

In 2020, our revenues from sales of stable gas condensate decreased by RR 800 million, or 1.9%, compared to 2019 due to a decrease in average realized prices that was almost offset by an increase in volumes sold.

We sold 1,580 thousand tons of stable gas condensate, or 72.8% of our total stable gas condensate sales volumes, on the domestic market as compared to sales of 1,407 thousand tons, or 80.9%, in 2019 (see "Liquids sales volumes" above). The remaining 589 thousand tons of stable gas condensate, or 27.2% of our total stable gas condensate sales volumes, in 2020, and 332 thousand tons, or 19.1%, in 2019 were sold to the European, APR and Middle East (only in 2020) markets.

Our average realized net price, excluding export duties, where applicable, decreased by RR 5,213 per ton, or 21.3%, to RR 19,239 per ton from RR 24,452 per ton in 2019 (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 2020, our revenues from other products sales decreased by RR 177 million, or 17.4%, to RR 838 million from RR 1,015 million in 2019.

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 2020, other revenues increased by RR 1,491 million, or 14.1%, to RR 12,062 million from RR 10,571 million in 2019 primarily due to an increase in revenues from leasing of facilities of our LNG construction center located in the Murmansk region, used for the construction of the LNG plant at our Arctic LNG 2 project.

Operating expenses

In 2020, our total operating expenses decreased by RR 88,401 million, or 13.8%, to RR 552,062 million compared to RR 640,463 million in 2019 mainly due to a decrease in average purchase prices for hydrocarbons resulted from a decline in commodity prices on international markets and a decrease in volumes of LNG purchased from our joint venture Yamal LNG due to the reallocation of Yamal LNG sales volumes in favor of long-term contracts sales (see "Purchases of natural gas and liquid hydrocarbons" below).

	Year ended 31 December:			
millions of Russian roubles	**2020**	**% of total revenues**	**2019**	**% of total revenues**
Purchases of natural gas and liquid hydrocarbons	235,224	*33.0%*	330,818	*38.3%*
Transportation expenses	154,757	*21.7%*	151,651	*17.6%*
Taxes other than income tax	54,501	*7.7%*	61,981	*7.2%*
Depreciation, depletion and amortization	39,238	*5.5%*	32,230	*3.7%*
Materials, services and other	29,577	*4.2%*	25,183	*2.9%*
General and administrative expenses	26,795	*3.8%*	24,568	*2.8%*
Exploration expenses	9,103	*1.3%*	8,386	*1.0%*
Impairment expenses (reversals), net	254	*n/a*	162	*n/a*
Changes in natural gas, liquid hydrocarbons and work-in-progress	2,613	*0.4%*	5,484	*0.6%*
Total operating expenses	**552,062**	***77.6%***	**640,463**	***74.2%***

Purchases of natural gas and liquid hydrocarbons

In 2020, our purchases of natural gas and liquid hydrocarbons decreased by RR 95,594 million, or 28.9%, to RR 235,224 million from RR 330,818 million in 2019.

	Year ended 31 December:		Change
millions of Russian roubles	**2020**	**2019**	**%**
Natural gas	125,844	175,023	(28.1%)
Unstable gas condensate	102,568	138,092	(25.7%)
Other hydrocarbons	12,221	21,775	(43.9%)
Reverse excise	(5,409)	(4,072)	32.8%
Total purchases of natural gas and liquid hydrocarbons	**235,224**	**330,818**	**(28.9%)**

Purchases of natural gas decreased by RR 49,179 million, or 28.1%, as compared to 2019 due to a decrease 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) and a decrease in volumes of LNG purchased from our joint venture OAO Yamal for subsequent sale on international markets. The decrease in LNG purchase volumes from Yamal LNG was 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.

Purchases of unstable gas condensate from our joint ventures decreased by RR 35,524 million, or 25.7%, as compared to 2019 due to a decrease in purchase prices, which are primarily impacted by international crude oil and LPG prices excluding export duties (see "Selected macro-economic data" above). The impact of this factor was partially offset by an increase in volumes purchased from Arcticgas due to an increase in hydrocarbon production from the Achimov horizons at the Urengoyskoye field (see "Liquids production volumes" above).

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 9,554 million, or 43.9%, as compared to 2019 mainly due to a decrease in volumes of stable gas condensate purchased from Yamal LNG for subsequent sale on international markets, as well as a decrease in hydrocarbon purchase prices resulted from a decline in commodity prices on international markets (see "Selected macro-economic data" above).

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

Transportation expenses

In 2020, our total transportation expenses increased by RR 3,106 million, or 2.0%, to RR 154,757 million as compared to RR 151,651 million in 2019.

millions of Russian roubles	**Year ended 31 December: 2020**	**2019**	**Change %**
Natural gas transportation by trunk and low-pressure pipelines	100,594	97,371	3.3%
Stable gas condensate and liquefied petroleum gas transportation by rail	34,198	32,674	4.7%
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	10,283	8,589	19.7%
Crude oil transportation by trunk pipelines	8,042	9,639	(16.6%)
Other	1,640	3,378	(51.5%)
Total transportation expenses	**154,757**	**151,651**	**2.0%**

Expenses for natural gas transportation by trunk and low-pressure pipelines increased by RR 3,223 million, or 3.3%, to RR 100,594 million from RR 97,371 million in 2019 due to an increase in the proportion of sales to our end-customers located at more distant regions from our production fields in the current reporting period as compared to the previous year and a 1.6% increase in our natural gas sales volumes to our end-customers, for which we incurred transportation expenses.

Expenses for stable gas condensate and LPG transportation by rail increased by RR 1,524 million, or 4.7%, to RR 34,198 million from RR 32,674 million in 2019 mainly due to a 4.8% increase in volumes of liquids sold and transported via rail.

Transportation expenses for our hydrocarbons delivered by tankers to international markets increased by RR 1,694 million, or 19.7%, to RR 10,283 million from RR 8,589 million in 2019. The increase was due to a 11.4% depreciation of the Russian rouble average exchange rate relative to the US dollar since all our tankers transportation expenses are US dollar denominated, as well as changes in the LNG delivery terms and points of destination.

Expenses for crude oil transportation to customers by trunk pipeline decreased by RR 1,597 million, or 16.6%, to RR 8,042 million from RR 9,639 million in 2019 due to an increase in the proportion of sales to our domestic customers located at closer regions from our production fields in the current reporting period as compared to the previous year and a 7.6% decrease in sales volumes.

Other transportation expenses mainly include our short-term vessels time charter expenses related to our revenues from hydrocarbons transportation by tankers rendered to our joint ventures and third parties (see "Other revenues" above), as well as expenses for hydrocarbons transportation by trucks. Short-term vessels time charter expenses decreased to RR 1,436 million from RR 3,078 million in 2019 in line with a dynamics of our revenues from tanker transportation.

Taxes other than income tax

In 2020, taxes other than income tax decreased by RR 7,480 million, or 12.1%, to RR 54,501 million from RR 61,981 million in 2019 due to a decrease in unified natural resources production tax expense.

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Unified natural resources production tax (UPT)	50,204	57,935	(13.3%)
Property tax	3,929	3,658	7.4%
Other taxes	368	388	(5.2%)
Total taxes other than income tax	**54,501**	**61,981**	**(12.1%)**

Unified natural resources production tax expense decreased by RR 7,731 million, or 13.3%, to RR 50,204 million from RR 57,935 million in 2019 primarily due to a decline in benchmark crude oil prices, which are used for UPT rates calculation.

Property tax expense increased by RR 271 million, or 7.4%, to RR 3,929 million from RR 3,658 million in 2019 due to the launch of new production assets at the end of 2019 and in the third quarter 2020 (see "Recent developments" above).

Depreciation, depletion and amortization

In 2020, our depreciation, depletion and amortization ("DDA") expense increased by RR 7,008 million, or 21.7%, to RR 39,238 million from RR 32,230 million in 2019 primarily due to additions of new assets: launch of the fields within the North-Russkiy cluster and production facilities of 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 on oil and gas assets using the "units-of-production" method and straight-line method for other facilities.

Materials, services and other

In 2020, our materials, services and other expenses increased by RR 4,394 million, or 17.4%, to RR 29,577 million compared to RR 25,183 million in 2019.

millions of Russian roubles	Year ended 31 December: 2020	2019	Change %
Employee compensation	14,027	11,273	24.4%
Repair and maintenance	3,294	2,778	18.6%
Preparation and processing of hydrocarbons	2,323	2,431	(4.4%)
Materials and supplies	1,833	1,945	(5.8%)
Electricity and fuel	1,702	1,551	9.7%
Liquefied petroleum gas volumes reservation expenses	1,205	1,157	4.1%
Fire safety and security expenses	1,152	1,051	9.6%
Transportation services	1,140	924	23.4%
Labor safety expenses	703	91	n/a
Rent expenses	592	591	0.2%
Insurance expense	462	366	26.2%
Other	1,144	1,025	11.6%
Total materials, services and other	**29,577**	**25,183**	**17.4%**

Employee compensation relating to operating personnel increased by RR 2,754 million, or 24.4%, to RR 14,027 million compared to RR 11,273 million in 2019 due to an increase in average number of employees resulting from the launch of new production assets and servicing new assets of our joint ventures (mainly, Arctic LNG 2, and Arcticgas).

Repair and maintenance services expenses increased by RR 516 million, or 18.6%, to RR 3,294 million compared to RR 2,778 million in 2019 mainly due to an increase in current repair works performed on production facilities at our core production subsidiaries. Repair expenses fluctuate period-to-period depending on the assets repair schedule at our production subsidiaries.

Electricity and fuel expenses increased by RR 151 million, or 9.7%, to RR 1,702 million compared to RR 1,551 million in 2019 due to higher electricity prices in 2020, and an increase in the consumption at our core production subsidiaries, resulted, inter alia, from the launch of the fields within the North-Russkiy cluster.

Transportation services and fire safety and security expenses also increased mainly due to the recent launch of new fields.

Labor safety expenses increased by RR 612 million to RR 703 million compared to RR 91 million in 2019 due to necessary precautions taken to protect the safety and well-being of our employees in light of the COVID-19 virus spread.

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

General and administrative expenses

In 2020, our general and administrative expenses increased by RR 2,227 million, or 9.1%, to RR 26,795 million compared to RR 24,568 million in 2019.

millions of Russian roubles	**Year ended 31 December: 2020**	**2019**	**Change %**
Employee compensation	17,849	17,905	(0.3%)
Social expenses and compensatory payments	4,128	2,503	64.9%
Legal, audit and consulting services	1,289	975	32.2%
Repair and maintenance expenses	947	228	n/a
Advertising expenses	599	531	12.8%
Fire safety and security expenses	581	509	14.1%
Business travel expense	187	720	(74.0%)
Rent expense	184	189	(2.6%)
Other	1,031	1,008	2.3%
Total general and administrative expenses	**26,795**	**24,568**	**9.1%**

Social expenses and compensatory payments increased by RR 1,625 million, or 64.9%, to RR 4,128 million compared to RR 2,503 million in 2019 primarily due to an increase in compensatory payments. In 2020, these payments mainly related to the development of the Yurkharovskoye and West-Yurkharovskoye fields, and the Nyakhartinskiy and West-Yaroyakhinskiy license areas, and amounted to RR 1,602 million. In 2019, compensatory payments amounted to RR 237 million and mainly related to the development of the Geofizicheskoye and North-Obskoye fields. The remaining expenses represented our social expenses and related to continued support of charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-on-period depending on the implementation schedules of specific programs we support.

Legal, audit, and consulting services expenses increased by RR 314 million, or 32.2%, to RR 1,289 million compared to RR 975 million in 2019 primarily due to an increase in consulting services related to the expansion of the Group's activities.

Repair and maintenance expenses increased by RR 719 million, or 4.2 times, to RR 947 million from RR 228 million in 2019 mainly due to settling in and furnishing of a new office building for our subsidiaries in Novy Urengoy and due to maintenance and operation of other administrative assets.

Business travel expenses decreased by RR 533 million, or 74.0%, to RR 187 million from RR 720 million in 2019 due to COVID-19 travel restrictions and the precautions taken by the Group to protect safety and health in light of the spread of the coronavirus (see "Recent developments" above).

Other items of our general and administrative expenses changed marginally.

Exploration expenses

In 2020, our exploration expenses amounted to RR 9,103 million, of which the major part related to exploration works at the Gydanskiy, Shtormovoy, Nyakhartinskiy, and North-Russkiy license areas, as well as at the Soletskoye-Khanaveyskoye field and on an offshore block in Lebanon. In 2019, our exploration expenses amounted to RR 8,386 million and related to exploration works performed at the Gydanskiy, Verhnetiuteyskiy and West-Seyakhinskiy, and Nyakhartinskiy license areas.

Exploration works ensure timely preparation of reserves at our promising fields for development and further progress of the Group's hydrocarbons production projects in line with our long-term strategy. Exploration expenses fluctuate period-to-period in accordance with the approved exploration work schedule at our production subsidiaries.

In accordance with our accounting policies, exploration expenses include geological and geophysical research services, expenditures associated with the maintenance of license areas with non-proven reserves, expenses of our science and technology center associated with the exploration activities at our fields, costs related to exploratory wells drilling when reserves are not found, and other expenditures relating to exploration activity.

Impairment expenses

In 2020 and 2019, we recognized net impairment expenses of RR 254 million and RR 162 million, respectively, which in both periods related to impairments of trade accounts receivables.

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

In 2020, we recorded a charge of RR 2,613 million to changes in inventory expense mainly due to a decrease in the cost of hydrocarbons purchases as a result of a decrease in benchmark crude oil prices, as well as a decrease in natural gas inventory balances. In 2019, we recorded a charge of RR 5,484 million to changes in inventory expense due to a decrease in our hydrocarbons inventory balances.

In 2020 and 2019, our cumulative natural gas inventory balance decreased by 426 mmcm and 986 mmcm, respectively, due to a seasonal withdrawal of natural gas during the period of higher demand to fulfill our contractual sales obligations. Natural gas inventory balances tend to fluctuate period-to-period depending on the Group's demand for natural gas withdrawals for the sale in the subsequent periods.

In the current year, our cumulative liquid hydrocarbons inventory balances, recognized as inventory in transit or in storage, did not change, while in 2019 they decreased by 268 thousand tons mainly due to a decrease in inventory balances of stable gas condensate refined products in storage at our Ust-Luga Complex and 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:

	2020			**2019**		
Inventory balances in transit or in storage	**At 31 December**	**At 1 January**	**Increase / (decrease)**	**At 31 December**	**At 1 January**	**Increase / (decrease)**
Natural gas (millions of cubic meters)	**797**	**1,223**	**(426)**	**1,223**	**2,209**	**(986)**
incl. Gazprom's UGSF	*698*	*982*	*(284)*	*982*	*2,106*	*(1,124)*
Liquid hydrocarbons (thousand tons)	**801**	**801**	**-**	**801**	**1,069**	**(268)**
incl. stable gas condensate						
refined products	*380*	*331*	*49*	*331*	*578*	*(247)*
stable gas condensate	*238*	*272*	*(34)*	*272*	*276*	*(4)*
crude oil	*81*	*94*	*(13)*	*94*	*109*	*(15)*

Net gain on disposal of interests in subsidiaries and joint ventures

In the fourth quarter 2020, the Group sold a 100% participation interest in OOO Chernichnoye to the its joint venture ZAO Terneftegas and recognized a gain on the disposal in the amount of RR 69 million before income tax. Chernichnoye is a holder of the license for exploration and production of hydrocarbons within the Chernichniy license area located in YNAO.

In 2019, we recognized a gain on the disposal of a 40% participation interest in OOO Arctic LNG 2 in the amount of RR 674,968 million before income tax.

In addition, in 2019, the Group recognized a gain from the reorganization of our joint venture AO Arcticgas in the amount of RR 7,765 million.

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 2020, we recognized other operating loss of RR 46,807 million compared to other operating loss of RR 35,484 million in 2019.

In both periods, other operating loss was primarily due to recognizing the non-cash revaluation of fair value of contingent consideration related to the sale of a 40% participation interest in OOO Arctic LNG 2 in 2019, resulting from a decrease in long-term crude oil benchmark prices forecast, which may be revised subject to world market conditions and may or may not reflect actual future cash inflows. We recognized a loss of RR 47,823 million and RR 34,542 million in 2020 and 2019, respectively.

In 2020, we purchased and sold approximately 11.3 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 1,479 million as compared to a loss of RR 1,072 million in 2019. At the same time, we recognized non-cash loss of RR 1,689 million in 2020 as a result of a decrease in the fair value of the aforementioned contracts as compared to a non-cash income of RR 238 million in 2019. 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

Our profit from operations in the current reporting period was negatively impacted by unfavorable macroeconomic conditions that are out of the Group's management control, which led to a decrease in our hydrocarbon prices.

In 2020, our profit from operations and EBITDA including our proportionate share of joint ventures, but excluding the effects from the disposal of interests in subsidiaries and joint ventures (mainly, a net gain on disposal and subsequent non-cash revaluation of fair value of contingent consideration related to the transactions on the sale of a 40% participation interest in OOO Arctic LNG 2 in 2019), amounted to RR 274,718 million and RR 392,008 million, respectively, compared to RR 360,463 million and RR 461,157 million in 2019.

Profit from operations and EBITDA of our subsidiaries, excluding the effects from the disposal of participation interests, amounted to RR 160,766 million and RR 201,947 million, respectively, compared to RR 221,398 million and RR 253,552 million in 2019.

Finance income (expense)

In 2020, we recorded net finance income of RR 160,565 million compared to net finance expense of RR 15,712 million in 2019.

millions of Russian roubles	**Year ended 31 December: 2020**	**2019**	**Change %**
Accrued interest expense on loans received	(10,051)	(9,112)	10.3%
Less: capitalized interest	6,641	5,903	12.5%
Provisions for asset retirement obligations:			
effect of the present value discount unwinding	(960)	(738)	30.1%
Interest expense on lease liabilities and other expenses	(569)	(544)	4.6%
Interest expense	**(4,939)**	**(4,491)**	**10.0%**
Interest income	25,440	20,699	22.9%
Change in fair value of non-commodity financial instruments	(7,397)	12,827	n/a
Foreign exchange gain (loss), net	147,461	(44,747)	n/a
Total finance income (expense)	**160,565**	**(15,712)**	**n/a**

Interest expense increased by RR 448 million, or 10.0% primarily due to depreciation of the average exchange rate of the Russian rouble relative to the US dollar and Euro by 11.4% and 13.7%, respectively.

Interest income increased by RR 4,741 million, or 22.9%, to RR 25,440 million from RR 20,699 million in 2019 primarily due to loans provided to our joint venture OOO Arctic LNG 2.

In 2020, we recognized a non-cash loss of RR 7,397 million compared to a non-cash gain of RR 12,827 million in 2019 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 2020, we recorded a net foreign exchange gain of RR 147,461 million compared to a net foreign exchange loss of RR 44,747 million in 2019 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 2020, the Group's proportionate share of loss of joint ventures amounted to RR 143,981 million as compared to the share of profit in the amount of RR 149,238 million in 2019.

millions of Russian roubles (Group's share)	Year ended 31 December: 2020	2019	Change %
Share of profit from operations	**113,952**	**139,065**	**(18.1%)**
Share of finance income (expense) excluding foreign exchange effects	**(71,685)**	**(71,301)**	**0.5%**
Interest income (expense), net	(85,502)	(67,770)	26.2%
Change in fair value of non-commodity financial instruments	13,817	(3,531)	n/a
Share of income tax excluding foreign exchange effects	**(5,303)**	**(11,740)**	**(54.8%)**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	**36,964**	**56,024**	**(34.0%)**
Share of foreign exchange gain (loss), net	(254,022)	111,733	n/a
Share of income tax related to foreign exchange gain (loss)	42,832	(18,519)	n/a
Total	**(174,226)**	**149,238**	**n/a**
Unrecognized share of losses of joint ventures [(1)]	30,245	-	n/a
Total share of profit (loss) of joint ventures, net of income tax	**(143,981)**	**149,238**	**n/a**

[(1)] Represents the excess of the Group's proportionate share of accumulated losses in the joint venture over the Group's cost of investment.

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

millions of Russian roubles (Group's share)	Yamal LNG 2020	Yamal LNG 2019	Arcticgas 2020	Arcticgas 2019	Others 2020	Others 2019
Share of profit from operations	**76,020**	**82,190**	**37,657**	**52,994**	**275**	**3,881**
Share of finance income (expense) excluding foreign exchange effects	**(65,789)**	**(67,836)**	**(1,355)**	**(2,087)**	**(4,541)**	**(1,378)**
Interest income (expense), net	(81,398)	(63,214)	(1,355)	(2,087)	(2,749)	(2,469)
Change in fair value of non-commodity financial instruments	15,609	(4,622)	-	-	(1,792)	1,091
Share of income tax excluding foreign exchange effects	**(3,163)**	**(3,044)**	**(5,691)**	**(8,169)**	**3,551**	**(527)**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	**7,068**	**11,310**	**30,611**	**42,738**	**(715)**	**1,976**
Share of foreign exchange gain (loss), net	(222,431)	106,910	(22)	1	(31,569)	4,822
Share of income tax related to foreign exchange gain (loss)	36,700	(17,641)	4	-	6,128	(878)
Total	**(178,663)**	**100,579**	**30,593**	**42,739**	**(26,156)**	**5,920**
Unrecognized share of losses of joint ventures [(1)]	27,763	-	-	-	2,482	-
Total share of profit (loss) of joint ventures, net of income tax	**(150,900)**	**100,579**	**30,593**	**42,739**	**(23,674)**	**5,920**

[(1)] Represents the excess of the Group's proportionate share of accumulated losses in the joint venture over the Group's cost of investment.

In the current year, our proportionate share of profit (loss) of joint ventures was significantly impacted by unfavorable macroeconomic conditions, which led to a decrease in hydrocarbons sales prices and a recognition of substantial foreign exchange effects in our joint ventures. In 2020, our proportionate share of profit of joint ventures excluding foreign exchange effects amounted to RR 36,964 million compared to RR 56,024 million in 2019.

Our proportionate share in the profit from operations of our joint ventures decreased by RR 25,113 million, or 18.1%, from RR 139,065 million to RR 113,952 million mainly due to decreases in LNG and liquids average realized prices.

Our proportionate share in interest expense increased by RR 17.7 billion, or 26.2%, due to the Russian rouble depreciation relative to the US dollar and Euro by 11.4% and 13.7%, respectively, and the finalized process of the marine tankers fleet formation in Yamal LNG with the remaining vessels being received during 2019-2020 under long-term time charter agreements. According to IFRS 16 *"Leases"*, a portion of expenses under such agreements is recognized within interest expense.

In 2020, our share in foreign exchange losses amounted to RR 254.0 billion as compared to our share in foreign exchange gains of RR 111.7 billion in 2019. 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.

As a result of the recognition of foreign exchange losses, the Group's proportionate share of accumulated losses in OAO Yamal LNG and OOO Cryogas-Vysotsk exceeded our cost of investment and the Group's investment in these joint ventures was valued at RR nil in the consolidated statement of financial position. The unrecognized share of losses in 2020 amounted to RR 30.2 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 and joint ventures, the effective income tax rate (total income tax expense calculated as a percentage of profit before income tax) for the years ended 31 December 2020 and 2019 was 18.8% and 16.7%, 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 decreased by RR 797,645 million to RR 67,832 million in 2020 compared to RR 865,477 million in 2019.

The Group's financial results in the current reporting period were significantly impacted by unfavorable macroeconomic conditions, which led to a decrease in our hydrocarbons sales prices and a recognition of substantial foreign exchange effects.

In addition, in both reporting periods, we recorded the effects from the disposal of interests in the Arctic LNG 2 project by recognizing a gain in the aggregate amount of RR 675.0 billion from the disposal of a 40% participation interest in the Arctic LNG 2 project in 2019 and recognizing in 2019 and 2020 losses in the amount of RR 34.5 billion and RR 47.8 billion, respectively, related to the subsequent non-cash revaluation of contingent consideration on these transactions. In 2019, we also recognized a gain from the reorganization of our joint venture AO Arcticgas in the amount of RR 7,8 billion.

Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), our profit attributable to shareholders of PAO NOVATEK decreased by RR 75,982 million, or 31.0%, and amounted to RR 169,020 million in 2020 compared to RR 245,002 million in 2019.

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

millions of Russian roubles	**Year ended 31 December: 2020**	**2019**	**Change %**
Profit attributable to shareholders of PAO NOVATEK	**67,832**	**865,477**	**(92.2%)**
Gain on disposal of interests in subsidiaries and joint ventures, net	(69)	(682,733)	(100.0%)
Income tax expense related to the disposal of interests in subsidiaries and joint ventures	23	92,040	(100.0%)
Changes in fair value of contingent consideration reported within the "Other operating income (loss)"	47,823	34,542	38.4%
Income tax expense (benefit) related to changes in fair value of contingent consideration	(9,565)	(6,908)	38.5%
Normalized profit attributable to shareholders of PAO NOVATEK	**106,044**	**302,418**	**(64.9%)**
including:			
profit from subsidiaries	250,025	153,180	63.2%
share of profit (loss) of joint ventures	(143,981)	149,238	n/a

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

millions of Russian roubles	**Year ended 31 December: 2020**	**2019**	**Change %**
Normalized profit from subsidiaries attributable to shareholders of PAO NOVATEK	**250,025**	**153,180**	**63.2%**
Foreign exchange (gains) losses, net	(147,461)	44,747	n/a
Income tax expense relating to foreign exchange (gains) losses	29,492	(8,949)	n/a
Normalized profit from subsidiaries attributable to shareholders of PAO NOVATEK excluding the effect of foreign exchange gains (losses)	**132,056**	**188,978**	**(30.1%)**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects [(1)]	36,964	56,024	(34.0%)
Normalized profit attributable to shareholders of PAO NOVATEK, excluding the effect of foreign exchange gains (losses)	**169,020**	**245,002**	**(31.0%)**

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

Our weighted average basic and diluted earnings per share, calculated from the profit attributable to shareholders of PAO NOVATEK decreased by RR 264.81 per share to RR 22.58 per share in 2020 from RR 287.39 per share in 2019. Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), our weighted average basic and diluted earnings per share decreased by RR 25.09, or 30.9%, to RR 56.26 per share in 2020 from RR 81.35 per share in 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

The following table shows our net cash flows from operating, investing and financing activities for the years ended 31 December 2020 and 2019:

millions of Russian roubles	**Year ended 31 December: 2020**	**2019**	**Change %**
Net cash provided by **operating** activities	171,896	307,433	(44.1%)
Net cash used for **investing** activities	(47,872)	(169,044)	(71.7%)
Net cash used for **financing** activities	(78,075)	(119,448)	(34.6%)

Net cash provided by operating activities

Our net cash provided by operating activities decreased to RR 171,896 million compared to RR 307,433 million in 2019 due to a decrease in profit from operations, excluding the effects from the disposal of interests, net of related income tax, as well as a decrease in interest on loans and dividends received from our joint ventures.

millions of Russian roubles	**Year ended 31 December: 2020**	**2019**	**Change %**
Profit from operations, excluding the effects from the disposal of interests in subsidiaries and joint ventures	160,766	221,398	(27.4%)
Non-cash adjustments [(1)]	43,121	31,860	35.3%
Changes in working capital and long-term advances given	(10,876)	(4,227)	157.3%
Dividends and cash received from joint ventures	11,420	46,050	(75.2%)
Interest received	8,442	47,413	(82.2%)
Income taxes paid excluding actual payments relating to disposal of interests in subsidiaries and joint ventures	(40,977)	(35,061)	16.9%
Total net cash provided by operating activities	**171,896**	**307,433**	**(44.1%)**

(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 2020, profit from operations excluding the effects from the disposals of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration), adjusted for non-cash items decreased due to a decline in hydrocarbon prices on international markets compared to 2019.

Income tax payments, on the contrary, increased in 2020 as a result of the recognition of significant foreign exchange gains in our subsidiaries as compared to foreign exchange losses in 2019.

In the year ended 31 December 2020, we received RR 10,750 million and RR 670 million of dividends and cash distributed in favor of the Group from our joint ventures Arcticgas and Terneftegas, respectively. In the year ended 31 December 2019, we received RR 45,500 million and RR 550 million of dividends from our joint ventures Arcticgas and Nortgas, respectively.

In 2020 and 2019, we received approximately RR eight billion and RR 47 billion, respectively, of interest on loans provided to our joint ventures Yamal LNG and Terneftegas.

Net cash used for investing activities

In 2020, our net cash used for investing activities decreased by RR 121,172 million, or 71.7%, to RR 47,872 million compared to RR 169,044 million in 2019.

millions of Russian roubles	**Year ended 31 December:**		**Change**
	2020	**2019**	**%**
Cash used for capital expenditures	(204,577)	(162,502)	25.9%
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	195,479	136,541	43.2%
Actual income tax payments relating to disposal of interests in subsidiaries and joint ventures	(23)	(64,540)	(100.0%)
Payments for mineral licenses	(434)	(7,827)	(94.5%)
Loans provided to joint ventures	(120,798)	(29,664)	307.2%
Repayments of loans provided to joint ventures	41,543	20,764	100.1%
Net decrease (increase) in bank deposits with original maturity more than three months	43,057	(58,945)	n/a
Capital contributions to joint ventures	-	(298)	n/a
Other	(2,119)	(2,573)	(17.6%)
Net cash used for investing activities	**(47,872)**	**(169,044)**	**(71.7%)**

In 2020, cash used for capital expenditures increased by RR 42,075 million, or 25.9%, as compared to 2019. A significant part of the capital investments related to our LNG projects (the Arctic LNG 2 project prior to March 2019, the LNG construction center located in the Murmansk region and the Obskiy LNG project), ongoing development of our producing fields, preparation for the commencement of commercial production at our new fields, as well as exploratory drilling (see "Capital expenditures" below).

In 2019, the Group sold a 40% participation interest in OOO Arctic LNG 2 to four new participants. Consideration under these transactions includes cash payments of USD 5.2 billion equivalent (USD 1.3 billion by each participant). The first part of these cash payments in the aggregate amount of RR 152,531 million (the equivalent of USD 2.4 billion) was received in 2019. Excluding the cash balance in OOO Arctic LNG 2 as at the first transaction closing date, the net cash inflow from the transactions amounted to RR 136,541 million. The second part of cash payments in the aggregate amount of RR 195,324 million (the equivalent of USD 2.8 billion) was received in 2020. Income tax accrued in relation to these transactions in the amount of RR 64,540 million was paid in 2019.

In the current year, we also received the first payments in the amount of RR 155 million for the sale of a 100% participation interest in OOO Chernichnoye to our joint venture ZAO Terneftegas and paid income tax accrued in relation to this transaction in the amount of RR 23 million (see "Recent developments" above).

In 2020, we made final payments in the aggregate amount of RR 317 million for the acquisition of the licenses for the East-Ladertoyskiy, the South-Yamburgskiy and the Bukharinskiy license areas, and also made a one-time payment fee to expand the borders of our Ust-Yamsoveyskiy license area in the amount of RR 58 million. In addition, in both 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 2019, we made a final payment in the amount of RR 2,006 million for the acquisition of a license for the South-Leskinskiy license area, paid RR 2,586 million for the acquisition of a license for the license area, which includes the Soletskoye-Khanaveyskoye field, as well as paid RR 3,176 million for participation in the auctions for the right to use the East-Ladertoyskiy, the South-Yamburgskiy and the Bukharinskiy license areas.

In 2020, we provided loans in the aggregate amount of RR 120,798 million compared to RR 29,664 million in 2019. In both reporting periods, we provided loans to our joint ventures for developing their activities, mainly to OOO Arctic LNG 2 and Yamal LNG (only in 2019). At the same time, in both years, the Group received partial repayments of the loans provided to our joint ventures Yamal LNG and Terneftegas in the aggregate amount of RR 41,543 million in 2020 and RR 20,764 million in 2019.

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 2020, the net decrease in bank deposits with original maturity more than three months amounted to approximately RR 43 billion compared to the net increase in the amount of RR 59 billion in 2019.

In 2019, we made capital contributions to our joint venture Rostock LNG GmbH in the amount of RR 248 million and to our joint venture OOO SMART LNG in the amount of RR 50 million.

Net cash used for financing activities

In 2020, our net cash used for financing activities decreased by RR 41,373, or 34.6%, to RR 78,075 million as compared to RR 119,448 million in 2019.

	Year ended 31 December:		**Change**
millions of Russian roubles	**2020**	**2019**	**%**
Dividends paid to shareholders of PAO NOVATEK	(89,857)	(93,468)	(3.9%)
Dividends paid to non-controlling interest	(11,858)	(16,758)	(29.2%)
Proceeds from (repayments of) long-term debt, net	39,460	(2,176)	n/a
Net increase (decrease) in short-term debt with original maturity three months or less	36	-	n/a
Loan commitment fee	(534)	-	n/a
Purchase of treasury shares	(8,271)	(1,865)	343.5%
Payments of lease liabilities	(4,649)	(2,944)	57.9%
Interest on debt paid	(2,402)	(2,237)	7.4%
Net cash used for financing activities	**(78,075)**	**(119,448)**	**(34.6%)**

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

In addition, in 2020, the Group obtained a long-term loan from a Russian bank under a non-revolving credit line facility in the amount of RR 45,395 million (EUR 500 million). In both periods, the Group also partially repaid a loan obtained from China's investment fund Silk Road Fund in the amount of RR 4,928 million (USD 70 million) and RR 2,176 million (USD 35 million), respectively, and, in 2020, fully repaid a long-term loan obtained under a credit line facility from a Russian bank in the amount of RR 1,007 million.

Other cash flows from financing activities related primarily to purchase of treasury shares and payments of lease liabilities.

Liquidity and working capital

The following table shows the Group's liquidity and credit measures as of 31 December 2020 and 2019:

	31 December 2020	31 December 2019	Change, %
Absolute amounts, RR million			
Net debt (1)	39,557	15,106	161.9%
Net working capital position (2)	202,938	379,383	(46.5%)
Liquidity and credit ratios			
Current ratio (3)	2.27	4.24	(46.5%)
Total debt to total equity	0.14	0.09	55.6%
Long-term debt to long-term debt and total equity	0.09	0.08	12.5%
Net debt to total capitalization (4)	0.02	0.01	100.0%
Net debt to normalized EBITDA from subsidiaries (5)	0.20	0.06	233.3%
Interest coverage ratio (6)	20	28	(28.6%)

(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.

(6) Interest coverage ratio is calculated as normalized EBITDA from subsidiaries divided by accrued interest on debt, including capitalized interest.

The Group has consistently demonstrated sustainable operating and financial results and had generated cumulative positive free cash flow. Thus, in 2020, the Group had sufficient liquidity to increase investments in our main projects despite unfavorable macroeconomic conditions (see "Current economic environment" above). 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:

millions of Russian roubles	Year ended 31 December: 2020	2019
Infrastructure for future LNG projects [1]	72,838	43,013
Arctic LNG 2 project [2]	-	19,147
North-Russkiy cluster [3]	39,692	37,843
Obskiy LNG project	15,816	7,766
Ust-Luga Complex	7,781	3,288
Yarudeyskoye field	5,769	7,013
Geofizicheskoye field	5,723	3,506
Yurkharovskoye field	5,398	3,484
Beregovoye field	5,143	5,923
Gydanskiy license area	4,318	2,618
West-Yurkharovskoye field	4,121	5,213
Ust-Yamsoveyskiy license area	4,066	539
East-Tarkosalinskoye field	3,951	6,333
Yevo-Yakhinskiy license area	2,741	-
Gas condensate pipeline expansion	1,607	4
Novatek Green Energy [4]	1,402	875
Nyakhartinskiy license area	1,097	960
NOVATEK-Chelyabinsk	986	1,236
West-Yaroyakhinskiy license area	846	716
NOVATEK-AZK	770	1,034
South-Khadyryakhinskiy license area	752	1,806
Administration facilities	10,147	7,132
Other	13,742	5,477
Capital expenditures	**208,706**	**164,926**

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

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

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

(4) Prior to February 2020 was named Novatek Polska Sp. z o.o.

Total capital expenditures on property, plant and equipment in 2020 increased by RR 43,780 million, or 26.5%, to RR 208,706 million from RR 164,926 million.

In both reporting periods, a significant part of our capital expenditures related to the development of our LNG projects, in particular the Arctic LNG 2 project (before the disposal of a 10% participation interest in March 2019), the LNG construction center located in the Murmansk region and the Obskiy LNG.

In addition, we 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 (see "Recent developments" above). We also continued the ongoing development of our producing fields (the Beregovoye, Yurkharovskoye and West-Yurkharovskoye fields, development activities at the East-Tarkosalinskoye and the Yarudeyskoye fields' crude oil deposits), the development of the Ust-Yamsoveyskiy license area and exploratory drilling, which in 2020 was mainly conducted at the Kharbeyskoye and Geofizicheskoye fields, as well as at the Gydanskiy and Yevo-Yakhinskiy 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 allow us to increase the depth of processing of stable gas condensate and output of light oil products.

In 2020, we invested in "Yurkharovskoye field – Purovsky Plant" gas condensate pipeline expansion to increase its capacity for gas condensate transportation from the North-Russkiy cluster fields.

We also continued to expand the filling stations network at our subsidiary NOVATEK-AZK and to develop our LPG and LNG wholesale and retail network through our subsidiary Novatek Green Energy Sp. z o.o. (prior to February 2020 Novatek Polska Sp. z o.o.).

Capital expenditures of our subsidiary NOVATEK-Chelyabinsk in both reporting periods mainly related to the construction of a small-scale LNG plant in the Chelyabinsk region.

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 buildings in Moscow and Novy Urengoy (in 2019).

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:

	Year ended 31 December:		**Change**
millions of Russian roubles	**2020**	**2019**	**%**
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	**210,037**	**176,985**	**18.7%**
Less: acquisition of mineral licenses	(375)	(7,768)	(95.2%)
Less: right-of-use assets [(1)] additions	(956)	(4,291)	(77.7%)
Capital expenditures	**208,706**	**164,926**	**26.5%**
Less: advance payments under lease agreements	(801)	-	n/a
Add (less): change in accounts payable, capitalized foreign exchange losses and other non-cash adjustments	(3,328)	(2,424)	37.3%
Cash used for capital expenditures [(2)]	**204,577**	**162,502**	**25.9%**

(1) Related mainly to long-term agreements on energy equipment leases and office premises rentals in 2020 and to long-term agreements on time chartering of marine tankers in 2019.

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

In 2020, we made final payments in the aggregate amount of RR 317 million for the auctions won in December 2019 for the right to use the East-Ladertoyskiy, South-Yamburgskiy and Bukharinskiy license areas (an advance payment of RR 3,176 million was made in the end of 2019). In addition, we paid a one-time fee in the amount of RR 58 million to expand the borders of the Ust-Yamsoveyskiy license area (see "Net cash used for investing activities" above).

In 2019, the Group won auctions for geological research works, exploration and production of hydrocarbons at the Soletsko-Khanaveyskiy, South-Yamburgskiy, East-Ladertoyskiy and Bukharinskiy license areas and paid in the aggregate RR 5,762 million. In addition, in 2019, we made a final payment of RR 2,006 million for the auction won in November 2018 for the right to use the South-Leskinskiy license area.

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 31 December 2020, 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 43.5% of our total revenues in 2020 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 31 December 2020, the Russian rouble depreciated by 19.3% and 30.8% against the US dollar and the Euro, respectively, compared to 31 December 2019.

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 31 December 2020, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which are typically established for the purpose of facilitating off-balance sheet arrangements.

TERMS AND ABBREVIATIONS

APR	Asian-Pacific Region
bbl	barrel
bcm	billion cubic meters
boe	barrels of oil equivalent
btu	British thermal unit
CBR	Central Bank of Russian Federation
CIF	"Cost, insurance and freight"
DDA	depreciation, depletion and amortization
FEED	Front-End Engineering Design
FID	Final Investment Decision
Forecast of the Ministry of Economic Development	The document *"Forecast of Socio-economic Development of the Russian Federation for the period till 2024"* prepared by the Ministry of Economic Development of the Russian Federation or the similar document prepared for another period
GTS	Gas Transmission System part of the UGSS
IFRS	International Financial Reporting Standards
List	the OFAC's Sectoral Sanctions Identification List
LNG	liquefied natural gas
LPG	liquefied petroleum gas
mcm	thousand cubic meters
MET	mineral extraction tax
Murmansk yard	LNG construction center located in the Murmansk region
NBP	National Balancing Point
NGL	natural gas liquids
OFAC	U.S. Treasury Department's Office of Foreign Assets Control
PRMS	Petroleum Resources Management System
Purovsky Plant	Purovsky Gas Condensate Plant
Regulator	A federal executive agency of the Russian Federation that carries out governmental regulation of prices and tariffs for products and services of natural monopolies in energy, utilities and transportation. Effective July 2015, Federal Anti-Monopoly Service fulfills the Regulator's role.
RR	Russian rouble(s)
RZD	OAO Russian Railways, Russia's state-owned monopoly railway operator
SEC	Securities and Exchange Commission
Tobolsk Refining Facilities	Tobolsk petrochemical complex of PAO SIBUR Holding group
TTF	Title Transfer Facility
UGSF	Underground Gas Storage Facilities
UGSS	Unified Gas Supply System owned and operated by PAO Gazprom
UPT	unified natural resources production tax
USD, US dollar	United States Dollar
Ust-Luga Complex	Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea
VAT	value added tax
YNAO	Yamal-Nenets Autonomous Region