PAO NOVATEK

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

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2020

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GENERAL PROVISIONS

You should read the following discussion and analysis of our financial condition and results of operations for the three months ended 30 September 2020 together with our unaudited consolidated interim condensed financial statements as of and for the three and nine months ended 30 September 2020. The unaudited consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". These consolidated interim condensed financial statements should be read together with the audited consolidated financial statements for the year ended 31 December 2019 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.

Our 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 currently in the final stage of construction. After the launch of the first three LNG trains Yamal LNG became one of the largest suppliers of LNG to international markets. 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 will be 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.

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

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

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

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

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

RECENT DEVELOPMENTS

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. 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 production at the Achimov horizons of the Urengoyskoye field.

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 will be used primarily as natural gas motor fuel and will be delivered through the Group's refueling complexes for passenger, cargo transport and mining machinery in the Chelyabinsk region and neighboring areas.

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

Our oil and gas revenues and average realized net prices are presented net of VAT, export duties, fuel taxes, where applicable, and excise on 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	Three months ended 30 September: 2020	2019	Change %
Financial results			
Total revenues [(1)]	163,771	189,162	(13.4%)
Operating expenses	(125,570)	(140,604)	(10.7%)
Normalized EBITDA [(2),(3)]	93,883	104,519	(10.2%)
Normalized profit attributable to shareholders of PAO NOVATEK [(3)]	13,172	58,237	(77.4%)
Normalized profit attributable to shareholders of PAO NOVATEK [(3)], excluding the effect of foreign exchange gains (losses) [(4)]	35,720	48,539	(26.4%)
Normalized earnings per share [(3)] (in Russian roubles)	4.39	19.34	(77.3%)
Normalized earnings per share [(3)], excluding the effect of foreign exchange gains (losses) [(4)] (in Russian roubles)	11.89	16.12	(26.2%)
Net debt (net cash position) [(5)]	(14,237)	11,979	n/a
Production volumes [(6)]			
Hydrocarbons production (million barrels of oil equivalent)	150.4	145.2	3.6%
Daily production (million barrels of oil equivalent per day)	1.63	1.58	3.6%
Operating results			
Natural gas sales volumes (million cubic meters)	16,563	16,700	(0.8%)
Crude oil sales volumes (thousand tons)	1,093	1,265	(13.6%)
Naphtha sales volumes (thousand tons)	806	987	(18.3%)
Liquefied petroleum gas sales volumes (thousand tons)	723	684	5.7%
Stable gas condensate sales volumes (thousand tons)	603	489	23.3%
Other stable gas condensate refined products (thousand tons)	542	564	(3.9%)
Cash flow results			
Net cash provided by operating activities	49,341	54,276	(9.1%)
Cash used for capital expenditures [(7)]	39,821	36,519	9.0%
Free cash flow [(8)]	9,520	17,757	(46.4%)

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

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

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

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

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

(6) Oil and gas production is calculated based on 100% of production of our subsidiaries and our proportionate share in the production of our joint ventures including fuel gas. Production of the South-Tambeyskoye field of Yamal LNG is reported at 60% (see "Basis of presentation" above).

(7) Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.

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

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 14% and 18%, 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 the third quarter 2019, we recognized a gain of RR 366.4 billion from the disposal of a 30% participation interest in the Arctic LNG 2 project to three new participants.

As a result, in the third quarter 2020, we recorded a profit attributable to shareholders of PAO NOVATEK in the amount of RR 13,172 million while in the corresponding period in 2019 we recorded a profit of RR 369,959 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 35,720 million in the three months ended 30 September 2020 compared to RR 48,539 million in the corresponding period in 2019.

Reconciliation of normalized EBITDA is as follows:

millions of Russian roubles	**Three months ended 30 September: 2020**	**2019**	**Change %**
Profit	**16,233**	**374,176**	**(95.7%)**
Depreciation, depletion and amortization	9,733	8,183	18.9%
Impairment expenses (reversals), net	(5)	(7)	(28.6%)
Loss (income) from changes in fair value of commodity derivative instruments	2,979	(492)	n/a
Total finance expense (income)	(88,487)	(5,740)	n/a
Total income tax expense	24,003	65,399	(63.3%)
Share of loss (profit) of joint ventures, net of income tax	86,804	(18,714)	n/a
EBITDA from subsidiaries	**51,260**	**422,805**	**(87.9%)**
Net gain on disposal of interests in subsidiaries and joint ventures	-	(366,390)	n/a
Normalized EBITDA from subsidiaries	**51,260**	**56,415**	**(9.1%)**
Share in EBITDA of joint ventures	**42,623**	**48,104**	**(11.4%)**
including:			
OAO Yamal LNG	27,074	31,486	(14.0%)
AO Arcticgas	13,983	14,654	(4.6%)
others	1,566	1,964	(20.3%)
Normalized EBITDA	**93,883**	**104,519**	**(10.2%)**

SELECTED MACRO-ECONOMIC DATA

Exchange rate, Russian roubles for one foreign currency unit (1)	Three months ended 30 September: 2020	2019	Change %
US dollar (USD)			
Average for the period	73.56	64.57	13.9%
At the beginning of the period	69.95	63.08	10.9%
At the end of the period	79.68	64.42	23.7%
Depreciation (appreciation) of Russian rouble to US dollar	13.9%	2.1%	n/a
Euro			
Average for the period	85.97	71.83	19.7%
At the beginning of the period	78.68	71.82	9.6%
At the end of the period	93.02	70.32	32.3%
Depreciation (appreciation) of Russian rouble to Euro	18.2%	(2.1%)	n/a

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

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Average for the period	Three months ended 30 September: 2020	2019	Change %
Benchmark natural gas prices, USD per mmbtu (2)			
NBP (National Balancing Point)	2.7	3.4	(20.6%)
TTF (Title Transfer Facility)	2.7	3.3	(18.2%)
Benchmark crude oil prices (3)			
Brent, USD per barrel	42.9	62.0	(30.8%)
Urals, USD per barrel	43.0	61.3	(29.9%)
Urals, Russian roubles per barrel	3,163	3,958	(20.1%)
Benchmark crude oil prices excluding export duties (4)			
Urals, USD per barrel	37.0	48.3	(23.4%)
Urals, Russian roubles per barrel	2,722	3,119	(12.7%)
Benchmark oil products (5) and liquefied petroleum gas (6) prices, USD per ton			
Naphtha Japan	397	495	(19.8%)
Naphtha CIF NWE	376	477	(21.2%)
Jet fuel	336	629	(46.6%)
Gasoil	353	578	(38.9%)
Fuel oil	268	387	(30.7%)
Liquefied petroleum gas	362	339	6.8%
Export duties, USD per ton (7)			
Crude oil, stable gas condensate	44.1	95.0	(53.6%)
Naphtha	24.2	52.2	(53.6%)
Jet fuel, gasoil	13.2	28.5	(53.7%)
Fuel oil	44.1	95.0	(53.6%)
Liquefied petroleum gas	0.0	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. 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 much 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):

	Three months ended 30 September:		Change
	2020	2019	%
Average natural gas price, RR per mcm	4,705	5,257	(10.5%)
Average natural gas price, USD per mcm [(1)]	63.9	81.3	(21.4%)

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

In the three months ended 30 September 2020, our aggregate average price for natural gas in Russian roubles decreased by 10.5% mainly 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 an increase in the regulated Russian domestic price 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:

Russian roubles or US dollars per ton [1]	Three months ended 30 September: 2020	2019	Change %
Naphtha			
Average net price, RR per ton	29,053	29,669	(2.1%)
Average net price, USD per ton	395	459	(13.9%)
Other stable gas condensate refined products			
Average net price, RR per ton	23,271	34,709	(33.0%)
Average net price, USD per ton	317	540	(41.3%)
Crude oil			
Average net price, RR per ton	19,087	22,625	(15.6%)
Average net price, USD per ton	260	351	(25.9%)
LPG			
Average net price, RR per ton	19,252	14,566	32.2%
Average net price, USD per ton	262	226	15.9%
Stable gas condensate			
Average net price, RR per ton	20,330	23,740	(14.4%)
Average net price, USD per ton	275	368	(25.3%)

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

In the three months ended 30 September 2020, weighted-average realized net prices for crude oil, stable gas condensate and refined products decreased and the price for our LPG sales increased compared to the corresponding period in prior year due to the respective dynamics 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 which 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 during the nine months 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 2020 through 2024 will not exceed the growth rate for wholesale natural gas prices (see "Natural gas prices" above). There was no indexation of transportation tariffs as of 1 August 2020, the date from which wholesale natural gas prices were increased, and as of our report date, no information regarding the effective date and the size of the next adjustment of transportation tariffs was available. 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.

In 2019 and during the nine months 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 will be 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 3.42% relative to the 2019 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.

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

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

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

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

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

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

UPT – natural gas

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

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

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

UPT – crude oil

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

The UPT rate is calculated as a product of a coefficient characterizing the dynamics of world crude oil prices and the base UPT rate (RR 919 per ton) adjusted for parameters characterizing crude oil production peculiarities (the reserves' depletion, 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 is increasing monthly by the same amount until the end of 2020. Starting from January 2021, the tax deduction rate will be fixed at RR 5,280 per ton of produced NGL.

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.

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:

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

OPERATIONAL HIGHLIGHTS

Hydrocarbon production and sales volumes

Our total natural gas production including the proportionate share in the production of our joint ventures increased by 4.5% in the third quarter 2020 as compared to the corresponding period in the prior year due to 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, the East-Tazovskoye and Dorogovskoye fields), as well as an increase in hydrocarbon production from the Achimov horizons at Arcticgas's Urengoyskoye field.

In the three months ended 30 September 2020, our total natural gas sales volumes decreased by 137 mmcm, or 0.8%, 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 5.1% in the third quarter 2020 as compared to the corresponding period in the prior year due to the launch of additional production facilities.

Our total liquids production including the proportionate share in the production of our joint ventures marginally decreased by 0.6%. An increase in the production due to the expansion of the gas condensate treatment facility at Arcticgas and the commencement of gas condensate extraction at the North-Russkiy cluster mostly completely offset a decrease in production at mature fields of our subsidiaries and joint ventures.

In the three months ended 30 September 2020, our liquids sales volumes decreased by 229 thousand tons, or 5.7% mainly due to changes in inventory balances that vary period-to-period depending on shipping schedules and final destinations of our liquid hydrocarbons shipments.

Natural gas production volumes

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

millions of cubic meters if not stated otherwise	**Three months ended 30 September: 2020**	**2019**	**Change %**
Production by subsidiaries from:			
Yurkharovskoye field	5,677	6,308	(10.0%)
North-Russkiy cluster [(1)]	1,416	3	n/a
East-Tarkosalinskoye field	1,301	1,456	(10.6%)
Beregovoye field	443	484	(8.5%)
Yarudeyskoye field	370	445	(16.9%)
Khancheyskoye field	316	374	(15.5%)
East-Urengoyskoye + North-Esetinskoye field (West-Yaroyakhinskiy license area)	131	137	(4.4%)
Other fields	513	472	8.7%
Total natural gas production by subsidiaries [(2),(3)]	**10,167**	**9,679**	**5.0%**
Group's proportionate share in the production of joint ventures:			
Yamal LNG [(4)]	4,071	4,114	(1.0%)
Arcticgas	3,873	3,319	16.7%
Nortgas	704	891	(21.0%)
Terneftegas	303	299	1.3%
Arctic LNG 2	13	11	18.2%
Total Group's proportionate share in the natural gas production of joint ventures [(2),(3)]	**8,964**	**8,634**	**3.8%**
Total natural gas production including proportionate share in the production of joint ventures	**19,131**	**18,313**	**4.5%**
Total LNG production including proportionate share in the production of joint ventures (thousands of tons) [(4)]	*2,744*	*2,770*	*(0.9%)*

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

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

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

in subsidiaries	433	408	6.1%
in joint ventures (Group's proportionate share)	121	99	22.2%

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

In the three months ended 30 September 2020, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 818 mmcm, or 4.5%, to 19,131 mmcm from 18,313 mmcm in the corresponding period 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 decreases at mature fields of our subsidiaries (the Yurkharovskoye, the East-Tarkosalinskoye and the Khancheyskoye fields) and at our joint venture Nortgas, which resulted mainly from natural declines in the reservoir pressure at the current gas producing horizons.

Natural gas sales volumes

In the three months ended 30 September 2020, our total natural gas sales volumes decreased by 137 mmcm, or 0.8%, to 16,563 mmcm from 16,700 mmcm in the corresponding period in 2019.

millions of cubic meters	Three months ended 30 September: 2020	2019	Change %
Production by subsidiaries	10,167	9,679	5.0%
Purchases from the Group's joint ventures	5,679	5,668	0.2%
Other purchases	1,755	2,137	(17.9%)
Total production and purchases	**17,601**	**17,484**	**0.7%**
Own usage [(1)]	(471)	(439)	7.3%
Decrease (increase) in natural gas inventory balance	(567)	(345)	64.3%
Total natural gas sales volumes	**16,563**	**16,700**	**(0.8%)**
Sold to end-customers	*13,799*	*13,160*	*4.9%*
Sold ex-field	*560*	*500*	*12.0%*
Subtotal sold in the Russian Federation	***14,359***	***13,660***	***5.1%***
Sold on international markets	***2,204***	***3,040***	***(27.5%)***

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

In the three months ended 30 September 2020, natural gas purchases from our joint ventures marginally increased by 11 mmcm, or 0.2%, to 5,679 mmcm from 5,668 mmcm in the corresponding period in 2019. An increase in purchases of natural gas from Arcticgas to fulfill our Russian domestic contractual sales obligations fully offset a decrease in spot LNG purchases from our joint venture Yamal LNG. The decrease in LNG purchases resulted from an increase in the share of Yamal LNG's direct sales under long-term contracts and the corresponding decrease in LNG spot sales to shareholders, including the Group.

Other natural gas purchases are included in our natural gas volumes for sale, which allows us to coordinate sales across geographic regions as well as to optimize our end-customers portfolios. In the three months ended 30 September 2020 and 2019, we purchased from third parties 1,740 mmcm and 2,035 mmcm of natural gas, respectively, on the Russian domestic market, and 15 mmcm and 102 mmcm, respectively, on international markets.

As of 30 September 2020, our cumulative natural gas inventory balance, mainly representing our inventory balances of natural gas in the UGSF, aggregated 1,545 mmcm and increased by 567 mmcm during the quarter as compared to an increase by 345 mmcm in the corresponding period 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	**Three months ended 30 September: 2020**	**2019**	**Change %**
Production by subsidiaries from:			
Yarudeyskoye field	764	828	(7.7%)
East-Tarkosalinskoye field	324	370	(12.4%)
Yurkharovskoye field	248	288	(13.9%)
North-Russkiy cluster (1)	123	-	n/a
Beregovoye field	68	65	4.6%
Khancheyskoye field	42	44	(4.5%)
Other fields	42	37	13.5%
Total liquids production by subsidiaries	**1,611**	**1,632**	**(1.3%)**
including crude oil	*1,068*	*1,187*	*(10.0%)*
including gas condensate	*543*	*445*	*22.0%*
Group's proportionate share in the production of joint ventures:			
Arcticgas	1,115	1,038	7.4%
Yamal LNG (2)	150	207	(27.5%)
Terneftegas	90	94	(4.3%)
Nortgas	57	70	(18.6%)
Total Group's proportionate share in the liquids production of joint ventures	**1,412**	**1,409**	**0.2%**
Total liquids production including proportionate share in the production of joint ventures	**3,023**	**3,041**	**(0.6%)**

(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 the three months ended 30 September 2020, our total liquids production (including our proportionate share in the production of joint ventures) decreased marginally by 18 thousand tons, or 0.6%, to 3,023 thousand tons from 3,041 thousand tons in the corresponding period in 2019.

An increase in the production at Arcticgas combined with the commencement of gas condensate extraction at the North-Russkiy cluster (see above) almost offset a decrease in production at mature fields of our subsidiaries and joint ventures, which was mainly due to natural declines in the concentration of liquids as a result of decreasing reservoir pressure at the current producing horizons. 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 the three months ended 30 September 2020, our total liquids sales volumes decreased by 229 thousand tons, or 5.7%, to 3,771 thousand tons from 4,000 thousand tons in the corresponding period in 2019.

thousands of tons	**Three months ended 30 September: 2020**	**2019**	**Change %**
Production by subsidiaries	1,611	1,632	(1.3%)
Purchases from the Group's joint ventures	2,464	2,434	1.2%
Other purchases	40	70	(42.9%)
Total production and purchases	**4,115**	**4,136**	**(0.5%)**
Losses [(1)] and own usage [(2)]	(58)	(50)	16.0%
Decreases (increases) in liquids inventory balances	(286)	(86)	232.6%
Total liquids sales volumes	**3,771**	**4,000**	**(5.7%)**
Naphtha export	*806*	*987*	*(18.3%)*
Other stable gas condensate refined products export [(3)]	*493*	*521*	*(5.4%)*
Other stable gas condensate refined products domestic [(3)]	*49*	*43*	*14.0%*
Subtotal stable gas condensate refined products	***1,348***	***1,551***	***(13.1%)***
Crude oil export	*320*	*536*	*(40.3%)*
Crude oil domestic	*773*	*729*	*6.0%*
Subtotal crude oil	***1,093***	***1,265***	***(13.6%)***
LPG export	*146*	*151*	*(3.3%)*
LPG domestic	*577*	*533*	*8.3%*
Subtotal LPG	***723***	***684***	***5.7%***
Stable gas condensate export	*197*	*119*	*65.5%*
Stable gas condensate domestic	*406*	*370*	*9.7%*
Subtotal stable gas condensate	***603***	***489***	***23.3%***
Other oil products	***4***	***11***	***(63.6%)***

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

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

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

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

In the reporting period of 2020, our liquids inventory balances increased by 286 thousand tons to 945 thousand tons as of 30 September 2020 as compared to an increase in inventory balances by 86 thousand tons to 938 thousand tons in the corresponding period in 2019. Our liquids inventory balances may vary period-to-period depending on shipping schedules and final destinations (see "Changes in natural gas, liquid hydrocarbons and work-in-progress" below).

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2020 COMPARED TO THE CORRESPONDING PERIOD IN 2019

The following table and discussion are a summary of our consolidated results of operations for the three months ended 30 September 2020 and 2019. Each line item is also shown as a percentage of our total revenues.

	Three months ended 30 September:			
millions of Russian roubles	**2020**	**% of total revenues**	**2019**	**% of total revenues**
Total revenues [1]	**163,771**	***100.0%***	**189,162**	***100.0%***
including:				
natural gas sales	77,929	*47.6%*	87,791	*46.4%*
liquids sales	83,282	*50.9%*	99,467	*52.6%*
Operating expenses	(125,570)	*(76.7%)*	(140,604)	*(74.3%)*
Gain on disposal of interests in subsidiaries and joint ventures, net	-	*n/a*	366,390	*193.7%*
Other operating income (loss)	352	*0.2%*	173	*0.1%*
Profit from operations	**38,553**	***23.5%***	**415,121**	***219.5%***
Normalized profit from operations [2]	**38,553**	***23.5%***	**48,731**	***25.8%***
Finance income (expense)	88,487	*54.1%*	5,740	*3.0%*
Share of profit (loss) of joint ventures, net of income tax	(86,804)	*(53.0%)*	18,714	*9.9%*
Profit before income tax	**40,236**	***24.6%***	**439,575**	***232.4%***
Total income tax expense	(24,003)	*(14.7%)*	(65,399)	*(34.6%)*
Profit	**16,233**	***9.9%***	**374,176**	***197.8%***
Less: profit (loss) attributable to non-controlling interest	(3,061)	*(1.9%)*	(4,217)	*(2.2%)*
Profit attributable to shareholders of PAO NOVATEK	**13,172**	***8.0%***	**369,959**	***195.6%***
Normalized profit attributable to shareholders of PAO NOVATEK [2], excluding the effect of foreign exchange gains (losses)	**35,720**	***21.8%***	**48,539**	***25.7%***

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

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

Total revenues

The following table sets forth our sales (excluding VAT, export duties, excise and fuel taxes, where applicable) for the three months ended 30 September 2020 and 2019:

millions of Russian roubles	**Three months ended 30 September: 2020**	**2019**	**Change %**	**Change (1) Total**	**Due to volume (2)**	**Due to price (3)**
Natural gas sales	77,929	87,791	(11.2%)	(9,862)	(725)	(9,137)
Stable gas condensate refined products sales	36,025	48,857	(26.3%)	(12,832)	(6,139)	(6,693)
Naphtha	*23,421*	*29,275*	*(20.0%)*	*(5,854)*	*(5,357)*	*(497)*
Other refined products	*12,604*	*19,582*	*(35.6%)*	*(6,978)*	*(782)*	*(6,196)*
Crude oil sales	20,861	28,625	(27.1%)	(7,764)	(3,898)	(3,866)
Liquefied petroleum gas sales	13,922	9,963	39.7%	3,959	570	3,389
Stable gas condensate sales	12,254	11,603	5.6%	651	2,705	(2,054)
Other products sales	220	419	(47.5%)	(199)	n/a	n/a
Total oil and gas sales	**161,211**	**187,258**	**(13.9%)**	**(26,047)**	**n/a**	**n/a**
Other revenues	2,560	1,904	34.5%	656	n/a	n/a
Total revenues	**163,771**	**189,162**	**(13.4%)**	**(25,391)**	**n/a**	**n/a**

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

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

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

Natural gas sales

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

In the three months ended 30 September 2020, our total revenues from natural gas sales decreased by RR 9,862 million, or 11.2%, compared to the corresponding period in 2019 primarily due to a decrease in LNG sales volumes and 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 the three months ended 30 September 2020, our revenues from sales of stable gas condensate refined products decreased by RR 12,832 million, or 26.3%, to RR 36,025 million from RR 48,857 million in the corresponding period in 2019 due to decreases in average realized prices and sales volumes (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" and "Liquids sales volumes" above).

Revenues from sales of naphtha decreased by RR 5,854 million, or 20.0%, as compared to the corresponding period in 2019. In the three months ended 30 September 2020 and 2019, we exported 806 thousand tons and 987 thousand tons of naphtha, respectively, mainly to the APR, and the European and North America markets. Our average realized net price, excluding export duties, where applicable, decreased by RR 616 per ton, or 2.1%, to RR 29,053 per ton from RR 29,669 per ton in the corresponding period in 2019.

Revenues from sales of jet fuel, gasoil and fuel oil decreased by RR 6,978 million, or 35.6%, as compared to the corresponding period in 2019. In the three months ended 30 September 2020 and 2019, we exported in aggregate 493 thousand tons and 521 thousand tons of these products mainly to the European markets, or 91.0% and 92.4% 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 11,438 per ton, or 33.0%, to RR 23,271 per ton from RR 34,709 per ton in the corresponding period in 2019.

Crude oil sales

In the three months ended 30 September 2020, our revenues from crude oil sales decreased by RR 7,764 million, or 27.1%, compared to the corresponding period in 2019 due to a decrease in sales volumes and average realized prices.

We sold 773 thousand tons, or 70.7% of our total crude oil sales volumes, domestically as compared to sales of 729 thousand tons, or 57.6%, in the corresponding period in 2019 (see "Liquids sales volumes" above). The remaining 320 thousand tons of crude oil, or 29.3% of our total crude oil sales volumes, in the three months ended 30 September 2020, and 536 thousand tons, or 42.4%, in the corresponding period in 2019 were sold to customers with destination points in the APR, the European and Middle East (only in the third quarter 2019) markets.

Our average realized net price, excluding export duties, where applicable, decreased by RR 3,538 per ton, or 15.6%, to RR 19,087 per ton from RR 22,625 per ton in the corresponding period in 2019 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Liquefied petroleum gas sales

In the three months ended 30 September 2020, our revenues from sales of LPG increased by RR 3,959 million, or 39.7%, compared to the corresponding period in 2019 due to an increase in average realized prices, as well as sales volumes.

We sold 577 thousand tons of LPG, or 79.8% of our total LPG sales volumes, on the domestic market compared to sales of 533 thousand tons, or 77.9%, in the corresponding period in 2019 (see "Liquids sales volumes" above). The remaining 146 thousand tons of LPG, or 20.2% of our total LPG sales volumes, in the three months ended 30 September 2020 and 151 thousand tons, or 22.1%, in the corresponding period 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 the three months ended 30 September 2020 increased by RR 4,686 per ton, or 32.2%, to RR 19,252 per ton from RR 14,566 per ton in the corresponding period in 2019 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Stable gas condensate sales

In the three months ended 30 September 2020, our revenues from sales of stable gas condensate increased by RR 651 million, or 5.6%, compared to the corresponding period in 2019 due to an increase in volumes sold, which compensated the effect from a decrease in average realized prices.

We sold 406 thousand tons of stable gas condensate, or 67.3% of our total stable gas condensate sales volumes, on the domestic market as compared to sales of 370 thousand tons, or 75.7%, in the corresponding period in 2019 (see "Liquids sales volumes" above). The remaining 197 thousand tons of stable gas condensate, or 32.7% of our total stable gas condensate sales volumes, in the third quarter 2020, and 119 thousand tons, or 24.3%, in the corresponding period in 2019 were sold to the European and APR markets.

Our average realized net price, excluding export duties, where applicable, decreased by RR 3,410 per ton, or 14.4%, to RR 20,330 per ton from RR 23,740 per ton in the corresponding period 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 the three months ended 30 September 2020, our revenues from other products sales decreased by RR 199 million, or 47.5%, to RR 220 million from RR 419 million in the corresponding period in 2019.

Other revenues

In the three months ended 30 September 2020, other revenues amounted to RR 2,560 million compared to RR 1,904 million in the corresponding period in 2019. Other revenues include revenue from transportation, geological and geophysical research services, repair and maintenance of energy equipment services, rent and other services.

Operating expenses

In the three months ended 30 September 2020, our total operating expenses decreased by RR 15,034 million, or 10.7%, to RR 125,570 million compared to RR 140,604 million in the corresponding period 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).

	Three months ended 30 September:			
millions of Russian roubles	**2020**	**% of total revenues**	**2019**	**% of total revenues**
Purchases of natural gas and liquid hydrocarbons	52,876	*32.3%*	72,181	*38.2%*
Transportation expenses	34,139	*20.8%*	34,376	*18.2%*
Taxes other than income tax	14,121	*8.6%*	15,098	*8.0%*
Depreciation, depletion and amortization	9,733	*5.9%*	8,183	*4.3%*
General and administrative expenses	8,424	*5.1%*	6,622	*3.5%*
Materials, services and other	7,593	*4.6%*	6,331	*3.3%*
Exploration expenses	2,415	*1.5%*	384	*0.2%*
Impairment expenses (reversals), net	(5)	*n/a*	(7)	*n/a*
Changes in natural gas, liquid hydrocarbons and work-in-progress	(3,726)	*n/a*	(2,564)	*n/a*
Total operating expenses	**125,570**	***76.7%***	**140,604**	***74.3%***

Purchases of natural gas and liquid hydrocarbons

In the three months ended 30 September 2020, our purchases of natural gas and liquid hydrocarbons decreased by RR 19,305 million, or 26.7%, to RR 52,876 million from RR 72,181 million in the corresponding period in 2019.

	Three months ended 30 September:		Change
millions of Russian roubles	**2020**	**2019**	**%**
Unstable gas condensate	28,740	30,367	(5.4%)
Natural gas	22,134	34,054	(35.0%)
Other hydrocarbons	3,340	8,611	(61.2%)
Reverse excise	(1,338)	(851)	57.2%
Total purchases of natural gas and liquid hydrocarbons	**52,876**	**72,181**	**(26.7%)**

Purchases of unstable gas condensate from our joint ventures decreased by RR 1,627 million, or 5.4%, as compared to the corresponding period in 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).

Purchases of natural gas decreased by RR 11,920 million, or 35.0%, as compared to the corresponding period in 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.

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 5,271 million, or 61.2%, as compared to the corresponding period in 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 the three months ended 30 September 2020, our total transportation expenses decreased by RR 237 million, or 0.7%, to RR 34,139 million as compared to RR 34,376 million in the corresponding period in 2019.

millions of Russian roubles	**Three months ended 30 September: 2020**	**2019**	**Change %**
Natural gas transportation by trunk and low-pressure pipelines	22,483	21,590	4.1%
Stable gas condensate and liquefied petroleum gas transportation by rail	7,494	7,711	(2.8%)
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	1,887	1,984	(4.9%)
Crude oil transportation by trunk pipelines	1,866	2,641	(29.3%)
Other	409	450	(9.1%)
Total transportation expenses	**34,139**	**34,376**	**(0.7%)**

Expenses for natural gas transportation by trunk and low-pressure pipelines increased by RR 893 million, or 4.1%, to RR 22,483 million from RR 21,590 million in the corresponding period in 2019 due to a 4.9% 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 decreased by RR 217 million, or 2.8%, to RR 7,494 million from RR 7,711 million in the corresponding period in 2019 mainly due to the application of discount coefficients to the existing railroad transportation tariffs for LPG deliveries starting from the second quarter 2020 (see "Transportation tariffs" above).

Transportation expenses for our hydrocarbons delivered by tankers to international markets decreased by RR 97 million, or 4.9%, to RR 1,887 million from RR 1,984 million in the corresponding period in 2019. The decrease was mainly due to a decrease in stable gas condensate and refined products volumes delivered, which was partially offset by a 13.9% depreciation of the Russian rouble average exchange rate relative to the US dollar since all our tankers transportation expenses are US dollar denominated.

Expenses for crude oil transportation to customers by trunk pipeline decreased by RR 775 million, or 29.3%, to RR 1,866 million from RR 2,641 million in the corresponding period 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 reporting period in the previous year and a 13.6% 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.

Taxes other than income tax

In the three months ended 30 September 2020, taxes other than income tax decreased by RR 977 million, or 6.5%, to RR 14,121 million from RR 15,098 million in the corresponding period in 2019 due to a decrease in unified natural resources production tax expense.

millions of Russian roubles	**Three months ended 30 September:** 2020	2019	**Change %**
Unified natural resources production tax (UPT)	13,060	14,215	(8.1%)
Property tax	988	840	17.6%
Other taxes	73	43	69.8%
Total taxes other than income tax	**14,121**	**15,098**	**(6.5%)**

Unified natural resources production tax expense decreased by RR 1,155 million, or 8.1%, to RR 13,060 million from RR 14,215 million in the corresponding period 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 148 million, or 17.6%, to RR 988 million from RR 840 million in the corresponding period 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 the three months ended 30 September 2020, our depreciation, depletion and amortization ("DDA") expense increased by RR 1,550 million, or 18.9%, to RR 9,733 million from RR 8,183 million in the corresponding period in 2019 mainly due to the launch of new production assets, as well as a decrease in total proved reserves of mature fields at our subsidiaries as at the end of 2019 compared to the previous year. We accrue depreciation and depletion using the "units-of-production" method for our oil and gas assets and using a straight-line method for other facilities.

General and administrative expenses

In the three months ended 30 September 2020, our general and administrative expenses increased by RR 1,802 million, or 27.2%, to RR 8,424 million compared to RR 6,622 million in the corresponding period in 2019.

millions of Russian roubles	**Three months ended 30 September:** 2020	2019	**Change %**
Employee compensation	5,110	4,545	12.4%
Social expenses and compensatory payments	2,294	1,175	95.2%
Legal, audit and consulting services	280	251	11.6%
Repair and maintenance expenses	193	51	278.4%
Advertising expenses	145	87	66.7%
Fire safety and security expenses	135	125	8.0%
Rent expense	45	60	(25.0%)
Business travel expense	36	175	(79.4%)
Other	186	153	21.6%
Total general and administrative expenses	**8,424**	**6,622**	**27.2%**

Employee compensation relating to administrative personnel increased by RR 565 million, or 12.4%, to RR 5,110 million in the three months ended 30 September 2020 from RR 4,545 million in the corresponding period in 2019 primarily due to an increase in accrued provision for bonuses to key management.

Social expenses and compensatory payments increased by RR 1,119 million, or 95.2%, to RR 2,294 million compared to RR 1,175 million in the corresponding period in 2019 primarily due to an increase in compensatory payments. In the current reporting quarter, these payments mainly related to the development of the Yurkharovskoye and West-Yurkharovskoye fields, the Nyakhartinskiy and West-Yaroyakhinskiy license areas and amounted to RR 1,545 million. In the third quarter 2019, compensatory payments were less significant. 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.

Repair and maintenance expenses increased by RR 142 million, or 3.8 times, to RR 193 million from RR 51 million in the corresponding period in 2019 mainly due to maintenance and operation of administrative assets.

Advertising expenses amounted to RR 145 million compared to RR 87 million in the corresponding period in 2019 due to the conclusion of a corporate sponsorship contract for the Group's advertising during sporting events at the end of 2019.

Business travel expenses decreased by RR 139 million, or 79.4%, to RR 36 million from RR 175 million in the corresponding period in 2019 due to 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.

Materials, services and other

In the three months ended 30 September 2020, our materials, services and other expenses increased by RR 1,262 million, or 19.9%, to RR 7,593 million compared to RR 6,331 million in the corresponding period in 2019.

millions of Russian roubles	**Three months ended 30 September: 2020**	**2019**	**Change %**
Employee compensation	3,448	2,779	24.1%
Repair and maintenance	1,098	821	33.7%
Preparation and processing of hydrocarbons	537	541	(0.7%)
Materials and supplies	439	527	(16.7%)
Electricity and fuel	384	345	11.3%
Liquefied petroleum gas volumes reservation expenses	335	295	13.6%
Transportation services	293	218	34.4%
Fire safety and security expenses	292	264	10.6%
Labor safety expenses	242	22	n/a
Rent expenses	131	168	(22.0%)
Insurance expense	112	136	(17.6%)
Other	282	215	31.2%
Total materials, services and other	**7,593**	**6,331**	**19.9%**

Employee compensation relating to operating personnel increased by RR 669 million, or 24.1%, to RR 3,448 million compared to RR 2,779 million in the corresponding period in 2019 due to an increase in average number of employees resulting from the launch of new production assets, as well as servicing new assets by our service subsidiary NOVATEK-Energo.

Repair and maintenance services expenses increased by RR 277 million, or 33.7%, to RR 1,098 million compared to RR 821 million in the corresponding period 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.

Labor safety expenses increased by RR 220 million to RR 242 million compared to RR 22 million in the corresponding period 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.

Exploration expenses

In the three months ended 30 September 2020, our exploration expenses amounted to RR 2,415 million, of which the major part related to exploration works at the Shtormovoy license area. In the corresponding period in 2019, our exploration expenses amounted to RR 384 million and related to expenditures for geological and geophysical research services at our fields, as well as expenses of our science and technology center. Exploration expenses fluctuate period-to-period in accordance with the approved exploration work schedule at our production subsidiaries.

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

In the three months ended 30 September 2020 and 2019, we recorded reversals of RR 3,726 million and RR 2,564 million, respectively, to changes in inventory expense due to an increase in natural gas and most of our liquid hydrocarbons inventory balances in both reporting periods.

In the reporting periods in 2020 and 2019, cumulative natural gas inventory balance increased by 567 mmcm and 345 mmcm, respectively, mainly due to seasonal injection of natural gas for the subsequent sale in the period of higher seasonal demand in both reporting periods.

In the three months ended 30 September 2020 and 2019, our cumulative liquid hydrocarbons inventory balances, recognized as inventory in transit or in storage, increased by 286 thousand tons and 86 thousand tons, respectively, mainly due to an increase in inventory balances of stable gas condensate and its refined products in tankers in transit not realized at the reporting date. Inventory balances of stable gas condensate and refined products tend to fluctuate period-to-period depending on shipment schedules and final destination of our shipments.

The following table highlights movements in our hydrocarbons inventory balances:

	2020			**2019**		
Inventory balances in transit or in storage	**At 30 September**	**At 30 June**	**Increase / (decrease)**	**At 30 September**	**At 30 June**	**Increase / (decrease)**
Natural gas (millions of cubic meters)	**1,545**	**978**	**567**	**1,772**	**1,427**	**345**
incl. Gazprom's UGSF	*1,353*	*673*	*680*	*1,584*	*1,278*	*306*
Liquid hydrocarbons (thousand tons)	**945**	**659**	**286**	**938**	**852**	**86**
incl. stable gas condensate						
refined products	*461*	*222*	*239*	*387*	*322*	*65*
stable gas condensate	*271*	*220*	*51*	*351*	*307*	*44*
crude oil	*101*	*100*	*1*	*97*	*114*	*(17)*

Net gain on disposal of interests in subsidiaries and joint ventures

In the third quarter 2019, we recognized a gain on the disposal of a 30% participation interest in OOO Arctic LNG 2 to three new participants (10% sold to each participant) in the amount of RR 366,390 million before income tax.

Other operating income (loss)

Other operating income (loss) includes realized income (loss) from hydrocarbons trading on the international markets, income (loss) from the change in the fair value of the aforementioned contracts, as well as other income (loss) relating to penalty charges, disposal of materials, fixed assets and other transactions. In the three months ended 30 September 2020, we recognized other operating income of RR 352 million compared to other operating income of RR 173 million in the corresponding period in 2019.

In the three months ended 30 September 2020, we purchased and sold approximately 3.4 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 3,009 million as compared to a loss of RR 56 million in the corresponding period in 2019. At the same time, we recognized non-cash loss of RR 2,979 million in the three months ended 30 September 2020 as a result of a decrease in the fair value of the aforementioned contracts as compared to a non-cash income of RR 328 million in the corresponding period 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 hydrocarbons prices.

In the three months ended 30 September 2020, our profit from operations and EBITDA including our proportionate share of joint ventures, but excluding the effects from the disposal of participation interests amounted to RR 62,243 million and RR 93,883 million, respectively, compared to RR 79,146 million and RR 104,519 million in the corresponding period in 2019.

Profit from operations and EBITDA of our subsidiaries, excluding the effects from the disposal of participation interests, amounted to RR 38,553 million and RR 51,260 million, respectively, compared to RR 48,731 million and RR 56,415 million in the corresponding period in 2019.

Finance income (expense)

In the three months ended 30 September 2020, we recorded net finance income of RR 88,487 million compared to RR 5,740 million in the corresponding period in 2019.

millions of Russian roubles	Three months ended 30 September: 2020	2019	Change %
Accrued interest expense on loans received	(2,512)	(2,275)	10.4%
Less: capitalized interest	1,651	1,478	11.7%
Provisions for asset retirement obligations:			
effect of the present value discount unwinding	(241)	(190)	26.8%
Interest expense on lease liabilities	(137)	(142)	(3.5%)
Interest expense	**(1,239)**	**(1,129)**	**9.7%**
Interest income	6,443	5,933	8.6%
Change in fair value of non-commodity financial instruments	(1,880)	(1,451)	29.6%
Foreign exchange gain (loss), net	85,163	2,387	n/a
Total finance income (expense)	**88,487**	**5,740**	**n/a**

Interest expense increased marginally by RR 110 million, or 9.7%.

Interest income increased by RR 510 million, or 8.6%, to RR 6,443 million from RR 5,933 million in the corresponding period in 2019 primarily due to loans provided to our joint venture OOO Arctic LNG 2.

In the three months ended 30 September 2020, we recognized a non-cash loss of RR 1,880 million compared to RR 1,451 million in the corresponding period 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 the three months ended 30 September 2020, we recorded a net foreign exchange gain of RR 85,163 million compared to RR 2,387 million in the corresponding period 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 the three months ended 30 September 2020, the Group's proportionate share of loss of joint ventures amounted to RR 86,804 million as compared to the share of profit in the amount of RR 18,714 million in the corresponding period in 2019.

millions of Russian roubles (Group's share)	**Three months ended 30 September: 2020**	**2019**	**Change %**
Share of profit from operations	**23,690**	**30,415**	**(22.1%)**
Share of finance income (expense) excluding foreign exchange effects			
Interest income (expense), net	(22,048)	(17,896)	23.2%
Change in fair value of non-commodity financial instruments	3,034	677	348.2%
Share of income tax excluding foreign exchange effects	**(802)**	**(2,270)**	**(64.7%)**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	**3,874**	**10,926**	**(64.5%)**
Share of foreign exchange gain (loss), net	(179,240)	9,279	n/a
Share of income tax related to foreign exchange gain (loss)	30,446	(1,491)	n/a
Total	**(144,920)**	**18,714**	**n/a**
Unrecognized share of losses of joint ventures [(1)]	58,116	-	n/a
Total share of profit (loss) of joint ventures, net of income tax	**(86,804)**	**18,714**	**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**		**Arcticgas**		**Others**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Share of profit from operations	**13,622**	**18,155**	**9,897**	**11,884**	**171**	**376**
Share of finance income (expense) excluding foreign exchange effects						
Interest income (expense), net	(21,083)	(16,513)	(283)	(676)	(682)	(707)
Change in fair value of non-commodity financial instruments	1,313	562	-	-	1,721	115
Share of income tax excluding foreign exchange effects	**1,177**	**(458)**	**(1,613)**	**(1,833)**	**(366)**	**21**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	**(4,971)**	**1,746**	**8,001**	**9,375**	**844**	**(195)**
Share of foreign exchange gain (loss), net	(150,713)	10,453	(21)	(19)	(28,506)	(1,155)
Share of income tax related to foreign exchange gain (loss)	24,868	(1,725)	3	3	5,575	231
Total	**(130,816)**	**10,474**	**7,983**	**9,359**	**(22,087)**	**(1,119)**
Unrecognized share of losses of joint ventures [(1)]	55,033	-	-	-	3,083	-
Total share of profit (loss) of joint ventures, net of income tax	**(75,783)**	**10,474**	**7,983**	**9,359**	**(19,004)**	**(1,119)**

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

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. Our proportionate share of profit of joint ventures excluding foreign exchange effects amounted to RR 3,874 million compared to RR 10,926 million in the corresponding prior year period.

Our proportionate share in the profit from operations of our joint ventures decreased by RR 6,725 million, or 22.1%, from RR 30,415 million to RR 23,690 million mainly due to decreases in LNG and liquids average realized prices.

Our proportionate share in interest expense increased by RR 4.2 billion, or 23.2%, due to the Russian rouble depreciation relative to the US dollar and Euro by 13.9% and 19.7%, respectively, and the process of the marine tankers fleet formation in Yamal LNG that is being finalized 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 the current quarter, our share in foreign exchange losses amounted to RR 179.2 billion as compared to our share in foreign exchange gains of RR 9.3 billion in the corresponding period 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 effects, 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 the third quarter 2020 amounted to RR 58.1 billion.

Income tax expense

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

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

Without the effect of net profit (loss) from joint ventures and excluding the effects from the disposal of interests in subsidiaries and joint ventures, the effective income tax rate (total income tax expense calculated as a percentage of profit before income tax) for the three months ended 30 September 2020 and 2019 was 19.0% and 20.1%, respectively.

Profit attributable to shareholders and earnings per share

As a result of the factors discussed in the respective sections above, profit attributable to shareholders of PAO NOVATEK decreased by RR 356,787 million to RR 13,172 million in the three months ended 30 September 2020 compared to RR 369,959 million in the corresponding period 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 the third quarter 2019, we recognized a gain on the disposal of a 30% participation interest in the Arctic LNG 2 project in the amount of RR 366.4 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 12,819 million, or 26.4%, and amounted to RR 35,720 million in the three months ended 30 September 2020 compared to RR 48,539 million in the corresponding period in 2019.

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

millions of Russian roubles	**Three months ended 30 September:** 2020	2019	**Change** %
Profit attributable to shareholders of PAO NOVATEK	**13,172**	**369,959**	**(96.4%)**
Gain on disposal of interests in subsidiaries and joint ventures, net	-	(366,390)	n/a
Income tax expense related to the disposal of interests in subsidiaries and joint ventures	-	54,668	n/a
Normalized profit attributable to shareholders of PAO NOVATEK	**13,172**	**58,237**	**(77.4%)**
including:			
profit from subsidiaries	99,976	39,523	153.0%
share of profit (loss) of joint ventures	(86,804)	18,714	n/a

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

	Three months ended 30 September:		Change
millions of Russian roubles	**2020**	**2019**	**%**
Normalized profit from subsidiaries attributable to shareholders of PAO NOVATEK	99,976	39,523	153.0%
Foreign exchange (gains) losses, net	(85,163)	(2,387)	n/a
Income tax expense relating to foreign exchange (gains) losses	17,033	477	n/a
Normalized profit from subsidiaries attributable to shareholders of PAO NOVATEK excluding the effect of foreign exchange gains (losses)	**31,846**	**37,613**	**(15.3%)**
Share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects (1)	3,874	10,926	(64.5%)
Normalized profit attributable to shareholders of PAO NOVATEK, excluding the effect of foreign exchange gains (losses)	**35,720**	**48,539**	**(26.4%)**

(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 118.47 per share to RR 4.39 per share in the three months ended 30 September 2020 from RR 122.86 per share in the corresponding period 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 4.23, or 26.2%, to RR 11.89 per share in the three months ended 30 September 2020 from RR 16.12 per share in the corresponding period in 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

The following table shows our net cash flows from operating, investing and financing activities for the three months ended 30 September 2020 and 2019:

millions of Russian roubles	**Three months ended 30 September: 2020**	**2019**	**Change %**
Net cash provided by **operating** activities	49,341	54,276	(9.1%)
Net cash used for **investing** activities	(76,572)	(64,105)	19.4%
Net cash provided by (used for) **financing** activities	3,065	(4,159)	n/a

Net cash provided by operating activities

Our net cash provided by operating activities decreased to RR 49,341 million compared to RR 54,276 million in the corresponding period in 2019. The decrease was mainly due to interest received in the third quarter 2019 from joint ventures on loans provided, the impact of which was significantly offset by changes in working capital. The amount of working capital varies period-to-period depending on various factors.

millions of Russian roubles	**Three months ended 30 September: 2020**	**2019**	**Change %**
Profit from operations, excluding the effects from the disposal of interests in subsidiaries and joint ventures	38,553	48,731	(20.9%)
Non-cash adjustments [(1)]	14,042	8,030	74.9%
Changes in working capital and long-term advances given	2,478	(10,583)	n/a
Dividends and cash received from joint ventures	3,227	4,050	(20.3%)
Interest received	90	15,161	(99.4%)
Income taxes paid excluding actual payments relating to disposal of interests in joint ventures	(9,049)	(11,113)	(18.6%)
Total net cash provided by operating activities	**49,341**	**54,276**	**(9.1%)**

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

In the third quarter 2020, profit from operations before disposals of interests in joint ventures adjusted for non-cash items decreased due to a decline in hydrocarbon prices on international markets compared to the corresponding period in 2019.

In the third quarter of the prior year, we received approximately RR 15 billion of interest on loans provided to our joint ventures Yamal LNG and Terneftegas.

In the current reporting period, we received RR 3 billion and RR 227 million of dividends and cash distributed in favor of the Group from our joint ventures Arcticgas and Terneftegas, respectively. In the corresponding period in 2019, we received RR 3,500 million and RR 550 million of dividends from our joint ventures Arcticgas and Nortgas, respectively.

Net cash used for investing activities

In the three months ended 30 September 2020, our net cash used for investing activities increased by RR 12,467 million, or 19.4%, to RR 76,572 million compared to RR 64,105 million in the corresponding period in 2019.

millions of Russian roubles	**Three months ended 30 September: 2020**	**2019**	**Change %**
Cash used for capital expenditures	(39,821)	(36,519)	9.0%
Proceeds from disposal of interests in joint ventures	149,303	113,088	32.0%
Actual income tax payments relating to disposal of interests in joint ventures	-	(47,840)	n/a
Payments for mineral licenses	(59)	(2,351)	(97.5%)
Loans provided to joint ventures	(33,922)	(11,776)	188.1%
Repayments of loans provided to joint ventures	-	203	n/a
Net decrease (increase) in bank deposits with original maturity more than three months	(151,850)	(78,236)	94.1%
Capital contributions to joint ventures	-	(231)	n/a
Other	(223)	(443)	(49.7%)
Net cash used for investing activities	**(76,572)**	**(64,105)**	**19.4%**

In the third quarter 2020, cash used for capital expenditures increased by RR 3,302 million, or 9.0%, as compared to the corresponding period in 2019. A significant part of the capital investments related to our LNG projects (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 the third quarter 2019, the Group sold a 30% participation interest in OOO Arctic LNG 2 to three new participants. Consideration under these transactions includes cash payments of USD 3.9 billion equivalent (USD 1.3 billion by each participant). First part of these cash payments in the aggregate amount of RR 113,088 million (the equivalent of USD 1.8 billion) was received in the third quarter 2019 and the second part in the aggregate amount of RR 149,303 million (the equivalent of USD 2.1 billion) was received in the third quarter 2020. Income tax accrued in relation to these transactions was paid in the third quarter 2019 in the amount of RR 47,840 million.

In July 2020, 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 the third quarter 2019, we paid RR 2,351 million for participation in an auction for the right for geological research works, exploration and production of hydrocarbons at a license area, which includes the Soletsko-Khanaveyskoye field. According to the results of the auction, the license fee payment was set at RR 2,586 million.

In the third quarter 2020, we provided loans in the aggregate amount of RR 33,922 million compared to RR 11,776 million in the corresponding period in 2019. In both reporting periods, we provided loans to our joint ventures for developing their activities, mainly to OOO Arctic LNG 2. At the same time, in the third quarter 2019, we received from Terneftegas RR 203 million due to partial repayments of the loans provided.

The Group's cash management involves periodic cash placement on bank deposits with different maturities. Deposits are reported in "Cash and cash equivalents" if opened for three months or less, or otherwise in "Short-term bank deposits with original maturity more than three months". Transactions with bank deposits with original maturity more than three months are classified as investing activities in the Consolidated Statement of Cash Flows. In the third quarter 2020, the net increase in bank deposits with original maturity more than three months amounted to approximately RR 152 billion compared to the net increase in the amount of RR 78 billion in the corresponding period in 2019.

In the third quarter 2019, we made capital contributions to our joint venture Rostock LNG GmbH in the amount of RR 231 million.

Net cash provided by (used for) financing activities

In the three months ended 30 September 2020, our net cash provided by financing activities amounted to RR 3,065 million as compared to RR 4,159 million used for financing activities in the corresponding period in 2019.

millions of Russian roubles	Three months ended 30 September: 2020	2019	Change %
Proceeds from long-term debt	8,998	-	n/a
Repayments of short-term debt with original maturity more than three months	-	(1,000)	n/a
Dividends paid to non-controlling interest	(4,018)	(2,744)	46.4%
Payments of lease liabilities	(1,751)	(415)	321.9%
Interest on debt paid	(164)	-	n/a
Net cash provided by (used for) financing activities	**3,065**	**(4,159)**	**n/a**

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

In the third quarter 2019, we repaid a short-term loan in the amount of RR one billion obtained in the first quarter 2019 from a Russian bank under a revolving credit line facility.

Other cash flows from financing activities related primarily to payments of dividends and lease liabilities.

Liquidity and working capital

The following table shows the Group's liquidity and credit measures as of 30 September 2020 and 31 December 2019:

	30 September 2020	31 December 2019	Change, %
Absolute amounts, RR million			
Net debt (net cash position) (1)	(14,237)	15,106	n/a
Net working capital position (2)	200,673	379,383	(47.1%)
Liquidity and credit ratios			
Current ratio (3)	2.04	4.24	n/a
Total debt to total equity	0.13	0.09	n/a
Long-term debt to long-term debt and total equity	0.08	0.08	n/a
Net debt (net cash position) to total capitalization (4)	(0.01)	0.01	n/a
Net debt (net cash position) to normalized EBITDA from subsidiaries (5)	(0.07)	0.06	n/a

(1) Net debt (net cash position) 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 (net cash position) to normalized EBITDA from subsidiaries ratio is calculated as Net debt (net cash position) divided by EBITDA from subsidiaries excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration) for the last twelve months.

The Group has consistently demonstrated sustainable operating and financial results, and, in both reporting periods, had positive free cash flows and 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	**Three months ended 30 September:** 2020	2019
Infrastructure for future LNG projects (1)	15,743	11,376
North-Russkiy cluster (2)	8,393	9,119
Yarudeyskoye field	1,617	2,093
Obskiy LNG project	1,463	654
Ust-Luga Complex	1,340	515
Gydanskiy license area	1,134	610
Yurkharovskoye field	1,038	1,062
Ust-Yamsoveyskiy license area	874	114
Geofizicheskoye field	814	2,038
Yevo-Yakhinskiy license area	784	-
West-Yurkharovskoye field	612	959
Beregovoye field	479	1,089
NOVATEK-Chelyabinsk	416	403
East-Tarkosalinskoye field	336	1,260
Administration facilities	2,574	980
Other	4,206	3,642
Capital expenditures	**41,823**	**35,914**

(1) Mainly includes expenditures related to the project for the LNG construction center located in the Murmansk region.
(2) Includes expenditures related to the North-Russkoye, the East-Tazovskoye, the Dorogovskoye and the Kharbeyskoye fields.

Total capital expenditures on property, plant and equipment in the three months ended 30 September 2020 increased by RR 5,909 million, or 16.5%, to RR 41,823 million from RR 35,914 million.

In both reporting periods, a significant part of our capital expenditures related to the development of our LNG projects, in particular 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 and the preparation for production commencement at the East-Tazovskoye and Dorogovskoye fields (see "Recent Developments" above). We also continued the ongoing development of our producing fields (the Beregovoye, the Yurkharovskoye and the 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 the third quarter 2020 was mainly conducted at the Geofizicheskoye and the Kharbeyskoye fields, and the Gydanskiy license area.

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.

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 the third quarter 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:

	Three months ended 30 September:		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	**41,823**	**38,265**	**9.3%**
Less: acquisition of mineral licenses	-	(2,351)	n/a
Capital expenditures	**41,823**	**35,914**	**16.5%**
Less: advance payments under lease agreements	(801)	-	n/a
Add (less): change in accounts payable, capitalized foreign exchange losses and other non-cash adjustments	(1,201)	605	n/a
Cash used for capital expenditures (1)	**39,821**	**36,519**	**9.0%**

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

In August 2019, the Group won an auction for the right for geological research works, exploration and production of hydrocarbons at a license area, which includes the Soletsko-Khanaveyskoye field and paid RR 2,351 million. The remaining RR 235 million was paid after the state registration of the license at the end of 2019.

QUANTITATIVE AND QUALITATIVE DISCLOSURES AND MARKET RISKS

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

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar and the Euro. As of 30 September 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 41.2% of our total revenues in the three months ended 30 September 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 30 September 2020, the Russian rouble depreciated by 28.7% and 34.2% 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 30 September 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
CFR	"Cost and freight"
CIF	"Cost, insurance and freight"
DAP	"Delivery at point of destination"
DDA	depreciation, depletion and amortization
DES	"Delivery to the port of destination ex-ship"
FCA	"Free carrier"
FEED	Front-End Engineering Design
FID	Final Investment Decision
FOB	"Free on board"
Forecast of the Ministry of Economic Development	The document *"Forecast of Socio-economic Development of the Russian Federation for the period till 2024"* prepared by the Ministry of Economic Development of the Russian Federation or the similar document prepared for another period
GTS	Gas Transmission System part of the UGSS
IFRS	International Financial Reporting Standards
List	the OFAC's Sectoral Sanctions Identification List
LNG	liquefied natural gas
LPG	liquefied petroleum gas
mcm	thousand cubic meters
MET	mineral extraction tax
Murmansk yard	LNG construction center located in the Murmansk region
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	Refining facilities of OOO SIBUR Tobolsk
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