PAO NOVATEK

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

FOR THE THREE MONTHS ENDED 31 MARCH 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 31 March 2020 together with our unaudited consolidated interim condensed financial statements as of and for the three months ended 31 March 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 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"). The total annual nameplate capacity of the liquefaction plant is 17.4 million tons of LNG, including the first three LNG trains with an annual capacity of 5.5 million tons each, or 16.5 million tons, and the fourth train with an annual capacity of 0.9 million tons (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 LNG volumes produced by Yamal LNG and sell them 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 port of Vysotsk on the Baltic Sea. We purchase a part of the LNG volumes produced at the project and sell them to international markets via tankers and trucks, as well as sell LNG used for marine bunkering.

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 the first quarter 2020, our joint venture AO Arcticgas expanded the gas condensate treatment facility by 1.2 million tons per annum, which allows to increase production at the Achimov horizons of the Urengoiskoye field.

In December 2019, the Group launched the North-Russkoye field with estimated annual production capacity of 5.7 billion cubic meters of natural gas and 0.7 million tons of gas condensate. The North-Russkoye field is the first launch of the North-Russkiy block of fields, which also includes the Dorogovskoye, East-Tazovskoye and Kharbeyskoye fields scheduled for launch during 2020 and 2021, with cumulative gas production capacity of more than 13 billion cubic meters per annum. The launch of the North-Russkoye field contributes significantly to the Group's hydrocarbons production growth.

Negative macro-economic environment and COVID-19

The spread of a new coronavirus COVID-19 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 the first quarter resulted in a decline in global hydrocarbon commodity prices. The scale and duration of these events remain uncertain and may significantly 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 continue taking 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 and export duties, where applicable. Our LPG revenues and average realized net prices also exclude excise and fuel taxes incurred on sales in Poland. The Group accrues excise tax on raw oil and claims the double excise tax deduction. The net result, or so-called "reverse excise", is reported as a deduction to our "Purchases of natural gas and liquid hydrocarbons" in our consolidated statement of income (see "Our tax burden and obligatory payments" below).

SELECTED DATA

millions of Russian roubles except as stated	Three months ended 31 March: 2020	2019	Change %
Financial results			
Total revenues [1]	184,562	234,106	(21.2%)
Operating expenses	(146,535)	(175,140)	(16.3%)
Normalized EBITDA [2],[3]	100,668	117,942	(14.6%)
Normalized profit (loss) attributable to shareholders of PAO NOVATEK [3]	(3,392)	110,590	n/a
Normalized profit attributable to shareholders of PAO NOVATEK [3], excluding the effect of foreign exchange gains (losses) [4]	53,547	65,730	(18.5%)
Normalized earnings (loss) per share [3] (in Russian roubles)	(1.13)	36.71	n/a
Normalized earnings per share [3], excluding the effect of foreign exchange gains (losses) [4] (in Russian roubles)	17.80	21.82	(18.4%)
Net debt (net cash position) [5]	(27,717)	65,040	n/a
Production volumes [6]			
Hydrocarbons production (million barrels of oil equivalent)	150.2	147.1	2.1%
Daily production (million barrels of oil equivalent per day)	1.65	1.63	1.0%
Operating results			
Natural gas sales volumes (million cubic meters)	20,686	22,195	(6.8%)
Crude oil sales volumes (thousand tons)	1,164	1,127	3.3%
Naphtha sales volumes (thousand tons)	1,040	1,159	(10.3%)
Liquefied petroleum gas sales volumes (thousand tons)	724	677	6.9%
Other stable gas condensate refined products (thousand tons)	656	638	2.8%
Stable gas condensate sales volumes (thousand tons)	414	372	11.3%
Cash flow results			
Net cash provided by operating activities	59,025	61,603	(4.2%)
Cash used for capital expenditures [7]	41,143	42,476	(3.1%)
Free cash flow [8]	17,882	19,127	(6.5%)

(1) Net of VAT and export duties, as well as excise and fuel taxes incurred on LPG sales in Poland.
(2) EBITDA represents profit (loss) adjusted for the add-back of depreciation, depletion and amortization, net impairment expenses (reversals), finance income (expense), income tax expense, as well as income (loss) from changes in fair value of derivative financial instruments. 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.

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 26% and 24%, respectively. Foreign exchange losses primarily related to the revaluation of foreign currency denominated loans in our joint venture Yamal LNG. We assess that the impact of foreign currency risk relating to the debt portfolio of Yamal LNG is largely mitigated by the fact that all produced LNG and stable gas condensate are delivered to international markets and its revenues are denominated in foreign currencies.

In addition, in both reporting periods, we recorded effects from the disposal of interests in the Arctic LNG 2 project: the recognition of RR 308.6 billion of gain from the disposal of a 10% participation interest in the Arctic LNG 2 project in the first quarter 2019, and the recognition of RR 34.1 billion of loss in the first quarter 2020 related to the subsequent non-cash revaluation of contingent consideration on the sale of a 40% participation interest in 2019.

As a result, in the first quarter 2020, we recorded a loss attributable to shareholders of PAO NOVATEK in the amount of RR 30,680 million while in the corresponding period in 2019 we recorded a profit of RR 381,796 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 53,547 million in the three months ended 31 March 2020 compared to RR 65,730 million in the corresponding period in 2019.

Reconciliation of normalized EBITDA is as follows:

millions of Russian roubles	Three months ended 31 March: 2020	2019	Change %
Profit (loss)	**(27,612)**	**386,258**	**n/a**
Depreciation, depletion and amortization	8,871	7,487	18.5%
Impairment expenses (reversals), net	3	1	200.0%
Loss (income) from changes in fair value of commodity derivative instruments	(2,392)	184	n/a
Total finance expense (income)	(141,453)	6,021	n/a
Total income tax expense	28,625	45,324	(36.8%)
Share of loss (profit) of joint ventures, net of income tax	145,231	(70,973)	n/a
EBITDA from subsidiaries	**11,273**	**374,302**	**(97.0%)**
Net gain on disposal of interests in subsidiaries and joint ventures	-	(308,578)	n/a
Changes in fair value of contingent consideration reported within the "Other operating income (loss)"	34,110	-	n/a
Normalized EBITDA from subsidiaries	**45,383**	**65,724**	**(30.9%)**
Share in EBITDA of joint ventures	**55,285**	**52,218**	**5.9%**
including:			
OAO Yamal LNG	41,046	33,878	21.2%
AO Arcticgas	12,936	15,670	(17.4%)
others	1,303	2,670	(51.2%)
Normalized EBITDA	**100,668**	**117,942**	**(14.6%)**

SELECTED MACRO-ECONOMIC DATA

Exchange rate, Russian roubles for one foreign currency unit [1]	Three months ended 31 March: 2020	2019	Change %
US dollar (USD)			
Average for the period	66.38	66.13	0.4%
At the beginning of the period	61.91	69.47	(10.9%)
At the end of the period	77.73	64.73	20.1%
Depreciation (appreciation) of Russian rouble to US dollar	25.6%	(6.8%)	n/a
Euro			
Average for the period	73.23	75.17	(2.6%)
At the beginning of the period	69.34	79.46	(12.7%)
At the end of the period	85.74	72.72	17.9%
Depreciation (appreciation) of Russian rouble to Euro	23.7%	(8.5%)	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 31 March: 2020	2019	Change %
Benchmark natural gas prices, USD per mmbtu [2]			
NBP (National Balancing Point)	3.2	6.3	(49.2%)
TTF (Title Transfer Facility)	3.1	6.1	(49.2%)
Benchmark crude oil prices [3]			
Brent, USD per barrel	50.1	63.1	(20.6%)
Urals, USD per barrel	48.0	63.2	(24.1%)
Urals, Russian roubles per barrel	3,186	4,179	(23.8%)
Benchmark crude oil prices excluding export duties [4]			
Urals, USD per barrel	37.8	51.3	(26.3%)
Urals, Russian roubles per barrel	2,509	3,392	(26.0%)
Benchmark oil products [5] **and liquefied petroleum gas** [6] **prices, USD per ton**			
Naphtha Japan	437	519	(15.8%)
Naphtha CIF NWE	411	497	(17.3%)
Jet fuel	484	625	(22.6%)
Gasoil	467	586	(20.3%)
Fuel oil	348	396	(12.1%)
Liquefied petroleum gas	322	363	(11.3%)
Export duties, USD per ton [7]			
Crude oil, stable gas condensate	74.2	87.0	(14.7%)
Naphtha	40.7	47.8	(14.9%)
Jet fuel, gasoil	22.2	26.1	(14.9%)
Fuel oil	74.2	87.0	(14.7%)
Liquefied petroleum gas	1.3	0.0	n/a

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

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

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

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

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

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

CERTAIN FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Current economic environment

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

The price declines on commodity markets in 2020 have negatively impacted oil and gas companies. The primary reasons for the financial and economic stress in the global commodity markets were the spread of COVID-19 and its negative economic impact, as well as the cancellation of the OPEC+ production agreement in the first quarter, which are both out of the Group's management control. The scale and duration of these events 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 (prior to 28 November 2017, the aforementioned restrictions related to new credit facilities with maturity of more than 90 days).

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

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

Natural gas prices

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

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

In 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 the first quarter 2020.

In September 2019, the Ministry of Economic Development of the Russian Federation published the "Forecast of Socio-economic Development of the Russian Federation for the period until 2024" stating that wholesale natural gas prices for sales to all customer categories (excluding residential customers) will be increased from July 2020 to 2024 by an average of 3.0% on an annual basis. The Russian Federation government continues to discuss various concepts relating to the natural gas industry development, including natural gas prices and transportation tariffs growth rates on the domestic market.

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

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

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

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

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

	Three months ended 31 March:		Change
	2020	2019	%
Average natural gas price, RR per mcm	4,776	5,631	(15.2%)
Average natural gas price, USD per mcm [1]	72.1	85.0	(15.2%)

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

In the three months ended 31 March 2020, our aggregate average price for natural gas in Russian roubles decreased by 15.2% 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 1.4% effective 1 July 2019. 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 and export duties, as well as excise and fuel taxes incurred on LPG sales in Poland:

Russian roubles or US dollars per ton [1]	Three months ended 31 March: 2020	2019	Change %
Naphtha			
Average net price, RR per ton	24,514	32,163	(23.8%)
Average net price, USD per ton	380	484	(21.5%)
Other stable gas condensate refined products			
Average net price, RR per ton	26,299	35,746	(26.4%)
Average net price, USD per ton	405	539	(24.9%)
Crude oil			
Average net price, RR per ton	18,534	23,990	(22.7%)
Average net price, USD per ton	283	362	(21.8%)
LPG			
Average net price, RR per ton	14,564	15,926	(8.6%)
Average net price, USD per ton	219	241	(9.1%)
Stable gas condensate			
Average net price, RR per ton	21,076	21,903	(3.8%)
Average net price, USD per ton	317	331	(4.2%)

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

In the three months ended 31 March 2020, our weighted-average realized net prices for our liquid hydrocarbons decreased compared to the corresponding period in prior year due to a decrease in the underlying benchmark prices for these products excluding export duties (see "Selected macro-economic data" above). At the same time, the average net price for stable gas condensate decreased to a lesser extent due to sales of a significant portion of our stable gas condensate at prices linked to benchmark crude oil prices with a time lag.

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

Transportation tariffs

Natural gas by pipelines

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

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

In 2019 and during the first quarter 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). 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 first quarter 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.

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 has begun, which 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)	$K \times [0.35 \times (P - 109.5)]$
between 146 and 182.5 (inclusive)	$K \times [0.45 \times (P - 146) + 12.78]$
above 182. 5	$K \times [0.3 \times (P - 182.5) + 29.2]$

K – adjusting coefficient

The adjusting coefficient (K) will be gradually decreased 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 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 × (P – 490)
between 640 and 740 (inclusive)	75 + 0.6 × (P – 640)
above 740	135 + 0.7 × (P – 740)

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

UPT – natural gas

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

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

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

UPT – crude oil

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

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

Further, the UPT rate for crude oil is gradually increased by the amount of a 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 Yurkharovskoye, East-Tarkosalinskoye, Khancheyskoye and Yarudeyskoye fields since these fields are located fully or partially to the north of the 65th degree of the northern latitude fully or partially in the YNAO. Therefore, the adjusted base UPT rate for crude oil produced at these fields for the Group amounted to RR 360 per ton.

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

Excise and fuel taxes

Starting from January 2019, a new excisable type of product was introduced 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.

In both reporting periods, most of our LPG sales in Poland were subject to excise and fuel taxes in accordance with the local legislation. The amount of excise and fuel tax payments depends on the volume of excisable goods sold and the respective tax rates. The excise tax rate was decreased from 670 Polish zloty per ton in 2019 to 667 Polish zloty per ton starting from 1 January 2020 and further to 650 Polish zloty per ton starting from 1 March 2020. The fuel tax rate was increased from 164.61 Polish zloty per ton in 2019 to 170.55 Polish zloty per ton starting from 1 January 2020 and further to 187.55 Polish zloty per ton starting from 1 March 2020).

We disclose our revenues net of excise and fuel taxes expense in our consolidated statement of income.

Social contributions

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

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

	2020		2019	
	Base, RR thousand	Rate, %	Base, RR thousand	Rate, %
Pension Fund of the Russian Federation	less 1,292	22.0%	less 1,150	22.0%
	above 1,292	10.0%	above 1,150	10.0%
Federal Compulsory Medical Insurance Fund	No limit	5.1%	No limit	5.1%
Social Insurance Fund of the Russian Federation	less 912	2.9%	less 865	2.9%
	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 2.2% in the first quarter 2020 as compared to the corresponding period in the prior year. The main factors were the launch of the North-Russkoye field at the end of 2019 and an increase in the production of hydrocarbons from the Achimov horizons at Arcticgas's Urengoyskoye field due to the expansion of the gas condensate treatment facility in the current period.

In the three months ended 31 March 2020, our total natural gas sales volumes decreased by 1,509 mmcm, or 6.8%, primarily due to a decrease in LNG sales volumes purchased mainly from our joint venture OAO Yamal LNG for subsequent sale on international markets resulted from an increase in the share of Yamal LNG direct sales under long-term contracts. Natural gas volumes sold on domestic market also decreased as a result of lower demand from end-customers due to, inter alia, warmer winter weather conditions.

Our total liquids production including the proportionate share in the production of our joint ventures increased by 2.0% compared to the first quarter 2019 primarily due to an increase in the production at Arcticgas (see below), as well as due to the commissioning of new wells at the Beregovoye field.

In the three months ended 31 March 2020, our liquids sales volumes increased marginally by 27 thousand tons, or 0.7%.

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 31 March: 2020	2019	Change %
Production by subsidiaries from:			
Yurkharovskoye field	5,922	6,616	(10.5%)
East-Tarkosalinskoye field	1,414	1,516	(6.7%)
North-Russkoye field	528	5	n/a
Beregovoye field	493	442	11.5%
Yarudeyskoye field	455	455	0.0%
Khancheyskoye field	366	416	(12.0%)
East-Urengoyskoye + North-Esetinskoye field (West-Yaroyakhinskiy license area)	139	168	(17.3%)
Other fields	457	481	(5.0%)
Total natural gas production by subsidiaries (1)	**9,774**	**10,099**	**(3.2%)**
Group's proportionate share in the production of joint ventures:			
Yamal LNG (2)	4,505	3,943	14.3%
Arcticgas	3,698	3,426	7.9%
Nortgas	777	879	(11.6%)
Terneftegas	316	313	1.0%
Arctic LNG 2	9	-	n/a
Total Group's proportionate share in the natural gas production of joint ventures (1)	**9,305**	**8,561**	**8.7%**
Total natural gas production including proportionate share in the production of joint ventures	**19,079**	**18,660**	**2.2%**
The Group's proportionate share in LNG production of joint ventures (thousands of tons) (2)	*3,065*	*2,586*	*18.5%*

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

in subsidiaries	427	407	4.9%
in joint ventures (Group's proportionate share)	117	87	34.5%

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

In the three months ended 31 March 2020, our total natural gas production (including our proportionate share in the production of joint ventures) increased by 419 mmcm, or 2.2%, to 19,079 mmcm from 18,660 mmcm in the corresponding period in 2019. The main factors positively impacting our production growth were the launch of the North-Russkoye field in December 2019 and an increase in the production of hydrocarbons from the Achimov horizons at the Urengoyskoye field of Arcticgas due to the expansion of gas condensate treatment facility in January 2020. These factors allowed us to fully compensate the decrease in production at mature fields of our subsidiaries (the Yurkharovskoye, the East-Tarkosalinskoye and the Khancheyskoye fields) and at our joint venture Nortgas, which resulted mainly from natural declines in the reservoir pressure at the current gas producing horizons.

Natural gas sales volumes

In the three months ended 31 March 2020, our total natural gas sales volumes decreased by 1,509 mmcm, or 6.8%, to 20,686 mmcm from 22,195 mmcm in the corresponding period in 2019.

millions of cubic meters	Three months ended 31 March: 2020	2019	Change %
Production by subsidiaries	9,774	10,099	(3.2%)
Purchases from the Group's joint ventures	8,316	8,921	(6.8%)
Other purchases	2,120	2,219	(4.5%)
Total production and purchases	**20,210**	**21,239**	**(4.8%)**
Own usage [(1)]	(459)	(440)	4.3%
Decrease (increase) in natural gas inventory balance	935	1,396	(33.0%)
Total natural gas sales volumes	**20,686**	**22,195**	**(6.8%)**
Sold to end-customers	*17,136*	*17,674*	*(3.0%)*
Sold ex-field	*1,100*	*1,100*	*0.0%*
Subtotal sold in the Russian Federation	***18,236***	***18,774***	***(2.9%)***
Sold on international markets	***2,450***	***3,421***	***(28.4%)***

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

In the three months ended 31 March 2020, natural gas purchases from our joint ventures decreased by 605 mmcm, or 6.8%, to 8,316 mmcm from 8,921 mmcm in the corresponding period in 2019 primarily due to a decrease in 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 respective 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 31 March 2020 and 2019, we purchased from third parties 1,830 mmcm and 1,811 mmcm of natural gas, respectively, on the Russian domestic market, and 290 mmcm and 408 mmcm, respectively, on international markets.

As of 31 March 2020, our cumulative natural gas inventory balance, mainly representing our inventory balances of natural gas in the UGSF, aggregated 288 mmcm and decreased by 935 mmcm during the quarter as compared to a decrease by 1,396 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 31 March: 2020	2019	Change %
Production by subsidiaries from:			
Yarudeyskoye field	818	822	(0.5%)
East-Tarkosalinskoye field	340	348	(2.3%)
Yurkharovskoye field	267	308	(13.3%)
Beregovoye field	69	37	86.5%
Khancheyskoye field	42	45	(6.7%)
Other fields	35	40	(12.5%)
Total liquids production by subsidiaries	**1,571**	**1,600**	**(1.8%)**
including crude oil	*1,139*	*1,154*	*(1.3%)*
including gas condensate	*432*	*446*	*(3.1%)*
Group's proportionate share in the production of joint ventures:			
Arcticgas	1,105	1,009	9.5%
Yamal LNG [(1)]	209	206	1.5%
Terneftegas	97	99	(2.0%)
Nortgas	66	73	(9.6%)
Total Group's proportionate share in the liquids production of joint ventures	**1,477**	**1,387**	**6.5%**
Total liquids production including proportionate share in the production of joint ventures	**3,048**	**2,987**	**2.0%**

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

In the three months ended 31 March 2020, our total liquids production (including our proportionate share in the production of joint ventures) increased by 61 thousand tons, or 2.0%, to 3,048 thousand tons from 2,987 thousand tons in the corresponding period in 2019 primarily due to an increase in liquids production at our joint venture Arcticgas, as well as an increase in gas condensate production at the Beregovoye field resulted from the commissioning of new wells. 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 and the commissioning of new crude oil wells at the Yaro-Yakhinskoye field. These allowed us to fully compensate for a decrease in gas condensate production at mature fields of our subsidiaries and joint ventures mainly due to natural declines in the concentration of gas condensate as a result of decreasing reservoir pressure at the current gas condensate producing horizons.

Liquids sales volumes

In the three months ended 31 March 2020, our total liquids sales volumes marginally increased by 27 thousand tons, or 0.7%, to 4,003 thousand tons from 3,976 thousand tons in the corresponding period in 2019.

thousands of tons	Three months ended 31 March: 2020	2019	Change %
Production by subsidiaries	1,571	1,600	(1.8%)
Purchases from the Group's joint ventures	2,466	2,313	6.6%
Other purchases	40	56	(28.6%)
Total production and purchases	**4,077**	**3,969**	**2.7%**
Losses [(1)] and own usage [(2)]	(51)	(55)	(7.3%)
Decreases (increases) in liquids inventory balances	(23)	62	n/a
Total liquids sales volumes	**4,003**	**3,976**	**0.7%**
Naphtha export	*1,040*	*1,159*	*(10.3%)*
Other stable gas condensate refined products export [(3)]	*553*	*625*	*(11.5%)*
Other stable gas condensate refined products domestic [(3)]	*103*	*13*	*n/a*
Subtotal stable gas condensate refined products	***1,696***	***1,797***	***(5.6%)***
Crude oil export	*455*	*389*	*17.0%*
Crude oil domestic	*709*	*738*	*(3.9%)*
Subtotal crude oil	***1,164***	***1,127***	***3.3%***
LPG export	*141*	*147*	*(4.1%)*
LPG domestic	*583*	*530*	*10.0%*
Subtotal LPG	***724***	***677***	***6.9%***
Stable gas condensate export	*41*	*18*	*127.8%*
Stable gas condensate domestic	*373*	*354*	*5.4%*
Subtotal stable gas condensate	***414***	***372***	***11.3%***
Other oil products	***5***	***3***	***66.7%***

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

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

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

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

Purchases from the Group's joint ventures increased primarily due to purchases of liquid hydrocarbons from Arcticgas (see "Liquids production volumes" above).

In the reporting period of 2020, our liquids inventory balances increased by 23 thousand tons to 824 thousand tons as of 31 March 2020 as compared to a decrease in inventory balances by 62 thousand tons to 1,007 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 31 MARCH 2020 COMPARED TO THE CORRESPONDING PERIOD IN 2019

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

	Three months ended 31 March:			
millions of Russian roubles	**2020**	**% of total revenues**	**2019**	**% of total revenues**
Total revenues [1]	**184,562**	***100.0%***	**234,106**	***100.0%***
including:				
natural gas sales	98,794	*53.5%*	124,982	*53.4%*
liquids sales	83,801	*45.4%*	106,202	*45.4%*
Operating expenses	(146,535)	*(79.4%)*	(175,140)	*(74.8%)*
Gain on disposal of interests in subsidiaries and joint ventures, net	-	*n/a*	308,578	*131.8%*
Other operating income (loss)	(33,236)	*(18.0%)*	(914)	*(0.4%)*
Profit from operations	**4,791**	***2.6%***	**366,630**	***156.6%***
Normalized profit from operations [2]	**38,901**	***21.1%***	**58,052**	***24.8%***
Finance income (expense)	141,453	*76.6%*	(6,021)	*(2.6%)*
Share of profit (loss) of joint ventures, net of income tax	(145,231)	*(78.7%)*	70,973	*30.4%*
Profit before income tax	**1,013**	***0.5%***	**431,582**	***184.4%***
Total income tax expense	(28,625)	*(15.5%)*	(45,324)	*(19.4%)*
Profit (loss)	**(27,612)**	***(15.0%)***	**386,258**	***165.0%***
Less: profit (loss) attributable to non-controlling interest	(3,068)	*(1.7%)*	(4,462)	*(1.9%)*
Profit (loss) attributable to shareholders of PAO NOVATEK	**(30,680)**	***(16.7%)***	**381,796**	***163.1%***
Normalized profit attributable to shareholders of PAO NOVATEK [2], excluding the effect of foreign exchange gains (losses)	**53,547**	***29.0%***	**65,730**	***28.1%***

[1] Net of VAT and export duties, as well as excise and fuel taxes incurred on LPG sales in Poland.

[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 and export duties, as well as excise and fuel taxes incurred on LPG sales in Poland) for the three months ended 31 March 2020 and 2019:

	Three months ended 31 March:		Change	Change [1]		
millions of Russian roubles	**2020**	**2019**	**%**	**Total**	**Due to volume [2]**	**Due to price [3]**
Natural gas sales	98,794	124,982	(21.0%)	(26,188)	(8,496)	(17,692)
Stable gas condensate refined products sales	42,755	60,076	(28.8%)	(17,321)	(3,166)	(14,155)
Naphtha	*25,486*	*37,284*	*(31.6%)*	*(11,798)*	*(3,846)*	*(7,952)*
Other refined products	*17,269*	*22,792*	*(24.2%)*	*(5,523)*	*680*	*(6,203)*
Crude oil sales	21,568	27,051	(20.3%)	(5,483)	865	(6,348)
Liquefied petroleum gas sales	10,550	10,776	(2.1%)	(226)	761	(987)
Stable gas condensate sales	8,725	8,146	7.1%	579	922	(343)
Other products sales	203	153	32.7%	50	n/a	n/a
Total oil and gas sales	**182,595**	**231,184**	**(21.0%)**	**(48,589)**	**n/a**	**n/a**
Other revenues	1,967	2,922	(32.7%)	(955)	n/a	n/a
Total revenues	**184,562**	**234,106**	**(21.2%)**	**(49,544)**	**n/a**	**n/a**

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

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

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

Natural gas sales

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

In the three months ended 31 March 2020, our total revenues from natural gas sales decreased by RR 26,188 million, or 21.0%, compared to the corresponding period in 2019 primarily due to a decrease in LNG sales volumes and prices on international markets, as well as a decrease in natural gas domestic sales volumes caused, inter alia, by weather conditions. 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 in the Russian domestic market (see "Natural gas prices" 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 31 March 2020, our revenues from sales of stable gas condensate refined products decreased by RR 17,321 million, or 28.8%, to RR 42,755 million from RR 60,076 million in the corresponding period in 2019 mainly due to a decrease in average realized prices.

Revenues from sales of naphtha decreased by RR 11,798 million, or 31.6%, as compared to the corresponding period in 2019. In the three months ended 31 March 2020 and 2019, we exported 1,040 thousand tons and 1,159 thousand tons of naphtha, respectively, to the APR, and the European and North America markets. Our average realized net price, excluding export duties, where applicable, decreased by RR 7,649 per ton, or 23.8%, to RR 24,514 per ton from RR 32,163 per ton in the corresponding period in 2019 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Revenues from sales of jet fuel, gasoil and fuel oil decreased by RR 5,523 million, or 24.2%, as compared to the corresponding period in 2019. In the three months ended 31 March 2020 and 2019, we exported in aggregate 553 thousand tons and 625 thousand tons of these products to the European markets, or 84.3% and 98.0% 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 9,447 per ton, or 26.4%, to RR 26,299 per ton from RR 35,746 per ton in the corresponding period in 2019 (see "Stable gas condensate and refined products, liquefied petroleum gas and crude oil prices" above).

Crude oil sales

In the three months ended 31 March 2020, our revenues from crude oil sales decreased by RR 5,483 million, or 20.3%, compared to the corresponding period in 2019 due to a decrease in average realized prices that was partially offset by an increase in sales volumes (see "Liquids sales volumes" above).

We sold 709 thousand tons, or 60.9% of our total crude oil sales volumes, domestically as compared to sales of 738 thousand tons, or 65.5%, in the corresponding period in 2019. The remaining 455 thousand tons of crude oil, or 39.1% of our total crude oil sales volumes, in the three months ended 31 March 2020 and 389 thousand tons, or 34.5%, in the corresponding period in 2019 were sold to customers with destination points in the APR and the European markets.

Our average realized net price, excluding export duties, where applicable, decreased by RR 5,456 per ton, or 22.7%, to RR 18,534 per ton from RR 23,990 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 31 March 2020, our revenues from sales of LPG decreased by RR 226 million, or 2.1%, compared to the corresponding period in 2019 due to a decrease in average realized prices that was largely offset by an increase in sales volumes (see "Liquids sales volumes" above).

We sold 583 thousand tons of LPG, or 80.5% of our total LPG sales volumes, on the domestic market compared to sales of 530 thousand tons, or 78.3%, in the corresponding period in 2019. The remaining 141 thousand tons of LPG, or 19.5% of our total LPG sales volumes, in the three months ended 31 March 2020 and 147 thousand tons, or 21.7%, in the corresponding period in 2019 were sold 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 31 March 2020 decreased by RR 1,362 per ton, or 8.6%, to RR 14,564 per ton from RR 15,926 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 31 March 2020, our revenues from sales of stable gas condensate increased by RR 579 million, or 7.1%, compared to the corresponding period in 2019 due to an increase in sales volumes (see "Liquids sales volumes" above).

We sold 373 thousand tons of stable gas condensate, or 90.1% of our total stable gas condensate sales volumes, on the domestic market compared to sales of 354 thousand tons, or 95.2%, in the corresponding period in 2019. The remaining 41 thousand tons of stable gas condensate, or 9.9% of our total stable gas condensate sales volumes, in the first quarter 2020 and 18 thousand tons, or 4.8%, in the corresponding period in 2019 were sold to the European markets.

Our average realized net price, excluding export duties, where applicable, decreased by RR 827 per ton, or 3.8%, to RR 21,076 per ton from RR 21,903 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 31 March 2020, our revenues from other products sales increased by RR 50 million, or 32.7%, to RR 203 million from RR 153 million in the corresponding period in 2019.

Other revenues

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

In the three months ended 31 March 2020, other revenues decreased by RR 955 million, or 32.7%, to RR 1,967 million from RR 2,922 million in the corresponding period in 2019. The decrease was primarily due to a decrease in revenues from tanker transportation rendered to our joint ventures and third parties by RR 1,490 million.

Operating expenses

In the three months ended 31 March 2020, our total operating expenses decreased by RR 28,605 million, or 16.3%, to RR 146,535 million compared to RR 175,140 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, as well as a decrease in volumes of LNG purchased from our joint venture Yamal LNG due to the reallocation of Yamal LNG sales volumes in favour of long-term contracts sales (see "Purchases of natural gas and liquid hydrocarbons" below).

	Three months ended 31 March:			
millions of Russian roubles	**2020**	**% of total revenues**	**2019**	**% of total revenues**
Purchases of natural gas and liquid hydrocarbons	65,062	*35.3%*	94,760	*40.5%*
Transportation expenses	39,506	*21.4%*	40,103	*17.1%*
Taxes other than income tax	14,530	*7.9%*	15,542	*6.6%*
Depreciation, depletion and amortization	8,871	*4.8%*	7,487	*3.2%*
Materials, services and other	6,812	*3.7%*	6,030	*2.6%*
General and administrative expenses	5,664	*3.1%*	5,033	*2.1%*
Exploration expenses	2,788	*1.5%*	3,377	*1.4%*
Impairment expenses (reversals), net	3	*n/a*	1	*n/a*
Changes in natural gas, liquid hydrocarbons and work-in-progress	3,299	*1.8%*	2,807	*1.2%*
Total operating expenses	**146,535**	***79.4%***	**175,140**	***74.8%***

Purchases of natural gas and liquid hydrocarbons

In the three months ended 31 March 2020, our purchases of natural gas and liquid hydrocarbons decreased by RR 29,698 million, or 31.3%, to RR 65,062 million from RR 94,760 million in the corresponding period in 2019.

	Three months ended 31 March:		Change
millions of Russian roubles	**2020**	**2019**	**%**
Natural gas	39,576	58,163	(32.0%)
Unstable gas condensate	24,196	35,044	(31.0%)
Other hydrocarbons	2,856	2,632	8.5%
Reverse excise	(1,566)	(1,079)	45.1%
Total purchases of natural gas and liquid hydrocarbons	**65,062**	**94,760**	**(31.3%)**

Purchases of natural gas decreased by RR 18,587 million, or 32.0%, as compared to the corresponding period in 2019 mainly due to a decrease in LNG purchases from our joint venture OAO Yamal for subsequent sale on international markets, as well as 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). The decrease in LNG purchase volumes from Yamal LNG was due to an increase in the share of direct sales of Yamal LNG under long-term contracts and the corresponding decrease in the share of LNG spot sales to shareholders, including the Group.

Purchases of unstable gas condensate from our joint ventures decreased by RR 10,848 million, or 31.0%, 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).

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 increased by RR 224 million, or 8.5%, as compared to the corresponding period in 2019 mainly due to an increase in volumes of crude oil purchased for subsequent sale produced at the Yaro-Yakhinskoye field of Arcticgas (see "Liquids production volumes" 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 31 March 2020, our total transportation expenses decreased by RR 597 million, or 1.5%, to RR 39,506 million as compared to RR 40,103 million in the corresponding period in 2019.

	Three months ended 31 March:		Change
millions of Russian roubles	**2020**	**2019**	**%**
Natural gas transportation by trunk and low-pressure pipelines	26,098	26,042	0.2%
Stable gas condensate and liquefied petroleum gas transportation by rail	8,240	8,262	(0.3%)
Stable gas condensate and refined products, crude oil and liquefied natural gas transportation by tankers	2,629	2,306	14.0%
Crude oil transportation by trunk pipelines	2,201	2,166	1.6%
Other	338	1,327	(74.5%)
Total transportation expenses	**39,506**	**40,103**	**(1.5%)**

Expenses for natural gas transportation by trunk and low-pressure pipelines changed insignificantly (increased by RR 56 million, or 0.2%) as a result of the offsetting effects of following factors: an increase in the proportion of sales to our end-customers located at more distant regions from our production fields in the current reporting period as compared to the reporting period in the previous year and a 3.0% decrease 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 changed insignificantly (decreased by RR 22 million, or 0.3%): a 2.7% increase in the weighted average transportation cost per unit resulted from a 3.5% increase in the regulated railroad transportation tariffs effective January 2020 (see "Transportation tariffs" above) was offset by a 2.9% decrease in volumes of liquids sold and transported via rail.

Transportation expenses for our hydrocarbons delivered by tankers to international markets increased by RR 323 million, or 14.0%, to RR 2,629 million from RR 2,306 million in the corresponding period in 2019 mainly due to changes in the LNG delivery terms and points of destination.

Expenses for crude oil transportation to customers by trunk pipeline increased by RR 35 million, or 1.6%, to RR 2,201 million from RR 2,166 million in the corresponding period in 2019 due to a 3.3% increase in sales volumes, which was partially offset by an increase in the proportion of sales to our domestic customers located at more close regions from our production fields in the current reporting period as compared to the reporting period in the previous year.

Other transportation expenses mainly include our short-term vessels time charter expenses related to our revenues from hydrocarbons transportation by tankers rendered to our joint ventures and third parties (see "Other revenues" above), as well as expenses for hydrocarbons transportation by trucks. Short-term vessels time charter expenses decreased by RR 970 million to RR 295 million compared to RR 1,265 million in the corresponding period in 2019 in line with a decrease in our revenues from tanker transportation.

Taxes other than income tax

In the three months ended 31 March 2020, taxes other than income tax decreased by RR 1,012 million, or 6.5%, to RR 14,530 million from RR 15,542 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 31 March: 2020	2019	Change %
Unified natural resources production tax (UPT)	13,469	14,583	(7.6%)
Property tax	967	867	11.5%
Other taxes	94	92	2.2%
Total taxes other than income tax	**14,530**	**15,542**	**(6.5%)**

Unified natural resources production tax expense decreased by RR 1,114 million, or 7.6%, to RR 13,469 million from RR 14,583 million in the corresponding period in 2019 due to a decline in benchmark crude oil prices, which are used for UPT rates calculation, as well as a decrease in hydrocarbons production at mature fields of our subsidiaries (see "Natural gas production volumes" and "Liquids production volumes" above).

Depreciation, depletion and amortization

In the three months ended 31 March 2020, our depreciation, depletion and amortization ("DDA") expense increased by RR 1,384 million, or 18.5%, to RR 8,871 million from RR 7,487 million in the corresponding period in 2019 mainly due to a decrease in total proved reserves of mature fields at our subsidiaries as at the end of 2019 compared to the previous year, as well as the launch of new production assets. We accrue depreciation and depletion using the "units-of-production" method for our oil and gas assets and using a straight-line method for other facilities.

Materials, services and other

In the three months ended 31 March 2020, our materials, services and other expenses increased by RR 782 million, or 13.0%, to RR 6,812 million compared to RR 6,030 million in the corresponding period in 2019.

millions of Russian roubles	Three months ended 31 March: 2020	2019	Change %
Employee compensation	3,641	3,012	20.9%
Preparation and processing of hydrocarbons	556	566	(1.8%)
Repair and maintenance	525	485	8.2%
Electricity and fuel	429	377	13.8%
Materials and supplies	353	375	(5.9%)
Liquefied petroleum gas volumes reservation expenses	283	291	(2.7%)
Transportation services	272	244	11.5%
Fire safety and security expenses	258	254	1.6%
Rent expenses	142	112	26.8%
Insurance expense	99	85	16.5%
Other	254	229	10.9%
Total materials, services and other	**6,812**	**6,030**	**13.0%**

Employee compensation relating to operating personnel increased by RR 629 million, or 20.9%, to RR 3,641 million compared to RR 3,012 million in the corresponding period in 2019 due to an increase in average number of employees resulting from the launch of new production assets, an indexation of base salaries effective from 1 July 2019, and the related increase in social contributions for medical and social insurance and to the Pension Fund of the Russian Federation.

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

General and administrative expenses

In the three months ended 31 March 2020, our general and administrative expenses increased by RR 631 million, or 12.5%, to RR 5,664 million compared to RR 5,033 million in the corresponding period in 2019.

millions of Russian roubles	Three months ended 31 March: 2020	2019	Change %
Employee compensation	4,135	3,941	4.9%
Social expenses and compensatory payments	517	250	106.8%
Legal, audit and consulting services	223	275	(18.9%)
Repair and maintenance expenses	170	51	233.3%
Advertising expenses	138	14	n/a
Fire safety and security expenses	134	126	6.3%
Business travel expense	68	130	(47.7%)
Rent expense	49	45	8.9%
Other	230	201	14.4%
Total general and administrative expenses	**5,664**	**5,033**	**12.5%**

Employee compensation relating to administrative personnel increased by RR 194 million, or 4.9%, to RR 4,135 million in the three months ended 31 March 2020 from RR 3,941 million in the corresponding period in 2019 due to an increase in average number of employees resulting from the expansion of the Group's operations, an indexation of base salaries effective 1 July 2019 and the related increase in social contributions for medical and social insurance and to the Pension Fund of the Russian Federation.

Social expenses and compensatory payments amounted to RR 517 million compared to RR 250 million in the corresponding period in 2019. In both reporting periods, the major part of expenses represented our social expenses related to continued support of charities and social programs in the regions where we operate. Social expenses and compensatory payments fluctuate period-to-period depending on the implementation schedules of specific programs we support.

Repair and maintenance expenses increased by RR 119 million, or 233.3%, to RR 170 million from RR 51 million in the corresponding period in 2019 mainly due to settling in and furnishing of a new office building for our subsidiaries in Novy Urengoy.

Advertising expenses amounted to RR 138 million compared to RR 14 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 62 million, or 47.7%, to RR 68 million from RR 130 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.

Exploration expenses

In the three months ended 31 March 2020, our exploration expenses amounted to RR 2,788 million and related to exploration works performed at the Gydanskiy, the Nyakhartinskiy, and the North-Russkiy license areas and the Soletskoye-Khanaveyskoye field. In the corresponding period in 2019, our exploration expenses amounted to RR 3,377 million, the major part of which related to exploration works performed at the Gydanskiy, the Nyakhartinskiy, the Nyavuyakhskiy, the West-Solpatinskiy, the Verhnetiuteyskiy and the West-Seyakhinskiy license areas. 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 31 March 2020 and 2019, we recorded a charge of RR 3,299 million and RR 2,807 million, respectively, to changes in inventory expense. The charge in the current reporting period was due to a decrease in our natural gas and stable gas condensate inventory balances as of 31 March compared to 1 January, as well as a decrease in the cost of hydrocarbons purchases resulting from a decrease in benchmark crude oil prices. In the corresponding prior year period, the charge was due to a decrease in most of our hydrocarbons inventory balances as of 31 March compared to 1 January.

In the three months ended 31 March 2020 and 2019, our cumulative natural gas inventory balance decreased by 935 mmcm and 1,396 mmcm, respectively, due to seasonal withdrawals of natural gas during the period of higher demand to fulfill our contractual sales obligations.

In the three months ended 31 March 2020, our cumulative liquid hydrocarbons inventory balances, recognized as inventory in transit or in storage, increased by 23 thousand tons and, in the corresponding period in 2019, decreased by 62 thousand tons mainly due to a change in inventory balance of stable gas condensate refined products in storage at our Ust-Luga Complex. Inventory balances of stable gas condensate and refined products tend to fluctuate period-to-period depending on shipment schedules and final destination of our shipments.

The following table highlights movements in our hydrocarbons inventory balances:

	2020			**2019**		
Inventory balances in transit or in storage	**At 31 March**	**At 1 January**	**Increase / (decrease)**	**At 31 March**	**At 1 January**	**Increase / (decrease)**
Natural gas (millions of cubic meters)	**288**	**1,223**	**(935)**	**813**	**2,209**	**(1,396)**
incl. Gazprom's UGSF	*38*	*982*	*(944)*	*765*	*2,106*	*(1,341)*
Liquid hydrocarbons (thousand tons)	**824**	**801**	**23**	**1,007**	**1,069**	**(62)**
incl. stable gas condensate						
refined products	*375*	*331*	*44*	*504*	*578*	*(74)*
stable gas condensate	*241*	*272*	*(31)*	*268*	*276*	*(8)*
crude oil	*102*	*94*	*8*	*127*	*109*	*18*

Net gain on disposal of interests in subsidiaries and joint ventures

In the first quarter 2019, we recognized a gain on the disposal of a 10% participation interest in OOO Arctic LNG 2 to a subsidiary of TOTAL S.A. in the amount of RR 308,578 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 31 March 2020, we recognized other operating loss of RR 33,236 million compared to other operating loss of RR 914 million in the corresponding period in 2019.

In the three months ended 31 March 2020, other operating loss was primarily due to the recognition of non-cash revaluation of fair value of contingent consideration related to the transactions on the sale of a 40% participation interest in OOO Arctic LNG 2 in 2019 in the amount of RR 34,110 million, resulting from a decrease in long-term crude oil benchmark prices forecast, which may be revised subject to world market conditions and may or may not reflect actual future cash inflows.

In the three months ended 31 March 2020, we purchased and sold approximately 2.2 bcm of natural gas, as well as various derivative commodity instruments within our trading activities, and recognized an aggregate realized loss from trading activities of RR 1,836 million as compared to a loss of RR 750 million in the corresponding period in 2019. At the same time, we recognized non-cash income of RR 2,392 million in the three months ended 31 March 2020 as a result of an increase in the fair value of the aforementioned contracts as compared to a non-cash income of RR 307 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 31 March 2020, our profit from operations and EBITDA including our proportionate share of joint ventures, but excluding the effects from the disposal of interests in subsidiaries and joint ventures (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration), amounted to RR 74,785 million and RR 100,668 million, respectively, compared to RR 94,847 million and RR 117,942 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 38,901 million and RR 45,383 million, respectively, compared to RR 58,052 million and RR 65,724 million in the corresponding period in 2019.

Finance income (expense)

In the three months ended 31 March 2020, we recorded net finance income of RR 141,453 million compared to net finance expense of RR 6,021 million in the corresponding period in 2019 primarily due to recognition of foreign exchange differences.

	Three months ended 31 March:		Change
millions of Russian roubles	**2020**	**2019**	**%**
Accrued interest expense on loans received	(2,307)	(2,300)	0.3%
Less: capitalized interest	1,500	1,498	0.1%
Provisions for asset retirement obligations: effect of the present value discount unwinding	(256)	(176)	45.5%
Interest expense on lease liabilities	(140)	(113)	23.9%
Interest expense	**(1,203)**	**(1,091)**	**10.3%**
Interest income	5,756	4,330	32.9%
Change in fair value of non-commodity financial instruments	(5,907)	10,115	n/a
Foreign exchange gain (loss), net	142,807	(19,375)	n/a
Total finance income (expense)	**141,453**	**(6,021)**	**n/a**

Interest expense increased marginally by RR 112 million, or 10.3%.

Interest income increased by RR 1,426 million, or 32.9%, to RR 5,756 million from RR 4,330 million in the corresponding period in 2019 primarily due to loans provided to our joint venture OOO Arctic LNG 2 and recognition of interest income on contingent consideration related to the transactions on the sale of participation interests in Arctic LNG 2.

In the three months ended 31 March 2020, we recognized a non-cash loss of RR 5,907 million compared to a non-cash gain of RR 10,115 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 31 March 2020, we recorded a net foreign exchange gain of RR 142,807 million compared to a net foreign exchange loss of RR 19,375 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 31 March 2020, the Group's proportionate share of loss of joint ventures amounted to RR 145,231 million as compared to the share of profit in the amount of RR 70,973 million in the corresponding period in 2019.

millions of Russian roubles (Group's share)	Three months ended 31 March: 2020	2019	Change %
Profit from operations	**35,884**	**36,795**	**(2.5%)**
Finance income (expense)			
Interest income (expense), net	(19,599)	(15,310)	28.0%
Foreign exchange gain (loss), net	(205,712)	72,402	n/a
Change in fair value of non-commodity financial instruments	9,459	(8,841)	n/a
Total finance income (expense)	**(215,852)**	**48,251**	**n/a**
Total income tax benefit (expense)	34,737	(14,073)	n/a
Total share of profit (loss) of joint ventures, net of income tax	**(145,231)**	**70,973**	**n/a**
Less: share in foreign exchange gain (loss) net of respective income tax	171,185	(60,360)	n/a
Total share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	**25,954**	**10,613**	**144.5%**

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

millions of Russian roubles (Group's share)	Yamal LNG 2020	Yamal LNG 2019	Arcticgas 2020	Arcticgas 2019	Others 2020	Others 2019
Profit (loss) from operations	**27,020**	**22,217**	**9,024**	**13,222**	**(160)**	**1,356**
Finance income (expense)						
Interest income (expense), net	(18,445)	(14,719)	(488)	(234)	(666)	(357)
Foreign exchange gain (loss), net	(187,778)	69,665	(2)	14	(17,932)	2,723
Change in fair value of non-commodity financial instruments	12,580	(9,578)	-	-	(3,121)	737
Total finance income (expense)	**(193,643)**	**45,368**	**(490)**	**(220)**	**(21,719)**	**3,103**
Total income tax benefit (expense)	31,709	(11,232)	(1,208)	(2,034)	4,236	(807)
Total share of profit (loss) of joint ventures, net of income tax	**(134,914)**	**56,353**	**7,326**	**10,968**	**(17,643)**	**3,652**
Less: share in foreign exchange gain (loss) net of respective income tax	156,794	(58,171)	2	(11)	14,389	(2,178)
Total share of profit (loss) of joint ventures, net of income tax and excluding foreign exchange effects	**21,880**	**(1,818)**	**7,328**	**10,957**	**(3,254)**	**1,474**

Our proportionate share of profit (loss) of joint ventures was mainly impacted by finance income (expense). In the first quarter 2020, our proportionate share in the finance expense of our joint ventures amounted to RR 215,852 million as compared to the share in the finance income in the amount of RR 48,251 million in the corresponding period in 2019.

The main factor impacting the change in our share in finance income (expense) was the recognition of a significant foreign exchange loss in the current reporting period (our share amounted to RR 205.7 billion) as compared to a foreign exchange gain (our share of RR 72.4 billion) in the corresponding period in 2019, which in both reporting periods were mainly non-cash and primarily related to the revaluation of foreign currency denominated loans in our joint venture Yamal LNG. We assess that the impact of foreign currency risk relating to the debt portfolio of Yamal LNG is largely mitigated by the fact that all of its products are delivered to international markets and its revenues are denominated in foreign currencies.

In addition, in the current reporting period, we recognized a non-cash gain (our share amounted to RR 9.5 billion) as compared to a non-cash loss (our share amounted to RR 8.8 billion) in the corresponding period in 2019 from the remeasurement of the fair value of shareholders' loans mainly in Yamal LNG.

The remaining change in our proportionate share in finance income (expense) related to the increase in our share in interest expense by RR 4.3 billion, or 28.0%, mainly due to 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.

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 (recognition of a net gain on disposal and subsequent non-cash revaluation of contingent consideration), the effective income tax rate (total income tax expense calculated as a percentage of profit before income tax) for the three months ended 31 March 2020 and 2019 was 19.5% and 15.0%, respectively.

Profit (loss) attributable to shareholders and earnings (loss) per share

As a result of the factors discussed in the respective sections above, in the current reporting period, we recorded a loss attributable to shareholders of PAO NOVATEK of RR 30,680 million compared to a profit of RR 381,796 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 both reporting periods, we recorded effects from the disposal of interests in the Arctic LNG 2 project: the recognition of RR 308.6 billion of gain from the disposal of a 10% participation interest in the Arctic LNG 2 project in the first quarter 2019, and the recognition of RR 34.1 billion of loss in the first quarter 2020 related to the subsequent non-cash revaluation of contingent consideration on the sale of a 40% participation interest in 2019.

Excluding the effects from the disposal of interests in subsidiaries and joint ventures and foreign exchange gains (losses), in the current reporting period, we recorded a profit attributable to shareholders of PAO NOVATEK in the amount of RR 53,547 million compared to RR 65,730 million in the corresponding period in 2019 (see the table below):

millions of Russian roubles	Three months ended 31 March: 2020	2019	Change %
Profit (loss) attributable to shareholders of PAO NOVATEK	(30,680)	381,796	n/a
Gain on disposal of interests in subsidiaries and joint ventures, net	-	(308,578)	n/a
Income tax expense related to the disposal of interests in subsidiaries and joint ventures	-	37,372	n/a
Changes in fair value of contingent consideration reported within the "Other operating income (loss)"	34,110	-	n/a
Income tax expense (benefit) related to changes in fair value of contingent consideration	(6,822)	-	n/a
Normalized profit (loss) attributable to shareholders of PAO NOVATEK	**(3,392)**	**110,590**	**n/a**
Foreign exchange (gains) losses	(142,807)	19,375	n/a
Income tax expense (benefit) relating to foreign exchange (gains) losses	28,561	(3,875)	n/a
Share of foreign exchange (gains) losses of joint ventures	205,712	(72,402)	n/a
Share of income tax expense (benefit) relating to foreign exchange (gains) losses of joint ventures	(34,527)	12,042	n/a
Normalized profit attributable to shareholders of PAO NOVATEK, excluding the effect of foreign exchange gains (losses)	**53,547**	**65,730**	**(18.5%)**

In the first quarter 2020, our weighted average basic and diluted loss per share, calculated from the loss attributable to shareholders of PAO NOVATEK, amounted to RR 10.20 per share compared to earnings of RR 126.74 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 amounted to RR 17.80 per share compared to RR 21.82 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 31 March 2020 and 2019:

millions of Russian roubles	Three months ended 31 March: 2020	2019	Change %
Net cash provided by **operating** activities	59,025	61,603	(4.2%)
Net cash used for **investing** activities	(12,377)	(10,100)	22.5%
Net cash used for **financing** activities	(13,572)	(4,989)	172.0%

Net cash provided by operating activities

Our net cash provided by operating activities decreased by RR 2,578 million, or 4.2%, to RR 59,025 million compared to RR 61,603 million in the corresponding period in 2019 primarily due to a decrease in profit from operations, excluding the effects from the disposal of interests in subsidiaries and joint ventures, adjusted for non-cash items, net of related income tax.

millions of Russian roubles	Three months ended 31 March: 2020	2019	Change %
Profit from operations, excluding the effects from the disposal of interests in subsidiaries and joint ventures	38,901	58,052	(33.0%)
Non-cash adjustments [(1)]	6,285	7,989	(21.3%)
Changes in working capital and long-term advances given	20,346	7,522	170.5%
Dividends and cash received from joint ventures	660	-	n/a
Interest received	705	635	11.0%
Income taxes paid	(7,872)	(12,595)	(37.5%)
Total net cash provided by operating activities	**59,025**	**61,603**	**(4.2%)**

[(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 first quarter 2020, profit from operations, 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), and adjusted for non-cash items decreased due to a decline in hydrocarbons prices on international markets compared to the corresponding period in 2019.

In the first quarter 2020, we received RR 500 million and RR 160 million of dividends and cash distributed in favor of the Group from our joint ventures Arcticgas and Terneftegas, respectively.

Net cash used for investing activities

In the three months ended 31 March 2020, our net cash used for investing activities increased by RR 2,277 million, or 22.5%, to RR 12,377 million compared to RR 10,100 million in the corresponding period in 2019.

millions of Russian roubles	Three months ended 31 March: 2020	2019	Change %
Cash used for capital expenditures	(41,143)	(42,476)	(3.1%)
Proceeds from disposal of interests in subsidiaries and joint ventures, net of cash disposed	46,021	23,453	96.2%
Payments for mineral licenses	(104)	(2,006)	(94.8%)
Loans provided to joint ventures	(14,413)	(1,129)	n/a
Repayments of loans provided to joint ventures	83	268	(69.0%)
Net decrease (increase) in bank deposits with original maturity more than three months	(1,959)	12,252	n/a
Other	(862)	(462)	86.6%
Net cash used for investing activities	**(12,377)**	**(10,100)**	**22.5%**

In the first quarter 2020, cash used for capital expenditures amounted to RR 41,143 million as compared to RR 42,476 million in the corresponding period in 2019. A significant part of the investments related to our LNG projects (the LNG construction center located in the Murmansk region, the Obskiy LNG project as well as the Arctic LNG 2 project prior to March 2019), 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 first quarter 2019, the Group sold a 10% participation interest in OOO Arctic LNG 2 and received the first cash transfer in the amount of RR 39,443 million (the equivalent of USD 600 million) as a payment for the disposed participation interest. Excluding the cash balance in OOO Arctic LNG 2 as at the transaction closing date, the net cash inflow from the transaction amounted to RR 23,453 million. In the first quarter 2020, we received the final cash transfer from the above transaction in the amount of RR 46,021 million (the equivalent of USD 700 million).

In March 2020, we made final payments in the aggregate amount of RR 104 million for the acquisition of the licenses for the East-Ladertoyskiy and the South-Yamburgskiy license areas (advance payments for these license areas in the amount of RR 1,043 million were made in the fourth quarter 2019). In January 2019, we made a final payment in the amount of RR 2,006 million for the acquisition of the license for the South-Leskinskiy license area (an advance payment in the amount of RR 35 million was made in the fourth quarter 2018).

In the first quarter 2020, we provided loans in the aggregate amount of RR 14,413 million compared to RR 1,129 million in the corresponding period in 2019. In both reporting periods, we provided loans to our joint ventures for developing its activities, mainly to OOO Arctic LNG 2 in the reporting period in 2020 and to Yamal LNG in the corresponding period in 2019. At the same time, in the three months ended 31 March 2020 and 2019, we received RR 83 million and RR 268 million, respectively, due to partial repayments of the loans provided to Terneftegas.

The Group's cash management involves periodic cash placement on bank deposits with different maturities. Deposits are reported in "Cash and cash equivalents" if opened for three months or less, or otherwise in "Short-term bank deposits with original maturity more than three months". Transactions with bank deposits with original maturity more than three months are classified as investing activities in the Consolidated Statement of Cash Flows. In the first quarter 2020, the net increase in bank deposits with original maturity more than three months amounted to approximately RR 2 billion compared to the net decrease in the amount of RR 12 billion in the corresponding period in 2019.

Net cash used for financing activities

In the three months ended 31 March 2020, our net cash used for financing activities increased by RR 8,583 million, or 172.0%, to RR 13,572 million as compared to RR 4,989 million in the corresponding period in 2019.

millions of Russian roubles	Three months ended 31 March: 2020	2019	Change %
Dividends paid to non-controlling interest	(3,969)	(3,871)	2.5%
Repayments of long-term debt	(1,007)	-	n/a
Proceeds from short-term debt with original maturity more than three months	-	1,000	n/a
Purchase of treasury shares	(7,806)	(1,529)	n/a
Payments of lease liabilities	(790)	(589)	34.1%
Net cash used for financing activities	**(13,572)**	**(4,989)**	**172.0%**

In the three months ended 31 March 2020 and 2019, a Group subsidiary paid dividends in the amount of RR 3,969 million and RR 3,871 million, respectively, to its non-controlling shareholder.

In the first quarter 2020, the Group fully repaid a long-term loan obtained under a credit line facility from a Russian bank in the amount of RR 1,007 million. In the corresponding period of 2019, we obtained a short-term loan in the amount of RR 1,000 million under a revolving credit line facility.

The remaining change related primarily to the shares buy-back.

Liquidity and working capital

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

	31 March 2020	31 December 2019	Change, %
Absolute amounts, RR million			
Net debt (net cash position) [(1)]	(27,717)	15,106	n/a
Net working capital position [(2)]	351,461	379,383	(7.4%)
Liquidity and credit ratios			
Current ratio [(3)]	2.78	4.24	n/a
Total debt to total equity	0.12	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)]	(0.12)	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.

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

Capital expenditures

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

	Three months ended 31 March:	
millions of Russian roubles	**2020**	**2019**
Infrastructure for future LNG projects [(1)]	13,726	5,632
Arctic LNG 2 project [(2)]	-	19,147
North-Russkiy block [(3)]	9,902	7,573
Obskiy LNG project	3,786	252
Beregovoye field	2,114	1,288
West-Yurkharovskoye field	1,964	580
Yurkharovskoye field	1,779	406
Ust-Luga Complex	1,744	1,269
Gydanskiy license area	1,351	293
Yarudeyskoye field	1,322	1,295
Geofizicheskoye field	1,297	154
East-Tarkosalinskoye field	1,164	1,515
Khancheyskoye field	470	8
Ust-Yamsoveyskiy license area	425	148
Nyakhartinskiy license area	359	100
South-Khadyryakhinskiy license area	266	255
Administration facilities	4,530	1,707
Other	3,159	1,279
Capital expenditures	**49,358**	**42,901**

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

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

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

Total capital expenditures on property, plant and equipment in the three months ended 31 March 2020 increased by RR 6,457 million, or 15.1%, to RR 49,358 million from RR 42,901 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, the Obskiy LNG and the Arctic LNG 2 (before the sale of a 10% participation interest in March 2019).

In addition, we invested in the ongoing development of our producing fields (development activities at the East-Tarkosalinskoye and the Yarudeyskoye fields' crude oil deposits, further development of the North-Russkoye, the Beregovoye and the Yurkharovskoye fields) and to the preparation for production commencement at our new fields (the West-Yurkharovskoye and the East-Tazovskoye fields, the South-Khadyryakhinskiy license area). We also increased capital expenditures in exploratory drilling which in the first quarter 2020 was mainly conducted at the Geofizicheskoye and the Kharbeyskoye fields, the Gydanskiy license area.

In both reporting periods, we also 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.

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

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

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

millions of Russian roubles	Three months ended 31 March: 2020	2019	Change %
Total additions to property, plant and equipment per Note "Property, plant and equipment" in the Group's IFRS Consolidated Financial Statements	**49,588**	**44,907**	**10.4%**
Less: acquisition of mineral licenses	(104)	(2,006)	(94.8%)
Less: right-of-use assets [1] additions	(126)	-	n/a
Capital expenditures	**49,358**	**42,901**	**15.1%**
Add (less): change in accounts payable, capitalized foreign exchange losses and other non-cash adjustments	(8,215)	(425)	n/a
Cash used for capital expenditures [2]	**41,143**	**42,476**	**(3.1%)**

[1] Related mainly to long-term agreements on office premises rentals.

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

In the current reporting period, we made final payments in the aggregate amount of RR 104 million for the auctions won in December 2019 for the usage of the East-Ladertoyskiy and the South-Yamburgskiy license areas (an advance payment of RR 1,043 million was made in December 2019).

In the first quarter 2019, we made a final payment of RR 2,006 million for the auction won in December 2018 for the usage of the South-Leskinskiy license area (we prepaid RR 35 million in December 2018).

QUANTITATIVE AND QUALITATIVE DISCLOSURES AND MARKET RISKS

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

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the Russian rouble relative to the US dollar and the Euro. As of 31 March 2020, the whole amount of our debt was denominated in foreign currency. Changes in the value of the Russian rouble relative to foreign currencies will impact the value in Russian rouble terms of our foreign currency-denominated costs, debt, receivables at our foreign subsidiaries and loans provided to our joint ventures. We believe that the risks associated with our foreign currency exposure are partially mitigated by the fact that a portion of our total revenues, 43.5% in the three months ended 31 March 2020, was denominated in foreign currencies.

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

As of 31 March 2020, the Russian rouble depreciated by 25.6% and 23.7% against the US dollar and the Euro, respectively, compared to 31 December 2019.

Commodity risk

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

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

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

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

Pipeline access

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

Ability to reinvest

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

Forward-looking statements

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

Off balance sheet activities

As of 31 March 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