



PJSC LUKOIL

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

**for the three-month periods ended
30 June and 31 March 2020
and six-month periods ended
30 June 2020 and 2019**

PJSC LUKOIL

Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 30 June and 31 March 2020 and six-month periods ended 30 June 2020 and 2019

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 30 June 2020 and results of its operations for the three-month periods ended 30 June and 31 March 2020 and six-month periods ended 30 June 2020 and 2019, as well as significant factors that may affect its future performance. It should be read in conjunction with our International Financial Reporting Standards ("IFRS") condensed interim consolidated financial statements for the respective periods, including notes.

References to "LUKOIL," "the Company," "the Group," "we" or "us" are references to PJSC LUKOIL and its subsidiaries and equity affiliates. All ruble amounts are in millions of Russian rubles ("RUB"), unless otherwise indicated. Income and expenses of our foreign subsidiaries were translated to rubles at rates, which approximate actual rates at the date of the transaction. Tonnes of crude oil and natural gas liquids produced were translated into barrels using conversion rates characterizing the density of crude oil from each of our oilfields and the actual density of liquids produced at our gas processing plants. Hydrocarbon extraction expenses per barrel were calculated using these actual production volumes. Other operational indicators expressed in barrels were translated into barrels using an average conversion rate of 7.33 barrels per tonne. Translations of cubic meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") were made at the rate of 1 barrel per BOE and of cubic feet – at the rate of 6 thousand cubic feet per BOE.

This report includes forward-looking statements – words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results.

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Business overview

The primary activities of LUKOIL and its subsidiaries are hydrocarbon exploration, production, refining, marketing and distribution.

LUKOIL is one of the world's largest publicly traded vertically integrated energy companies. Our proved reserves under SEC standards amounted to 15.8 billion BOE at 1 January 2020 and comprised of 12.0 billion barrels of crude oil and 22.5 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and gas in Russia and internationally. In Russia, our major oil producing regions are West Siberia, Timan-Pechora, Ural and Volga region. Our international upstream segment includes stakes in PSAs and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria, Mexico, the Republic of Congo and the UAE. Our daily hydrocarbon production in the first half of 2020 amounted to 2.2 million BOE, with liquid hydrocarbons representing approximately 78% of our overall production volumes.

LUKOIL has geographically diversified downstream assets portfolio primarily in Russia and Europe. Our downstream operations include crude oil refining, petrochemical and transport operations, marketing and trading of crude oil, natural gas and refined products, power generation, transportation and sales of electricity, heat and related services.

We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. We also own two petrochemical plants in Russia and have petrochemical facilities at our refineries in Bulgaria and Italy. Along with our own production of refined products, we refine crude oil at third party refineries depending on market conditions and other factors. Throughput at our refineries in the first half of 2020 amounted to 1.2 million barrels per day, and we produced 0.6 million tonnes of petrochemicals, including olefins, polyolefins and products of organic synthesis.

We market our own and third-party crude oil and refined products through our sales channels in Russia, Europe, South-East Asia, Central and North America and other regions. We own petrol stations in 19 countries. Most of our retail networks are located close to our refineries. Our retail sales in the first half of 2020 amounted to 5.8 million tonnes of refined products. We also supply jet fuel to airports and bunker fuel to sea and river ports in and outside Russia.

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally. In the first half of 2020, our total output of electrical energy was 9.0 billion kWh.

Our operations and finance activities are coordinated from headquarters in Moscow. We divide our operations into three main business segments: "Exploration and production," "Refining, marketing and distribution," and "Corporate and other".

Impact of COVID-19 on the Group's operations

In December 2019, the emergence of a new strain of coronavirus (COVID-2019) was reported in China and has subsequently spread globally. On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Mobility restrictions, quarantines and similar lockdown measures implemented in different countries to cope with the pandemic had a significant negative impact on the global economy. Deceleration of economic activity resulted in a substantial decrease in demand for hydrocarbons leading to oversupply on the international oil market and a sharp decline in oil prices. Failure of OPEC+ countries to reach a new agreement on crude oil production quotas in the beginning of March put an incremental pressure on oil prices. As a result, the price for Brent collapsed to a 20-years minimum of \$13 per barrel in April. On 12 April 2020, OPEC+ countries entered into a new agreement to reduce their collective output by 9.7 million barrels per day starting from 1 May 2020. This coordinated production cut together with the negative impact of low oil prices on crude oil production in different countries resulted in lower supply of crude oil and reduction of surplus on the crude oil market and led to a gradual recovery of oil prices. This upward oil price trend was further supported by the gradual lifting of lockdowns in different countries, recovery in economic activity and respective growth in demand for hydrocarbons. As a result, the price for Brent increased to \$44 per barrel by the end of June and exceeded \$46 per barrel in August 2020.

From the beginning of COVID-19 pandemic the Group has taken necessary measures to avoid direct impact of the pandemic on its operations with a special focus on protection of the health of employees and clients and uninterrupted production processes.

The major impact of COVID-19 on the macroeconomic environment in the oil and gas industry resulted in a number of consequences on operational and financial performance of the Group.

From February through August 2020, we reduced production of gas at our projects in Uzbekistan to approximately 20% of the projects capacity due to lower demand for Uzbek gas from China. This had an impact on the Group's overall hydrocarbon production in the first half and July–August 2020.

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Due to the new OPEC+ agreement we cut our crude oil production in Russia in May 2020 by approximately 310 thousand barrels per day, or by 19%, as compared to our daily crude oil production in Russia in the first quarter of 2020. To minimize the negative impact of this production cut on our financial performance the cut was implemented at the least profitable fields. We subsequently increased our crude oil production in Russia by approximately 20 thousand barrels per day in July and incrementally by approximately 60 thousand barrels per day in the beginning of August. According to the current terms of the agreement we may increase our crude oil production in Russia by approximately 40 thousand barrels per day from 1 January 2021 and then recover the rest of the cut from 1 May 2022. Due to the new OPEC+ agreement crude oil production was also reduced at some of our international projects. For example, in May we cut production at the West Qurna-2 project in Iraq by 70 thousand barrels per day, in the middle of June we incrementally cut production at this project by approximately 50 thousand barrels per day.

Our refining and marketing segment was also affected as demand for jet fuel and motor fuels declined substantially, which had a negative impact on the benchmark refining margins and sales volumes. We adjusted the product slate and optimized utilization rates at our refineries in the second quarter of 2020 in order to efficiently react to the adverse macro changes. As a result of optimization as well as major scheduled maintenance works at several refineries average daily refinery throughput volumes in the second quarter of 2020 were approximately 30% lower at our European refineries and approximately 15% lower at our Russian refineries as compared to the first quarter of 2020.

We also faced a steep decline in the retail sales volumes of motor fuels at our filling stations in Russia and other countries in April 2020, when volumes were 40% lower compared to April 2019. However, from May 2020 retail sales volumes started recovering on the back of the recovery in economic activity in different countries and in July 2020 reached approximately 95% of the volumes sold in July 2019. Our average daily retail sales volumes in the second quarter of 2020 declined approximately by 23% as compared to the second quarter of 2019.

The impact of the pandemic on the Group's financial performance in the first half of 2020 is discussed in detail in the below discussion and analysis. Management expects that as a result of the effects of the pandemic the macroeconomic environment in the oil and gas industry will remain volatile. Management will continue monitoring the situation closely to ensure prompt reaction to the rapidly changing environment.

Management believes that the Group is in a solid financial condition and has adequate liquidity with net financial debt position close to zero as of the end of the first half of 2020. This represents an incremental support for continuous operations and meeting all of the Group's obligations, as well as adequate financing of the investment program.

Key financial and operational results

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
(millions of rubles)						
Sales.....	986,427	1,665,985	(40.8)	2,652,412	3,976,485	(33.3)
EBITDA ¹ , including.....	144,416	150,843	(4.3)	295,259	630,227	(53.2)
Exploration and production segment.....	72,346	109,189	(33.7)	181,535	470,206	(61.4)
Refining, marketing and distribution segment.....	78,744	40,291	95.4	119,035	173,105	(31.2)
EBITDA ¹ net of West Qurna-2 project.....	137,163	139,431	(1.6)	276,594	617,321	(55.2)
(Loss) profit for the period attributable to LUKOIL shareholders.....	(18,720)	(45,960)	(59.3)	(64,680)	330,481	-
Capital expenditures.....	117,245	130,211	(10.0)	247,456	204,976	20.7
Free cash flow ²	25,507	55,519	(54.1)	81,026	308,266	(73.7)
Free cash flow before changes in working capital.....	38,396	9,988	284.4	48,384	372,803	(87.0)
(thousand BOE per day)						
Production of hydrocarbons, including our share in equity affiliates.....	2,064	2,382	(13.4)	2,223	2,381	(6.6)
crude oil and natural gas liquids.....	1,650	1,838	(10.2)	1,744	1,817	(4.0)
gas.....	414	544	(23.9)	479	564	(15.1)
Refinery throughput at the Group refineries.....	1,089	1,377	(20.9)	1,233	1,356	(9.1)

¹ Profit from operating activities before depreciation, depletion and amortization.

² Cash flow from operating activities less capital expenditures.

In the second quarter of 2020, our results were negatively affected by the consequences of the COVID-19 pandemic, namely a sharp decrease in international hydrocarbon prices, a decrease in benchmark refining margins, crude oil production cut in Russia under the new OPEC+ agreement and a decrease in international gas production, as well as lower refined products retail sales volumes and accounting specifics of our international trading operations. These negative factors were partially offset by a reversal of inventory write-down as a result of an increase in crude oil and refined products prices, positive inventory effect at our refineries and optimization of refinery utilization rates and product slate, positive dynamics of the export duty lag effect in Russia, as well as higher trading margin and the ruble devaluation.

The dynamics of our results compared to the first half of 2019 was also largely defined by the impacts of the COVID-19 pandemic, such as a decrease in international hydrocarbon prices and refining margins, lower hydrocarbon production volumes, a decrease in sales volumes at our filling stations, as well as negative export duty lag effect and negative inventory effect at our refineries. At the same time, our results were supported by bigger share of high-margin volumes in our domestic crude oil production, stronger trading margin and accounting specifics of our international trading operations, as well as the ruble devaluation.

As a result, our EBITDA decreased to 144 billion RUB in the second quarter of 2020, 4.3% lower than in the first quarter of 2020, and to 295 billion RUB in the first half of 2020, 53.2% lower than in the first half of 2019.

The ruble appreciation in the end of June compared to a sharp devaluation of the ruble in late March 2020 resulted in a currency exchange gain of 4 billion RUB in the second quarter of 2020 compared to a loss of 15 billion RUB in the first quarter of 2020, and a currency exchange loss of 11 billion RUB in the first half of 2020, as opposed to a gain of 6 billion RUB in the first half of 2019.

Due to a significant deterioration in the macroeconomic environment, the Group recognized impairment loss of property, plant and equipment and other non-current assets in total amount of 83 billion RUB during the first half of 2020, of which 39 billion RUB related to the second quarter.

As a result, in the second quarter of 2020, loss attributable to LUKOIL shareholders amounted to 19 billion RUB, a decrease of 59.3% compared to the first quarter of 2020. In the first half of 2020, loss attributable to LUKOIL shareholders amounted to 65 billion RUB compared to profit in the amount of 330 billion RUB in the first half of 2019.

Our capital expenditures decreased by 13 billion RUB, or by 10.0%, compared to the first quarter of 2020, and increased by 42 billion RUB, or by 20.7%, compared to the first half of 2019.

Our free cash flow amounted to 26 billion RUB in the second quarter of 2020, a decrease of 54.1% compared to the first quarter of 2020, and amounted to 81 billion RUB in the first half of 2020, a decrease of 73.7% compared to the first half of 2019. That was mainly a result of a decrease in profitability of our core operations. In the first half of 2020, the decrease was also a result of higher capital expenditures.

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The Group's average daily hydrocarbon production decreased by 13.4% compared to the first quarter of 2020 and by 6.6% compared to the first half of 2019 due to the new OPEC+ agreement and a decrease in gas production and supplies from Uzbekistan to China that were driven by a negative consequences of the COVID-19 pandemic.

In the second quarter and the first half of 2020, throughput at our refineries decreased by 20.9% and by 9.1% compared to the previous quarter and the first half of 2019, respectively. This decrease was due to scheduled maintenance works and throughput optimization at some of the Company's refineries in the second quarter of 2020 on the back of lower demand for petroleum products and decline in refining margins due to the consequences of the COVID-19 pandemic.

Changes in the Group structure

In October 2019, a Group company acquired a 5% interest in the Ghasha Concession in the United Arab Emirates from the Abu Dhabi National Oil Company for approximately 13.8 billion RUB (\$214 million).

In the second quarter of 2019, a Group company entered into a contract with New Age M12 Holdings Limited to acquire a 25% interest in the Marine XII license in the Republic of Congo (Congo-Brazzaville). In September 2019, the transaction in the amount of 51.4 billion RUB (\$768 million) was closed after all the customary conditions, including approval by the government of the Republic of Congo, were fulfilled.

Main macroeconomic factors affecting our results of operations

International crude oil and refined products prices

The price at which we sell crude oil and refined products is the primary driver of the Group's revenues.

The dynamics of our realized prices on international markets generally matches the dynamics of commonly used spot benchmarks such as Brent crude oil price, however our average prices are usually different from such benchmarks due to different delivery terms, quality mix, as well as specifics of regional markets in case of petroleum product sales.

In the first half of 2020, the price for Brent crude oil dropped sharply from \$70.0 per barrel in January to \$13.2 per barrel in the end of April as a result of a substantial decrease in global demand for crude oil due to the COVID-19 pandemic. Further recovery of global demand together with the new OPEC+ agreement led to a price increase to \$43.6 per barrel by the end of June. As a result, average price expressed in US dollars decreased by 41.5% compared to the first quarter of 2020, and by 39.4% compared to the first half of 2019.

The following tables show the average crude oil and refined product prices.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
				(US dollars per barrel)		
Brent FOB dated.....	29.51	50.45	(41.5)	39.98	66.01	(39.4)
Urals crude (average MED and Rotterdam)	29.58	48.38	(38.9)	38.98	65.85	(40.8)
				(US dollars per tonne)		
Diesel fuel 10 ppm (FOB Rotterdam).....	279.65	470.23	(40.5)	374.94	599.04	(37.4)
High-octane gasoline (FOB Rotterdam)	269.13	469.55	(42.7)	369.34	616.60	(40.1)
Naphtha (FOB Rotterdam)	233.61	409.89	(43.0)	321.75	508.39	(36.7)
Jet fuel (FOB Rotterdam)	247.14	481.71	(48.7)	364.42	633.56	(42.5)
Vacuum gas oil (FOB Rotterdam)	200.80	382.08	(47.4)	291.44	458.62	(36.5)
Marine fuel 0.5% (FOB Rotterdam)	223.93	399.28	(43.9)	311.61	438.33	(28.9)
Fuel oil 3.5% (FOB Rotterdam)	161.54	227.56	(29.0)	194.55	382.03	(49.1)

Source: Platts, Argus.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
				(rubles per barrel)		
Brent FOB dated.....	2,135	3,349	(36.2)	2,773	4,313	(35.7)
Urals crude (average MED and Rotterdam)	2,140	3,212	(33.4)	2,704	4,303	(37.2)
				(rubles per tonne)		
Diesel fuel 10 ppm (FOB Rotterdam).....	20,236	31,215	(35.2)	26,010	39,140	(33.5)
High-octane gasoline (FOB Rotterdam)	19,475	31,170	(37.5)	25,622	40,288	(36.4)
Naphtha (FOB Rotterdam)	16,904	27,209	(37.9)	22,320	33,217	(32.8)
Jet fuel (FOB Rotterdam)	17,883	31,977	(44.1)	25,281	41,396	(38.9)
Vacuum gas oil (FOB Rotterdam)	14,530	25,363	(42.7)	20,218	29,966	(32.5)
Marine fuel 0.5% (FOB Rotterdam)	16,204	26,505	(38.9)	21,617	28,639	(24.5)
Fuel oil 3.5% (FOB Rotterdam)	11,689	15,106	(22.6)	13,496	24,961	(45.9)

Translated to rubles using average exchange rate for the period.

Domestic crude oil and refined products prices

Most of the crude oil in Russia is produced and then refined or exported by vertically integrated oil companies. As a result, there is no liquid spot market for crude oil in Russia and no publicly available spot price benchmark. Domestic prices may deviate significantly from export netbacks and they also vary between different regions of Russia driven by supply-demand balance on regional markets.

Domestic prices for refined products correlate to some extent with export netbacks, but are also materially affected by supply-demand balance on regional markets.

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The table below represents average domestic wholesale prices for refined products for the respective periods.

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(rubles per tonne)					
Diesel fuel.....	32,378	38,674	(16.3)	35,526	39,942	(11.1)
High-octane gasoline (Regular).....	39,056	38,667	1.0	38,861	37,506	3.6
High-octane gasoline (Premium).....	40,799	41,431	(1.5)	41,115	39,405	4.3
Fuel oil.....	7,486	11,958	(37.4)	9,722	16,434	(40.8)

Source: InfoTEK (excluding VAT).

Changes in ruble exchange rate and inflation

A substantial part of our revenue either is denominated in US dollars and euro or is correlated to some extent with US dollar crude oil prices, while most of our costs are settled in Russian rubles. Therefore, a devaluation of the ruble against the US dollar and euro generally causes our revenues to increase in ruble terms, and vice versa. Ruble inflation also affects the results of our operations.

The following table provides data on inflation in Russia and change in the ruble-dollar and the ruble-euro exchange rates.

	Q2 2020	Q1 2020	1 st half of	
			2020	2019
Ruble inflation (CPI), %	1.3	1.3	2.7	2.5
Ruble to US dollar exchange rate				
Average for the period	72.4	66.4	69.4	65.3
At the beginning of the period.....	77.7	61.9	61.9	69.5
At the end of the period.....	70.0	77.7	70.0	63.1
Ruble to euro exchange rate				
Average for the period	79.6	73.2	76.4	73.8
At the beginning of the period.....	85.7	69.3	69.3	79.5
At the end of the period.....	78.7	85.7	78.7	71.8

Source: CBR, Federal State Statistics Service.

Taxation

Key upstream tax rates. The following tables represent average enacted rates applicable to our upstream operations in Russia for the respective periods.

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(US dollars per tonne)					
Mineral extraction tax ¹	67.36	159.22	(57.7)	111.31	207.58	(46.4)
Export duty on crude oil	22.20	74.11	(70.1)	48.15	95.70	(49.7)

¹ Translated from rubles using average exchange rate for the period.

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(rubles per tonne)					
Mineral extraction tax.....	4,874	10,569	(53.9)	7,722	13,563	(43.1)
Export duty on crude oil ¹	1,606	4,920	(67.4)	3,340	6,253	(46.7)

¹ Translated to rubles using average exchange rate for the period.

These rates are linked to international crude oil prices and change in line with them.

Tax manoeuvre. The Russian Government has been implementing the so-called tax manoeuvre in the oil industry, which involves reduction of export duty rate and increase in the crude oil extraction tax and excise tax rates, as well as an introduction of a negative excise tax on refinery feedstock.

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In 2018, new laws were adopted which came into effect on 1 January 2019. These laws provide for concluding the tax manoeuvre by 2024 through the gradual reduction of crude oil export duty rate to zero and the equivalent increase in the mineral extraction tax rate for crude oil. To eliminate the negative effect of export duty reduction on refining margins, a negative excise on refinery feedstock was introduced. To reduce the sensitivity of domestic prices for motor fuel to changes in international prices, a so-called damper coefficient was included into the negative excise formula, which also led to increase in mineral extraction tax rate.

Crude oil extraction tax rate is calculated on a monthly basis. Crude oil extraction tax is payable in rubles per metric tonne extracted. The tax rate is calculated according to the formula below:

$$\text{Rate} = 919 \times (\text{Price} - 15) \times \frac{\text{Exchange Rate}}{261} - \text{Incentive} + \text{Fixed Factor} \\ + \text{Tax Manoeuvre Factor} + \text{Damper Factors},$$

where *Price* is a Urals blend price in US dollars per barrel and *Exchange Rate* is an average ruble exchange rate to US dollar during the period. The *Incentive Factor* represents incentives discussed further in this section. The *Fixed Factor* is presented in the table below. The *Tax Manoeuvre Factor* is derived as Export duty reduction factor multiplied by the base export duty rate. The *Damper Factors* are applicable when the corresponding components of a negative excise formula are positive. From 2020, a new variable Damper Factor was added to the formula in addition to the fixed factors.

The table below sets out key fixed components of the extraction tax formula for crude oil.

	1 January to 30 September 2019	1 October to 31 December 2019	2020	2021	2022	2023	2024 and further	
Export duty rate reduction factor	0.167	0.167	0.333	0.500	0.667	0.833	1	
			(rubles)					
Fixed Factor	428	428	428	428	428	428	428	
Damper Factor for gasoline	125	200	105	105	105	105	105	
Damper Factor for diesel fuel	110	185	92	92	92	92	92	

There are different types of tax incentives on the mineral extraction tax on crude oil applied to our fields and deposits:

- A special reducing coefficient is applied to the standard tax rate depending on location, depletion, type of reserves, size and complexity of a particular field. This type of incentive with different coefficients is applied to our highly depleted fields (more than 80% depletion), our Yu. Korchagin field located in the Caspian offshore, the Permian layers of our Usinskoye field in Timan-Pechora producing high-viscous crude oil, a number of fields in the Nenets Autonomous region, as well as to our new small-sized fields (recoverable reserves less than 5 million tonnes) and fields and deposits with low permeability like V. Vinogradov and Imilorskoye fields and Tyumen deposits;
- A fixed tax rate of 15% of the Urals price is applied to our V. Filanovsky offshore field and other greenfields, located in the Caspian offshore;
- A fixed tax rate of 30% of the Urals price is applied to our offshore greenfields, located in the Baltic Sea;
- A reduced tax rate is applied to our Yaregskoye field producing extra-viscous crude oil, as well as to certain unconventional deposits.

Some of the mineral extraction tax incentives are limited in time or by cumulative oil production volumes.

Tax on additional income. Starting from 2019, a tax on additional income from the crude oil and gas condensate production (hereinafter TAI) has been implemented for certain license areas. The TAI rate is set at 50% and is applied to the estimated sales revenue less actual and estimated costs, where actual costs include both operating expenses and capital expenditures. Moreover, TAI tax base may be reduced by the historical cumulative losses attributable to the license area. For crude oil production subject to TAI, a special mineral extraction tax rate formula is applied. The special mineral extraction tax rate (in US dollars per barrel) equals to 50% of the difference between Urals oil price and \$15 less the enacted export duty rate.

TAI is implemented for four groups of license areas. In Group 1, LUKOIL has nineteen license areas with greenfields in new regions, including Pyakyakhinskoye field, and a number of fields in Timan-Pechora. In Group 3, LUKOIL has eight license areas with brownfields in West Siberia. In Group 4, LUKOIL has two license areas with greenfields in traditional regions (West Siberia).

TAI has significant positive impact on development plans for, and production profile of, the Company's license areas subject to TAI.

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Crude oil and refined products exported from Russia are subject to two steps of customs declaration and duty payments: temporary and complete. A temporary declaration is submitted based on preliminary exports volumes and the duty is paid in rubles translated from US dollars at the date of the temporary declaration. A complete declaration is submitted after receiving the actual data on the exported volumes, but no later than six months after the date of the temporary declaration. The final amount of the export duty is adjusted depending on the actual volumes, the ruble-US dollar exchange rate at the date of the complete declaration (except for pipeline deliveries for which the exchange rate at the temporary declaration date is used) and the export duty rate. If temporary and complete declarations are submitted in different reporting periods, the final amount of the export duty is adjusted in the period of submission of the complete declaration. The high volatility of the ruble-dollar exchange rates may lead to significant adjustments. For the purposes of the IFRS consolidated financial statements, data from temporary declarations at the reporting period end is translated to rubles from US dollars using the period-end exchange rate.

Tax incentives

The table below illustrates the impact of tax incentives on taxation of crude oil production from different fields and deposits in our portfolio calculated at \$50 per barrel Urals price and zero damper factors.

	Mineral extraction tax	Export duty (in US dollars per barrel)	Total	As % of oil price
Under 2020 tax formulas				
Standard	21.6	7.7	29.3	58.6
Yaregskoye field	0.4	0.8	1.2	2.3
Yu. Korchagin field.....	7.5	0.0	7.5	15.0
V. Filanovsky field.....	7.5	0.0	7.5	15.0
D41 field	15.0	0.0	15.0	30.0
Usinskoye (Permian layers).....	11.3	7.7	19.0	38.0
V. Vinogradov and Imilorskoe fields	13.4	7.7	21.1	42.1
Fields with depletion above 80%	14.4–21.6	7.7	22.1–29.3	44.2–58.6
New fields with reserves below 5 million tonnes.....	15.2–21.6	7.7	22.9–29.3	45.7–58.6
Tyumen deposits	19.5	7.7	27.2	54.5

Natural gas extraction tax rate is calculated using a special formula depending on average regulated wholesale natural gas price in Russia, Urals price, the share of gas production in total hydrocarbon production at particular license area, regional location and complexity of particular gas field. Reinjected natural gas and associated petroleum gas are subject to zero extraction tax rate.

Gas produced from our two major fields in Russia, Nakhodkinskoye and Pyakyakhinskoye, is taxed at the rates subject to application of reducing coefficients due to the fields' geographical location and the depth of reservoir.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
	(US dollars per thousand cubic meters) ¹					
Nakhodkinskoye field.....	5.54	6.04	(8.3)	5.78	5.40	7.0
Pyakyakhinskoye field.....	6.63	7.19	(7.7)	6.89	8.23	(16.3)

¹ Translated from rubles using average exchange rate for the period.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
	(rubles per thousand cubic meters)					
Nakhodkinskoye field.....	401	401	-	401	353	13.6
Pyakyakhinskoye field.....	480	477	0.6	478	538	(11.2)

Export duty rates on refined products are calculated by multiplying the enacted crude oil export duty rate by a coefficient according to the table below.

	2019 and further
Multiplier for:	
Gasolines, diesel fuel and other light and middle distillates	0.30
Straight-run gasoline.....	0.55
Fuel oil.....	1.00

Refined products exported to member countries of the Customs Union are not subject to export duties.

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Excise taxes on refined products. The responsibility to pay excises on refined products in Russia is imposed on refined product producers (except for straight-run gasoline). Only domestic sales volumes are subject to excises.

Excise tax expense on straight-run gasoline used as a petrochemical feedstock is reimbursed with a coefficient of 1.7, and excise tax expense on middle distillates used as refinery feedstock, bunker fuel or fuel at power plants is reimbursed in double amount. Since 1 April 2020, the fixed excise tax rate for middle distillates was replaced with formula-based rate linked to the level of damper for diesel fuel.

In other countries where the Group operates, excise taxes are paid by either producers or retailers depending on the local legislation.

Excise rates on motor fuels in Russia are tied to the ecological class of fuel. Average excise tax rates for the periods considered are listed below.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
	(rubles per tonne)					
Gasoline						
Below Euro-5	13,100	13,100	-	13,100	13,100	-
Euro-5	12,752	12,752	-	12,752	12,314	3.6
Diesel fuel						
All ecological classes	8,835	8,835	-	8,835	8,541	3.4
Motor oils	5,616	5,616	-	5,616	5,400	4.0
Middle distillates*	19,721	9,535	>100	14,628	9,241	58.3

*Excise tax rates for middle distillates after 1 April 2020 are calculated by formula.

Established excise tax rates are listed below.

	2020	2021	2022 and further
	(rubles per tonne)		
Gasoline			
Below Euro-5	13,100	13,624	14,169
Euro-5	12,752	13,262	13,793
Diesel fuel			
All ecological classes	8,835	9,188	9,556
Motor oils	5,616	5,841	6,075

Negative excise tax on refinery feedstock

The reduction of export duties on crude oil in the course of the tax manoeuvre in Russia leads to an increase in feedstock costs for the domestic refineries. This negative effect is partially compensated by a decrease in export duties on refined products, with the remaining part of the negative effect being fully offset by the negative excise tax implemented from 1 January 2019. The negative excise tax is payable by the Government to the refineries. The negative excise tax rate is calculated separately for each refinery based on the average Urals crude oil price and refinery slate during the month. Our Ukhta refinery benefits from a special uplift regional coefficient of 1.3 applied to the negative excise tax.

The negative excise tax formula also includes the damper coefficient for gasoline and diesel fuel sold on the domestic market. The damper coefficient is calculated by multiplying *Compensation Coefficient* and a difference between gasoline and diesel fuel export netbacks at North-Western Russia delivery basis and corresponding *Fixed benchmarks*. When the damper coefficient is positive, it is payable by the Government to the refinery, and vice versa.

The *Fixed benchmarks* and *Compensation Coefficients* are presented in the tables below:

	1 January to 30 June 2019	1 July to 31 December 2019	2020	2021	2022	2023	2024
	(rubles per tonne)						
Fixed benchmark for gasoline.....	56,000	51,000	53,600	56,300	59,000	62,000	65,000
Fixed benchmark for diesel fuel	50,000	46,000	48,300	50,700	53,250	56,000	58,700

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	1 January to 30 June 2019	1 July to 31 December 2019	2020 and further
Compensation coefficient for gasoline	0.60	0.75	0.68
Compensation coefficient for diesel fuel	0.60	0.70	0.65

The following table presents the average enacted damper coefficients for the respective periods:

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
	(US dollars per tonne) ¹					
Gasoline.....	(180.80)	(72.99)	>100	(129.22)	49.10	-
Diesel fuel.....	(140.08)	(41.23)	>100	(92.78)	80.68	-

¹ Translated from rubles using average exchange rate for the period.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
	(rubles per tonne)					
Gasoline.....	(13,083)	(4,845)	>100	(8,964)	3,208	-
Diesel fuel.....	(10,136)	(2,737)	>100	(6,436)	5,271	-

Income tax. Operations in the Russian Federation are subject to a 20% income tax rate. For the period from 2017 till 2024 (inclusive) a Federal income tax rate is set as 3.0% and a regional income tax rate is set as 17.0%. Regional income tax rate may be reduced for certain categories of taxpayers by the laws of constituent entities of the Russian Federation, however certain restrictions apply on the application of the reduced regional rates.

The Company and its Russian subsidiaries file income tax returns in Russia. A number of Group companies in Russia are paying income tax as a consolidated taxpayers' group ("CTG"). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG.

The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

Transportation tariffs on crude oil, natural gas and refined products in Russia

Many of our production assets are located relatively far from our customers. As a result, transportation tariffs are an important factor affecting our profitability.

Crude oil produced at our fields in Russia is transported to refineries and exported primarily through the trunk oil pipeline system of the state-owned company, Transneft. In some cases, crude oil is also shipped via railway infrastructure of the state-owned company, Russian Railways.

Refined products produced at our Russian refineries are transported primarily by railway (Russian Railways) and the pipeline system of Transnefteproduct, a subsidiary of Transneft.

Gas that is not sold at the wellhead is transported through the Unified Gas Supply System owned and operated by Gazprom.

Transneft, Russian Railways and Gazprom are state-controlled natural transportation infrastructure monopolies and their tariffs are regulated by the Federal Antimonopoly Service of Russia and set in rubles.

The following table sets forth the changes in the average tariffs charged by the state-controlled transportation service providers in Russia.

	Q2 2020 to Q1 2020	1 st half of 2020 to 1 st half of 2019
Transneft (crude oil)	0.0%	3.4%
Russian Railways (crude oil and refined products).....	0.0%	3.5%

Segments highlights

Our operations are divided into three main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations related to crude oil and gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, Northern and Western Africa, Norway, Romania and Mexico.
- **Refining, Marketing and Distribution** – which includes refining, petrochemical and transport operations, marketing and trading of crude oil, natural gas and refined products, generation, transportation and sales of electricity, heat and related services.
- **Corporate and other** – which includes operations related to our headquarters (which coordinates operations of the Group companies), finance activities, and certain other activities, that are not primary to the Group.

Each of our segments is dependent on the others, with a portion of the revenues of one segment being a part of the costs of the others. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the “Domestic crude oil and refined products prices” section on p. 8, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. We present the financial data for each segment in Note 29 “Segment information” to our condensed interim consolidated financial statements.

Exploration and production

The following table summarizes key figures on our Exploration and production segment:

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(millions of rubles)					
EBITDA	72,346	109,189	(33.7)	181,535	470,206	(61.4)
in Russia	63,931	73,570	(13.1)	137,501	386,125	(64.4)
outside Russia and Iraq	1,162	24,207	(95.2)	25,369	71,175	(64.4)
in Iraq	7,253	11,412	(36.4)	18,665	12,906	44.6
Hydrocarbon extraction expenses	49,545	51,659	(4.1)	101,204	103,429	(2.2)
in Russia	39,252	41,992	(6.5)	81,244	84,335	(3.7)
outside Russia and Iraq	6,184	5,323	16.2	11,507	10,068	14.3
in Iraq	4,109	4,344	(5.4)	8,453	9,026	(6.3)
	(rubles per BOE)					
Hydrocarbon extraction expenses (excluding Iraq)	259	229	12.9	243	228	6.6
in Russia	247	233	5.7	239	236	1.5
outside Russia and Iraq	381	203	88.1	271	178	52.2
	(US dollars per BOE)					
Hydrocarbon extraction expenses (excluding Iraq)	3.58	3.45	3.6	3.50	3.49	0.4
in Russia	3.41	3.51	(3.0)	3.45	3.61	(4.4)
outside Russia and Iraq	5.27	3.05	72.6	3.91	2.72	43.6

Our upstream EBITDA decreased by 33.7% compared to the first quarter of 2020. In Russia, the decrease was mainly a result of lower crude oil prices and crude oil production cut due to the new OPEC+ agreement, that was partially offset by positive dynamics of the export duty lag effect and the effect of the ruble devaluation. Outside Russia and Iraq, our EBITDA was driven down by a decrease in hydrocarbon prices and a reduction of gas production volumes in Uzbekistan as a result of lower demand for Uzbek gas from China. Our results in the second quarter of 2020 were also affected by a downward recalculation of Uzbek gas sales revenue for the first quarter of 2020 in the amount of 5.5 billion RUB.

Compared to the first half of 2019, our upstream EBITDA decreased by 61.4%. In Russia, the decrease was mainly due to lower hydrocarbon prices, negative export duty lag effect, and crude oil production cut due to the new OPEC+ agreement, that was partially offset by bigger share of high-margin volumes in crude oil production and the ruble devaluation. Outside Russia and Iraq, our upstream EBITDA decreased mainly as a result of a decrease in international hydrocarbon prices and gas production volumes.

The dynamics of EBITDA of the West Qurna-2 project was mainly a result of changes in cost compensation.

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The following table summarizes our hydrocarbon production by major regions.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
	(thousand BOE per day)					
Crude oil and natural gas liquids						
Consolidated subsidiaries						
West Siberia	657	760	(13.6)	708	768	(7.8)
Timan-Pechora	273	318	(14.2)	296	318	(6.9)
Ural region	299	338	(11.5)	318	334	(4.8)
Volga region	214	232	(7.8)	223	239	(6.7)
Other in Russia	29	30	(3.3)	30	31	(3.2)
Total in Russia	1,472	1,678	(12.3)	1,575	1,690	(6.8)
Iraq ¹	82	54	51.9	68	29	>100
Other outside Russia	53	57	(7.0)	55	48	14.6
Total outside Russia	135	111	21.6	123	77	59.7
Total consolidated subsidiaries	1,607	1,789	(10.2)	1,698	1,767	(3.9)
Our share in equity affiliates						
in Russia	10	11	(9.1)	11	13	(15.4)
outside Russia	33	38	(13.2)	35	37	(5.4)
Total share in equity affiliates	43	49	(12.2)	46	50	(8.0)
Total crude oil and natural gas liquids	1,650	1,838	(10.2)	1,744	1,817	(4.0)
Natural and petroleum gas²						
Consolidated subsidiaries						
West Siberia	202	215	(6.0)	209	202	3.5
Timan-Pechora	29	33	(12.1)	31	33	(6.1)
Ural region	21	25	(16.0)	23	22	4.5
Volga region	25	27	(7.4)	26	28	(7.1)
Other in Russia	0	0	-	0	1	-
Total in Russia	277	300	(7.7)	289	286	1.0
Uzbekistan	78	184	(57.6)	131	229	(42.8)
Other outside Russia	47	48	(2.1)	47	37	27.0
Total outside Russia	125	232	(46.1)	178	266	(33.1)
Total consolidated subsidiaries	402	532	(24.4)	467	552	(15.4)
Share in equity affiliates						
in Russia	1	1	(11.6)	1	1	(4.0)
outside Russia	11	11	(4.7)	11	11	(0.5)
Total share in production of equity affiliates	12	12	(5.6)	12	12	(0.9)
Total natural and petroleum gas	414	544	(23.9)	479	564	(15.1)
Total daily hydrocarbon production (excluding the West Qurna-2 project)	1,982	2,328	(14.9)	2,155	2,352	(8.4)
Total daily hydrocarbon production	2,064	2,382	(13.4)	2,223	2,381	(6.6)
Including natural gas liquids produced at the gas processing plants	36	45	(18.9)	41	46	(11.1)

¹ Compensation crude oil related to the Group.

² Natural and petroleum gas production excluding flaring, reinjected gas and gas used in production of natural gas liquids.

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Crude oil production by major regions is presented in the table below.

	Q2 2020	Q1 2020	Change, %	1st half of 2020	1st half of 2019	Change, %
	(thousands of tonnes)					
West Siberia.....	7,937	9,151	(13.3)	17,088	18,372	(7.0)
Timan-Pechora	3,469	4,023	(13.8)	7,492	8,006	(6.4)
Ural region.....	3,441	3,906	(11.9)	7,347	7,665	(4.1)
Volga region.....	2,539	2,760	(8.0)	5,299	5,640	(6.0)
Other in Russia	372	387	(3.9)	759	798	(4.9)
Crude oil produced in Russia.....	17,758	20,227	(12.2)	37,985	40,481	(6.2)
Iraq ¹	1,094	721	51.7	1,815	775	134.2
Other outside Russia.....	567	588	(3.6)	1,155	960	20.3
Crude oil produced outside Russia	1,661	1,309	26.9	2,970	1,735	71.2
Total crude oil produced by consolidated subsidiaries.....	19,419	21,536	(9.8)	40,955	42,216	(3.0)
Our share in crude oil produced by equity affiliates:						
in Russia	119	138	(13.8)	257	306	(16.0)
outside Russia.....	373	431	(13.5)	804	851	(5.5)
Total crude oil produced.....	19,911	22,105	(9.9)	42,016	43,373	(3.1)

¹ Compensation crude oil related to the Group.

Our main oil producing region is West Siberia where we produced 40.9% and 41.7% of our crude oil in the second quarter and the first half of 2020 (42.5% in the first quarter of 2020 and 43.5% in the first half of 2019). Our crude oil production decreased by 9.9% compared to the first quarter of 2020 and by 3.1% compared to the first half of 2019.

The dynamics of our crude oil production volumes in Russia since the beginning of 2017 has been driven by external limitations due to an agreement of OPEC and some of the non-OPEC countries, including Russia, (OPEC+ countries) to cap production levels in order to stabilize the global crude oil market. In December 2018, the OPEC+ countries agreed to decrease crude oil production relative to October 2018 levels until June 2019, which subsequently was prolonged until March 2020. Following these agreements, the Group limited production in our traditional regions (West Siberia, Timan-Pechora, and Ural) at the least-productive fields and fields with high water-cuts.

In April 2020, OPEC+ countries entered into a new agreement to reduce their collective output by 9.7 million barrels per day starting from 1 May 2020 as a response to a dramatic contraction in demand for crude oil due to the COVID-19 pandemic. The agreement expires at the end of April 2022 and provides for stepped increases in crude oil production from August 2020 (initially from July 2020) and January 2021. Russia committed to reduce its crude oil production to 8.5 million barrels per day from May 2020 with further increases according to the agreement. From May 2020, the Group reduced its crude oil production in Russia by approximately 310 thousand barrels per day, or by 19%, as compared to the average daily crude oil production level in the first quarter of 2020. The Group then increased crude oil production in Russia by approximately 20 thousand barrels per day in July and incrementally by approximately 60 thousand barrels per day in the beginning of August.

The new OPEC+ agreement also led to limitations on oil production by the Group at our certain international projects.

Despite a sharp decrease in oil prices and external limitations on production volumes, the active development of the priority projects continued. In particular, in West Siberia aggregate crude oil and gas condensate production at the V. Vinogradov, Imilorskoye, Sredne-Nazymkoye and Pyakyakhinskoye fields increased in the first half of 2020 by 27% year-on-year and exceeded 2.0 million tonnes.

Development of the Yaregskoye field and Permian reservoir of the Usinskoye field, including the launch of new steam-generating facilities, allowed increasing high viscosity oil production in the first half of 2020 by 4.5% year-on-year, to 2.5 million tonnes.

In the Caspian Sea at the V. Filanovsky and Yu. Korchagin fields production was maintained at designed levels due to drilling programs. Total crude oil and gas condensate production at these fields in the first half of 2020 was 3.7 million tonnes, which is flat year-on-year.

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Gas production (excluding flaring, reinjected gas and gas used in production of natural gas liquids) by major regions is presented in the table below.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
	(millions of cubic meters)					
West Siberia, including:.....	3,124	3,312	(5.7)	6,436	6,220	3.5
Nakhodkinskoye field.....	1,377	1,348	2.2	2,725	2,425	12.4
Pyakyakhinskoye field.....	593	963	(38.4)	1,556	1,882	(17.3)
Other fields.....	1,154	1,001	15.3	2,155	1,913	12.7
Timan-Pechora.....	444	517	(14.1)	961	1,022	(6.0)
Ural region.....	325	383	(15.1)	708	687	3.1
Volga region.....	386	425	(9.2)	811	870	(6.8)
Other in Russia.....	5	6	(16.7)	11	13	(15.4)
Gas produced in Russia.....	4,284	4,643	(7.7)	8,927	8,812	1.3
Uzbekistan.....	1,204	2,839	(57.6)	4,043	7,030	(42.5)
Other outside Russia.....	732	742	(1.3)	1,474	1,142	29.1
Gas produced outside Russia.....	1,936	3,581	(45.9)	5,517	8,172	(32.5)
Total gas produced by consolidated subsidiaries	6,220	8,224	(24.4)	14,444	16,984	(15.0)
Our share in gas produced by equity affiliates:						
in Russia.....	21	22	(4.5)	43	44	(2.3)
outside Russia.....	158	166	(4.8)	324	324	-
Total gas produced	6,399	8,412	(23.9)	14,811	17,352	(14.6)

In the second quarter and the first half of 2020, LUKOIL Group's gas production was 6.4 billion cubic meters and 14.8 billion cubic meters, which was 23.9% lower quarter-on-quarter, and 14.6% lower year-on-year. In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where gas is produced from the Nakhodkinskoye and Pyakyakhinskoye fields. In the second quarter of 2020, our gas production in Russia decreased by 7.7% compared to the first quarter of 2020 mainly due to lower production of associated petroleum gas as a result of crude oil production cut. Compared to the first half of 2019, it increased by 1.3% as a result of the launch of the second stage of the booster compressor station at Nakhodkinskoye field in December 2019. Outside Russia, the main gas production region is Uzbekistan where we have shares in two PSAs. Our international gas production (including our share in affiliates' production) decreased by 44.1% quarter-on-quarter, and by 31.3% year-on-year, mainly as a result of lower demand from China for gas produced in Uzbekistan amid the COVID-19 pandemic.

West Qurna-2 project

The West Qurna-2 field in Iraq is developed under the service contract, signed in January 2010. In May 2018, a Group company and Iraqi party signed a new field development plan, according to which, crude oil production is planned to increase to 800 thousand barrels per day by 2025. Starting from 1 May 2020, crude oil production was reduced by approximately 70 thousand barrels per day following the request from the Iraqi government due to the new OPEC+ agreement. The production was cut furthermore by approximately 50 thousand barrels per day in the middle of June.

Accounting for the cost compensation within the West Qurna-2 project in our consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income is as follows.

Capital expenditures are recognized in *Property, plant and equipment*. Extraction expenses are recognized in *Operating expenses* in respect of all the volume of crude oil production at the field regardless of the volume of compensation crude oil the Group is eligible for. As the compensation revenue is recognized, capitalized costs are amortized.

There are two steps of revenue recognition:

- The Iraqi party, on a quarterly basis, approves invoice for cost recovery and remuneration fee for which the Group is eligible for in the reporting period. Amount of the invoice depends on crude oil production volumes during the period and amount of costs claimed for reimbursement. Approved invoice amount for the reporting quarter is recognized in crude oil sales revenue.
- Based on the approved invoices, the Iraqi party arranges schedule of crude oil shipments against its liability for cost compensation and remuneration. As this crude oil is actually shipped, its cost is recognized at current market price in Cost of purchased crude oil, gas and products. Further, revenue from sales of this crude oil, or products from its refining, is recognized in *Sales*. Unsold crude oil and refined products are recognized in *Inventories*.

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The following table summarizes data on capital and operating costs incurred, compensation crude oil received, costs yet unrecovered and remuneration fee.

(millions of US dollars)	Costs incurred ¹	Remuneration fee	Crude oil received	Crude oil to be received
Cumulative at 31 December 2019.....	9,229	548	9,242	535
Change in the 1 st half of 2020.....	298	63	234	127
Cumulative at 30 June 2020.....	9,527	611	9,476	662

¹ Including prepayments.

The West Qurna-2 project summary is presented below:

	Q2 2020		Q1 2020		Change, %	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production	31,822	4,652	36,688	5,364	(13.3)	(13.3)
Production related to cost compensation and remuneration.....	7,485	1,094	4,930	721	51.7	51.7
Shipment of compensation crude oil ¹	5,927	867	3,771	551	57.4	57.4
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation.....	9,288	129	14,087	212	(34.1)	(39.2)
Remuneration fee.....	2,288	31	2,103	32	8.8	(3.1)
	11,576	160	16,190	244	(28.5)	(34.4)
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) ¹	7,941	110	8,300	125	(4.3)	(12.0)
Extraction expenses	4,109	57	4,344	65	(5.4)	(12.3)
Depreciation, depletion and amortization	5,200	72	9,812	148	(47.0)	(51.4)
EBITDA	7,253	100	11,412	172	(36.4)	(41.9)

¹ This crude oil is sold to third party customers or delivered to our refineries. After realization of these products, respective sales revenues are recognized.

	2020		1 st half of 2019		Change, %	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production	68,510	10,016	68,459	10,009	0.1	0.1
Production related to cost compensation and remuneration.....	12,415	1,815	5,298	775	>100	>100
Shipment of compensation crude oil ¹	9,698	1,418	3,729	545	>100	>100
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation.....	23,375	341	18,206	279	28.4	22.2
Remuneration fee.....	4,391	63	3,922	60	12.0	5.0
	27,766	404	22,128	339	25.5	19.2
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) ¹	16,241	235	15,485	237	4.9	(0.8)
Extraction expenses	8,453	122	9,026	138	(6.3)	(11.6)
Depreciation, depletion and amortization	15,012	220	9,227	142	62.7	54.9
EBITDA	18,665	272	12,906	198	44.6	37.4

¹ This crude oil is sold to third party customers or delivered to our refineries. After realization of these products, respective sales revenues are recognized.

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The following table summarizes key figures on our Refining, marketing and distribution segment:

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
				(millions of rubles)		
EBITDA	78,744	40,291	95.4	119,035	173,105	(31.2)
in Russia.....	33,066	61,757	(46.5)	94,823	141,859	(33.2)
outside Russia	45,678	(21,466)	-	24,212	31,246	(22.5)
Refining expenses at the Group refineries	20,611	22,274	(7.5)	42,885	46,965	(8.7)
in Russia.....	9,570	9,544	0.3	19,114	20,191	(5.3)
outside Russia	11,041	12,730	(13.3)	23,771	26,774	(11.2)
				(rubles per tonne)		
Refining expenses at the Group refineries	1,524	1,303	16.9	1,401	1,402	(0.1)
in Russia.....	1,031	873	18.1	945	930	1.6
outside Russia	2,603	2,069	25.8	2,287	2,274	0.6
				(US dollars per tonne)		
Refining expenses at the Group refineries	21.06	19.63	7.3	20.19	21.46	(5.9)
in Russia.....	14.25	13.15	8.4	13.63	14.23	(4.2)
outside Russia	35.97	31.17	15.4	32.96	34.80	(5.3)

Our refining, marketing and distribution EBITDA was 95.4% higher than in the first quarter of 2020 primarily due to a reversal of inventory write-down, positive inventory effect at our refineries, as well as higher trading margin. However, EBITDA dynamics was adversely affected by lower benchmark refining margins, accounting specifics of our international trading operations, as well as lower sales volumes at our filling stations.

In Russia, refining, marketing and distribution EBITDA decreased almost two-fold compared to the first quarter of 2020 largely due to a decrease in refining margins and a seasonal decrease in profitability of our power generating subsidiaries. The negative impact of the above mentioned factors was partially offset by positive inventory effect at our refineries, as well as optimization of refinery utilization rates and product slate.

Outside Russia, our refining, marketing and distribution EBITDA dynamics was driven primarily by a reversal of inventory write-down due to an increase in prices for crude oil and refined products at the end of the second quarter of 2020. Our results were also supported by an increase in trading margin, positive inventory effect at our refineries and the effect of the ruble devaluation. The positive impact of the above mentioned factors was partially offset by a decrease in refining margins and accounting specifics of our international trading operations.

Compared to the first half of 2019, our refining, marketing and distribution EBITDA decreased by 31.2%. In Russia, our downstream EBITDA decreased largely due to negative inventory effect at our refineries and a decline in refining margin, that was partially offset by optimization of refinery product slate. Outside Russia, our downstream EBITDA decreased mainly due to negative inventory effect at our refineries that was largely offset by an increase in profitability of our trading operations and ruble devaluation.

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Refining and petrochemicals

The following table summarizes key figures for our refining and petrochemical volumes.

	Q2 2020	Q1 2020	Change, %	1st half of		Change, %
				2020	2019	
	(thousands of tonnes)					
Refinery throughput at the Group refineries	13,525	17,090	(20.9)	30,615	33,491	(8.6)
in Russia.....	9,283	10,937	(15.1)	20,220	21,716	(6.9)
outside Russia, including	4,242	6,153	(31.1)	10,395	11,775	(11.7)
crude oil.....	3,998	5,590	(28.5)	9,588	10,778	(11.0)
refined products.....	244	563	(56.7)	807	997	(19.1)
Refinery throughput at third party refineries	24	53	(54.7)	77	3,231	(97.6)
Total refinery throughput.....	13,549	17,143	(21.0)	30,692	36,722	(16.4)
Production of the Group refineries in Russia¹.....	8,781	10,353	(15.2)	19,134	20,579	(7.0)
diesel fuel.....	3,988	4,326	(7.8)	8,314	7,997	4.0
motor gasoline.....	1,517	1,976	(23.2)	3,493	3,653	(4.4)
fuel oil.....	547	791	(30.8)	1,338	2,506	(46.6)
jet fuel	374	629	(40.5)	1,003	1,352	(25.8)
lubricants and components.....	218	248	(12.1)	466	460	1.3
straight-run gasoline.....	656	736	(10.9)	1,392	1,507	(7.6)
vacuum gas oil	20	-	-	20	281	(92.9)
bitumen	255	229	11.4	484	430	12.6
coke.....	357	297	20.2	654	504	29.8
bunker fuel	569	492	15.7	1,061	683	55.3
gas products	69	80	(13.8)	149	160	(6.9)
petrochemicals	63	100	(37.0)	163	277	(41.2)
other products.....	148	449	(67.0)	597	769	(22.4)
Production of the Group refineries outside Russia.....	3,860	5,605	(31.1)	9,465	11,191	(15.4)
diesel fuel.....	1,940	2,649	(26.8)	4,589	5,068	(9.5)
motor gasoline.....	955	1,151	(17.0)	2,106	2,372	(11.2)
fuel oil.....	207	490	(57.8)	697	1,184	(41.1)
jet fuel	83	243	(65.8)	326	523	(37.7)
straight-run gasoline.....	278	605	(54.0)	883	1,023	(13.7)
coke.....	17	19	(10.5)	36	59	(39.0)
gas products	111	141	(21.3)	252	280	(10.0)
petrochemicals	11	12	(8.3)	23	20	15.0
other products.....	258	295	(12.5)	553	662	(16.5)
Refined products produced by the Group	12,641	15,958	(20.8)	28,599	31,770	(10.0)
Refined products produced at third party refineries.....	26	50	(48.0)	76	3,057	(97.5)
Total refined products produced.....	12,667	16,008	(20.9)	28,675	34,827	(17.7)
Reference: Net of cross-supplies of refined products between the Group refineries	296	488	(39.3)	784	698	12.3
Products produced at petrochemical plants and facilities.....	300	313	(4.2)	613	621	(1.3)
in Russia.....	219	228	(3.9)	447	450	(0.7)
outside Russia	81	85	(4.7)	166	171	(2.9)

¹ Net of cross-supplies of refined products among the Group.

In the second quarter and the first half of 2020, refinery throughput at the Group refineries was 13.5 million tonnes and 30.6 million tonnes, respectively, which is 20.9% lower quarter-on-quarter and 8.6% lower year-on-year.

In the second quarter of 2020, refinery throughput decreased by 15.1% in Russia and by 31.1% outside Russia compared to the first quarter of 2020 due to scheduled maintenance works and throughput optimization at some of the Company's refineries in the second quarter of 2020 on the back of lower demand for petroleum products and decline in refining margins due to the COVID-19 pandemic.

Compared to the first half of 2019, throughput in Russia decreased to 20.2 million tonnes, or by 6.9%, due to scheduled maintenance works and throughput optimization at the Nizhny Novgorod and Ukhta refineries in the second quarter of 2020.

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The year-on-year throughput decline by 11.7% outside Russia was due to scheduled maintenance works at refineries in Bulgaria and the Netherlands, as well as throughput optimization at our European refineries in the second quarter of 2020.

We processed our crude oil at third party refineries in Belarus and Kazakhstan.

In 2016, a Group company entered into a tolling agreement with a Canadian refinery originally valid through 2019. Subsequently, it was prolonged until 31 August 2022 with modification of certain provisions that changed its substance from a tolling agreement to a financial arrangement. Therefore, from September 2019, we ceased to recognize throughput and production costs related to this arrangement. The Group recognizes interest it earns on the financing provided and administrative fee.

Marketing and trading

In addition to our production, we purchase crude oil in Russia and on international markets. In Russia, we primarily purchase crude oil from affiliated producing companies and other producers. Then we either refine or export purchased crude oil. Crude oil purchased on international markets is used for trading activities, for supplying our international refineries or for processing at third party refineries.

In Russia, we purchase refined products on occasion, primarily to manage supply chain bottlenecks. Refined products purchases outside Russia are either traded or supplied to our international refineries.

We undertake trading operations on international markets through our 100% subsidiary LITASCO SA. We use traditional physical volumes hedging techniques to hedge our trading operations to secure trading margin.

The following table shows the volumes of crude oil purchases by the Group during the periods considered.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
	(thousands of tonnes)					
Crude oil purchases						
In Russia	92	282	(67.4)	374	356	5.1
For trading internationally	11,645	15,498	(24.9)	27,143	24,841	9.3
For refining internationally	2,416	4,184	(42.3)	6,600	11,520	(42.7)
Shipment of the West Qurna-2 compensation crude oil	867	551	57.4	1,418	545	>100
Total crude oil purchased	15,020	20,515	(26.8)	35,535	37,262	(4.6)

The table below summarizes figures for our refined products and petrochemicals marketing and trading activities.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
	(thousands of tonnes)					
Refined products purchases						
In Russia	99	290	(65.9)	389	441	(11.8)
For trading internationally	10,395	12,400	(16.2)	22,795	25,794	(11.6)
For refining internationally	266	634	(58.1)	900	1,190	(24.4)
Total refined products purchased	10,760	13,324	(19.2)	24,084	27,425	(12.2)
Petrochemical products purchases						
In Russia	25	40	(37.5)	65	19	>100
For trading internationally	42	41	2.4	83	91	(8.8)
For refining internationally	239	103	>100	342	562	(39.1)
Total petrochemical products purchased	306	184	66.3	490	672	(27.1)

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Exports of crude oil, refined and petrochemical products from Russia by our subsidiaries and export revenues (both to the Group companies and third parties) are summarized as follows:

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
	(millions of rubles)					
Exports of crude oil to Customs Union.....	5,605	-	-	5,605	31,249	(82.1)
Exports of crude oil beyond Customs Union	95,482	180,087	(47.0)	275,569	517,943	(46.8)
Total crude oil exports.....	101,087	180,087	(43.9)	281,174	549,192	(48.8)
	(thousands of tonnes)					
Exports of crude oil to Customs Union.....	451	-	-	451	1,277	(64.7)
Exports of crude oil beyond Customs Union	7,756	9,082	(14.6)	16,838	17,150	(1.8)
Total crude oil exports.....	8,207	9,082	(9.6)	17,289	18,427	(6.2)
Exports of crude oil through Transneft, excluding ESPO pipeline	5,176	5,321	(2.7)	10,497	10,396	1.0
ESPO pipeline	300	240	25.0	540	959	(43.7)
CPC pipeline.....	1,322	1,252	5.6	2,574	2,629	(2.1)
Exports of crude oil through the Group's transportation infrastructure.....	1,409	2,269	(37.9)	3,678	4,443	(17.2)
Total crude oil exports.....	8,207	9,082	(9.6)	17,289	18,427	(6.2)
Export of own crude oil to refineries.....	1,160	1,337	(13.3)	2,497	1,602	55.9

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
	(millions of rubles)					
Refined and petrochemical products exports	74,456	135,583	(45.1)	210,039	321,860	(34.7)
	(thousands of tonnes)					
Refined products exports						
diesel fuel	2,624	2,815	(6.8)	5,439	5,012	8.5
gasoline	284	368	(22.8)	652	180	>100
fuel oil	112	429	(73.9)	541	951	(43.1)
jet fuel	1	6	(83.3)	7	6	16.7
lubricants and components	138	174	(20.7)	312	305	2.3
gas refinery products	190	214	(11.2)	404	380	6.3
other products.....	1,283	1,025	25.2	2,308	2,440	(5.4)
Total refined products exports.....	4,632	5,031	(7.9)	9,663	9,274	4.2
Total petrochemicals exports	80	96	(16.7)	176	186	(5.4)

The volume of our crude oil exports from Russia decreased by 9.6% compared to the first quarter of 2020 and by 6.2% compared to the first half of 2019 mainly due to crude oil production cut resulting from the new OPEC+ agreement. In the second quarter and the first half of 2020, we exported 46.2% and 45.5% of our domestic crude oil production (44.9% in the first quarter of 2020 and 45.5% in the first half of 2019), respectively.

The volume of our refined products exports decreased by 7.9% compared to the first quarter of 2020 due to lower refinery throughput volumes, and increased by 4.2% compared to the first half of 2019 due to lower demand on the domestic market on the back of the COVID-19 pandemic.

Substantially, we use the Transneft infrastructure to export our crude oil. Nevertheless, a sizeable amount of crude oil is exported through our own infrastructure that allows us to preserve the premium quality of crude oil and thus enables to achieve higher netbacks. All the volume of crude oil exported that bypassed Transneft was routed beyond the Customs Union.

Besides our own infrastructure, we also export the light crude oil through the Caspian Pipeline Consortium and Eastern Siberia – Pacific Ocean pipelines that also allows us to preserve the premium quality of crude oil and to achieve higher netbacks compared to traditional export routes.

Priority sales channels. We develop our priority sales channels aiming at increasing our margin on sale of refined products produced by the Group. Our retail sales of motor fuels and jet fuel supplies both in and outside Russia were negatively affected by a decrease in demand due to the consequences of the COVID-19 pandemic.

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In the second quarter and the first half of 2020, we sold 1.9 million tonnes and 4.1 million tonnes of motor fuels via our domestic retail network, which was 12.2% less compared to the first quarter of 2020 and 14.3% less compared to the first half of 2019. Outside Russia, retail sales decreased by 13.4% compared to the first quarter of 2020 and by 15.4% compared to the first half of 2019.

In the second quarter and the first half of 2020, our jet fuel deliveries volume net of trading operations amounted to 0.4 million tonnes and 1.2 million tonnes compared to 0.8 million tonnes in the first quarter of 2020 and 1.6 million tonnes in the first half of 2019.

In the second quarter and the first half of 2020, our bunkering volume net of trading operations amounted to 0.7 million tonnes and 1.5 million tonnes compared to 0.8 million tonnes in the first quarter of 2020 and 2.1 million tonnes in the first half of 2019.

Power generation. We own commercial generation facilities in the Southern regions of European Russia, Romania and Italy. We also own renewable energy capacity in Russia and abroad. In the second quarter and the first half of 2020, our total output of commercial electrical energy was 3.5 billion kWh and 9.0 billion kWh (5.5 billion kWh in the first quarter of 2020 and 9.2 billion kWh in the first half of 2019), and our total output of commercial heat energy was approximately 1.4 million Gcal and 5.6 million Gcal (4.2 million Gcal in the first quarter of 2020 and 5.9 million Gcal in the first half of 2019), respectively.

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Financial results

The table below sets forth data from our consolidated statements of profit or loss and other comprehensive income for the periods indicated.

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(millions of rubles)					
Revenues						
Sales (including excise and export tariffs)	986,427	1,665,985	(40.8)	2,652,412	3,976,485	(33.3)
Costs and other deductions						
Operating expenses	(105,515)	(111,518)	(5.4)	(217,033)	(222,859)	(2.6)
Cost of purchased crude oil, gas and products	(394,970)	(971,675)	(59.4)	(1,366,645)	(2,197,908)	(37.8)
Transportation expenses	(79,559)	(80,059)	(0.6)	(159,618)	(137,254)	16.3
Selling, general and administrative expenses	(52,412)	(45,109)	16.2	(97,521)	(98,560)	(1.1)
Depreciation, depletion and amortization	(100,725)	(110,718)	(9.0)	(211,443)	(209,560)	0.9
Taxes other than income taxes	(93,341)	(193,708)	(51.8)	(287,049)	(475,513)	(39.6)
Excise and export tariffs	(113,511)	(112,679)	0.7	(226,190)	(212,656)	6.4
Exploration expenses	(2,703)	(394)	>100	(3,097)	(1,508)	>100
Profit from operating activities.....	43,691	40,125	8.9	83,816	420,667	(80.1)
Finance income	2,685	4,811	(44.2)	7,496	12,059	(37.8)
Finance costs	(11,323)	(10,249)	10.5	(21,572)	(22,710)	(5.0)
Equity share in (loss) income of affiliates	(3)	4,431	-	4,428	11,122	(60.2)
Foreign exchange gain (loss)	3,620	(14,910)	-	(11,290)	5,508	-
Other expenses	(44,463)	(46,614)	(4.6)	(91,077)	(10,332)	>100
(Loss) profit before income taxes.....	(5,793)	(22,406)	(74.1)	(28,199)	416,314	-
Current income taxes	(7,678)	(17,038)	(54.9)	(24,716)	(82,056)	(69.9)
Deferred income taxes	(4,986)	(6,340)	(21.4)	(11,326)	(2,667)	>100
Total income tax expense	(12,664)	(23,378)	(45.8)	(36,042)	(84,723)	(57.5)
(Loss) profit for the period.....	(18,457)	(45,784)	(59.7)	(64,241)	331,591	-
(Loss) profit for the period attributable to:						
PJSC LUKOIL shareholders.....	(18,720)	(45,960)	(59.3)	(64,680)	330,481	-
Non-controlling interests	263	176	49.4	439	1,110	(60.5)
Earnings per share						
(Loss) profit for the period attributable to PJSC LUKOIL shareholders per share of common stock (in Russian rubles):						
Basic	(28.69)	(71.11)	(59.7)	(99.60)	484.00	-
Diluted	(27.68)	(68.50)	(59.6)	(96.01)	470.87	-

The analysis of the main financial indicators of the financial statements is provided below.

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Sales revenues

Sales breakdown	Q2 2020	Q1 2020	Change, %	1 st half of 2020 2019		Change, %
				(millions of rubles)		
Crude oil						
Export and sales on international markets other than Customs Union	289,402	616,744	(53.1)	906,146	1,304,046	(30.5)
Export and sales to Customs Union	5,879	-	-	5,879	31,772	(81.5)
Domestic sales	3,540	7,494	(52.8)	11,034	13,598	(18.9)
	298,821	624,238	(52.1)	923,059	1,349,416	(31.6)
Cost compensation and remuneration at the West Qurna-2 project	11,576	16,190	(28.5)	27,766	22,128	25.5
	310,397	640,428	(51.5)	950,825	1,371,544	(30.7)
Refined products						
Export and sales on international markets						
Wholesales	383,779	645,799	(40.6)	1,029,578	1,752,355	(41.2)
Retail	60,567	74,488	(18.7)	135,055	170,396	(20.7)
Domestic sales						
Wholesales	68,404	96,818	(29.3)	165,222	212,194	(22.1)
Retail	93,474	106,686	(12.4)	200,160	229,814	(12.9)
	606,224	923,791	(34.4)	1,530,015	2,364,759	(35.3)
Petrochemicals						
Export and sales on international markets	13,080	15,791	(17.2)	28,871	55,909	(48.4)
Domestic sales	8,128	10,428	(22.1)	18,556	22,453	(17.4)
	21,208	26,219	(19.1)	47,427	78,362	(39.5)
Gas						
Sales on international markets	4,910	25,037	(80.4)	29,947	69,214	(56.7)
Domestic sales	7,752	8,588	(9.7)	16,340	16,124	1.3
	12,662	33,625	(62.3)	46,287	85,338	(45.8)
Sales of energy and related services						
Sales on international markets	1,984	2,748	(27.8)	4,732	7,201	(34.3)
Domestic sales	10,114	17,580	(42.5)	27,694	28,350	(2.3)
	12,098	20,328	(40.5)	32,426	35,551	(8.8)
Other						
Export and sales on international markets	14,874	12,275	21.2	27,149	20,217	34.3
Domestic sales	8,964	9,319	(3.8)	18,283	20,714	(11.7)
	23,838	21,594	10.4	45,432	40,931	11.0
Total sales	986,427	1,665,985	(40.8)	2,652,412	3,976,485	(33.3)

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Sales volumes	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
(thousands of tonnes)						
Crude oil						
Export and sales on international markets other than Customs Union.....	18,129	23,905	(24.2)	42,034	41,368	1.6
Export and sales to Customs Union	461	-	-	461	1,293	(64.3)
Domestic sales	356	420	(15.2)	776	547	41.9
	18,946	24,325	(22.1)	43,271	43,208	0.1
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project.....	1,094	721	51.7	1,815	775	>100
	20,040	25,046	(20.0)	45,086	43,983	2.5
Refined products						
Export and sales on international markets						
Wholesales.....	18,114	20,709	(12.5)	38,823	46,798	(17.0)
Retail	802	926	(13.4)	1,728	2,042	(15.4)
Domestic sales						
Wholesales.....	2,772	3,283	(15.6)	6,055	6,968	(13.1)
Retail	1,922	2,188	(12.2)	4,110	4,795	(14.3)
	23,610	27,106	(12.9)	50,716	60,603	(16.3)
Petrochemicals						
Export and sales on international markets	380	310	22.6	690	887	(22.2)
Domestic sales	206	212	(2.8)	418	369	13.3
	586	522	12.3	1,108	1,256	(11.8)
(millions of cubic meters)						
Gas						
Sales on international markets	2,025	3,424	(40.9)	5,449	7,680	(29.0)
Domestic sales	3,107	3,392	(8.4)	6,499	6,474	0.4
	5,132	6,816	(24.7)	11,948	14,154	(15.6)
Realized average sales prices						
	Q2 2020	Q1 2020	Change, %	1st half of 2020	1st half of 2019	Change, %
Average realized price on international markets						
Crude oil (beyond Customs Union) ¹ (RUB/barrel)	2,178	3,520	(38.1)	2,941	4,301	(31.6)
Crude oil (Customs Union)	1,740	-	-	1,740	3,352	(48.1)
Refined products						
Wholesales	21,187	31,184	(32.1)	26,520	37,445	(29.2)
Retail	75,520	80,441	(6.1)	78,157	83,446	(6.3)
Petrochemicals.....	34,421	50,939	(32.4)	41,842	63,032	(33.6)
Gas (excluding royalty)	2,425	7,312	(66.8)	5,496	9,012	(39.0)
Crude oil (beyond Customs Union) ¹ (\$/barrel)	30.10	53.02	(43.2)	42.39	65.82	(35.6)
Crude oil (Customs Union)	24.04	-	-	25.08	51.31	(51.1)
Refined products						
Wholesales	293	470	(37.7)	382	573	(33.3)
Retail	1,044	1,212	(13.9)	1,127	1,277	(11.8)
Petrochemicals.....	476	767	(38.0)	603	965	(37.5)
Gas (excluding royalty)	34	110	(69.6)	79	138	(42.6)
Average realized price within Russia						
Crude oil	1,357	2,434	(44.3)	1,940	3,391	(42.8)
Refined products						
Wholesales	24,677	29,491	(16.3)	27,287	30,453	(10.4)
Retail	48,634	48,760	(0.3)	48,701	47,928	1.6
Petrochemicals.....	39,456	49,189	(19.8)	44,392	60,848	(27.0)
Gas ²	2,495	2,532	(1.5)	2,514	2,491	0.9

¹ Excluding cost compensation and remuneration at the West Qurna-2 project.

² The price does not include cost of transportation by Unified Gas Supply System of Gazprom, as most of our gas production in Russia is sold ex-field.

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In the second quarter and the first half of 2020, our revenues were negatively affected by a sharp decrease in international hydrocarbon prices as a result of a drop in global demand for hydrocarbons due to the COVID-19 pandemic, as well as crude oil production cut in Russia under the new OPEC+ agreement. Among other main adverse factors were a decrease in refinery throughput volumes and refined products trading and retail sales volumes, as well as reduced gas production in Uzbekistan due to lower demand for Uzbek gas from China.

Sales of crude oil

Compared to the first quarter of 2020, our crude oil sales revenue decreased by 52.8% in Russia and by 53.1% outside Russia. This decrease was largely a result of lower crude oil prices and lower trading volumes, as well as a decrease in crude oil production.

Compared to the first half of 2019, our international crude oil sales revenue decreased by 30.5% as a result of a decrease in crude oil prices by 31.6% which was partially offset by the ruble devaluation and an increase in trading volumes. Our domestic crude oil sales revenue decreased by 18.9% also due to a decrease in crude oil prices by 42.8%, despite an increase in domestic sales volumes by 41.9%.

Sales of refined products

Sales breakdown	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
	(millions of rubles)					
Wholesales outside Russia	383,779	645,799	(40.6)	1,029,578	1,752,355	(41.2)
diesel fuel	168,470	278,118	(39.4)	446,588	837,279	(46.7)
motor gasoline	59,468	123,248	(51.7)	182,716	312,454	(41.5)
fuel oil	75,885	103,298	(26.5)	179,183	268,560	(33.3)
jet fuel	851	9,073	(90.6)	9,924	57,350	(82.7)
lubricants and components	15,890	17,587	(9.6)	33,477	34,166	(2.0)
gas products.....	14,481	23,341	(38.0)	37,822	26,576	42.3
others.....	48,734	91,134	(46.5)	139,868	215,970	(35.2)
Retail outside Russia.....	60,567	74,488	(18.7)	135,055	170,396	(20.7)
Wholesales in Russia.....	68,404	96,818	(29.3)	165,222	212,194	(22.1)
diesel fuel	27,836	27,810	0.1	55,646	55,312	0.6
motor gasoline	8,225	9,996	(17.7)	18,221	20,539	(11.3)
fuel oil	1,049	2,734	(61.6)	3,783	19,694	(80.8)
jet fuel	10,849	29,293	(63.0)	40,142	59,631	(32.7)
lubricants and components	6,113	5,843	4.6	11,956	12,636	(5.4)
gas products.....	1,783	2,301	(22.5)	4,084	5,563	(26.6)
others.....	12,549	18,841	(33.4)	31,390	38,819	(19.1)
Retail in Russia.....	93,474	106,686	(12.4)	200,160	229,814	(12.9)
Total refined products sales	606,224	923,791	(34.4)	1,530,015	2,364,759	(35.3)

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Sales volumes	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
	(thousands of tonnes)					
Wholesales outside Russia.....	18,114	20,709	(12.5)	38,823	46,798	(17.0)
diesel fuel.....	6,638	8,001	(17.0)	14,639	19,606	(25.3)
motor gasoline.....	2,535	3,459	(26.7)	5,994	7,317	(18.1)
fuel oil.....	5,229	4,376	19.5	9,605	10,078	(4.7)
jet fuel.....	33	265	(87.5)	298	1,368	(78.2)
lubricants and components.....	273	296	(7.8)	569	511	11.4
gas products.....	738	831	(11.2)	1,569	906	73.2
others.....	2,668	3,481	(23.4)	6,149	7,012	(12.3)
Retail outside Russia.....	802	926	(13.4)	1,728	2,042	(15.4)
diesel fuel.....	555	632	(12.2)	1,187	1,369	(13.3)
motor gasoline.....	217	257	(15.6)	474	584	(18.8)
gas products.....	30	37	(18.9)	67	89	(24.7)
Wholesales in Russia.....	2,772	3,283	(15.6)	6,055	6,968	(13.1)
diesel fuel.....	701	657	6.7	1,358	1,284	5.8
motor gasoline.....	228	254	(10.2)	482	555	(13.2)
fuel oil.....	171	314	(45.5)	485	1,159	(58.2)
jet fuel.....	407	747	(45.5)	1,154	1,466	(21.3)
lubricants and components.....	91	91	-	182	175	4.0
gas products.....	141	136	3.7	277	341	(18.8)
others.....	1,033	1,084	(4.7)	2,117	1,988	6.5
Retail in Russia.....	1,922	2,188	(12.2)	4,110	4,795	(14.3)
diesel fuel.....	747	858	(12.9)	1,605	1,796	(10.6)
motor gasoline.....	1,163	1,316	(11.6)	2,479	2,971	(16.6)
gas products.....	12	14	(14.3)	26	28	(7.1)
Total refined products volumes.....	23,610	27,106	(12.9)	50,716	60,603	(16.3)

The dynamics of our refined products sales revenue, compared to the first quarter of 2020 and to the first half of 2019, was significantly affected by a sharp decrease in demand as a consequence of the COVID-19 pandemic that resulted in lower sales volumes and prices.

The second quarter of 2020 vs. the first quarter of 2020

- Our revenue from the wholesales of refined products outside Russia decreased by 40.6% due to a decrease in average realized prices by 32.1% and volumes by 12.5% as a result of a decrease in volumes of trading operations and production volumes.
- International retail revenue decreased by 18.7% mainly due to a decrease in sales volumes by 13.4%.
- Revenue from the wholesales of refined products on the domestic market decreased by 29.3% mainly as a result of a decrease in sales volumes and average realized prices.
- Revenue from the retail sales of refined products on the domestic market decreased by 12.4% mainly as a result of a decrease in sales volumes.

The first half of 2020 vs. the first half of 2019

- Our revenue from the wholesales of refined products outside Russia decreased by 41.2% as a result of a decrease in average realized prices by 29.2% and sales volumes by 17.0% due to a decrease in trading operations and production volumes.
- Our international retail revenue decreased by 20.7% mainly as a result of a decrease in sales volumes and prices.
- Our revenue from the wholesales of refined products on the domestic market decreased by 22.1% as a result of decrease in sales volumes and our realized prices.
- Our revenue from refined products retail sales in Russia decreased by 12.9%, as a result of a decrease in sales volumes that was partially offset by an increase in our realized prices.

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Sales of petrochemical products

Compared to the first quarter of 2020, our revenue from sales of petrochemical products decreased by 19.1%, as a result of a decrease in realized prices both in and outside Russia.

Compared to the first half of 2019, our revenue from sales of petrochemical products decreased by 39.5%, mainly as a result of decline in trading volumes outside Russia and realized prices.

Sales of gas

Our revenue from gas sales decreased by 62.3% compared to the first quarter of 2020 and by 45.8% compared to the first half of 2019. This decrease was mostly driven by our projects in Uzbekistan and was a result of lower demand for Uzbek gas from China due to the consequences of COVID-19 pandemic.

During the first half of 2020, as a result of decline in demand for Uzbek gas from China, gas volumes were redirected to Uzbek domestic market. Moreover, our revenue for the second quarter of 2020 includes the effect of downward recalculation of our revenue for the first quarter of 2020 in the amount of 5.5 billion RUB.

Sales of energy and related services

Compared to the first quarter of 2020, our revenue from sales of energy and related services decreased by 40.5% mainly due to seasonal factor in Russia.

Compared to the first half of 2019, our revenue from sales of energy and related services decreased by 8.8% primarily due to a decrease in energy tariffs in Italy.

Other sales

Other sales include non-petroleum sales through our retail network, transportation services, rental revenue, crude oil extraction services, and other revenue of our production and marketing companies from sales of goods and services not related to our primary activities.

Compared to the first quarter of 2020 and the first half of 2019, revenue from other sales increased by 10.4% and 11.0%, respectively. This was largely a result of an increase in revenues from transportation services outside Russia due to higher tariffs and volumes.

Operating expenses

Operating expenses include the following:

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
				(millions of rubles)		
Hydrocarbon extraction expenses ¹	45,436	47,315	(4.0)	92,751	94,403	(1.7)
Extraction expenses at the West Qurna-2 field	4,109	4,344	(5.4)	8,453	9,026	(6.3)
Own refining expenses	20,611	22,274	(7.5)	42,885	46,965	(8.7)
Refining expenses at third-party refineries	87	186	(53.2)	273	4,168	(93.5)
Expenses for crude oil transportation to refineries.....	13,486	15,573	(13.4)	29,059	26,046	11.6
Power generation and distribution expenses	6,785	7,550	(10.1)	14,335	14,605	(1.8)
Petrochemical expenses	3,051	2,923	4.4	5,974	6,180	(3.3)
Other operating expenses	11,950	11,353	5.3	23,303	21,466	8.6
Total operating expenses	105,515	111,518	(5.4)	217,033	222,859	(2.6)

¹ Excluding extraction expenses at the West Qurna-2 field.

The method of allocation of operating expenses above differs from the approach used in preparing data for Note 29 "Segment information" to our condensed interim consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs and do not include adjustments related to elimination of intra-group service margin. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

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Our extraction expenses include expenditures related to repairs of extraction equipment, labor costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, cost of extraction of natural gas liquids, property insurance of extraction equipment and other similar costs.

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(millions of rubles)					
Hydrocarbon extraction expenses	45,436	47,315	(4.0)	92,751	94,403	(1.7)
in Russia.....	39,252	41,992	(6.5)	81,244	84,335	(3.7)
outside Russia ¹	6,184	5,323	16.2	11,507	10,068	14.3
	(rubles per BOE)					
Hydrocarbon extraction expenses	259	229	12.9	243	228	6.6
in Russia.....	247	233	5.7	239	236	1.5
outside Russia ¹	381	203	88.1	271	178	52.2

¹ Excluding extraction expenses at the West Qurna-2 field.

Compared to the previous quarter, our extraction expenses in Russia decreased by 6.5% mainly due to lower production volume, as well as a decline in energy costs, overhauls costs and expenses on artificial stimulation of reservoirs as part of cost reduction programme. At the same time, as our hydrocarbon expenses include certain share of fixed cost, per BOE hydrocarbon extraction expenses in Russia increased by 5.7%. Our extraction expenses outside Russia increased by 16.2% due to maintenance works in the Republic of Congo and Azerbaijan, as well as other production expenses in Kazakhstan. Our per BOE hydrocarbon extraction expenses outside Russia increased by 88.1% mainly as a result of a reduction of gas production in Uzbekistan and fixed costs factor, as well as the ruble devaluation.

Compared to the first half of 2019, our extraction expenses in Russia decreased by 3.7% mainly due to lower production volumes, as well as lower overhauls costs and a decrease in expenses on artificial stimulation of reservoir as part of cost reduction programme. Our per BOE hydrocarbon extraction expenses increased by 1.5%. Outside Russia, our hydrocarbon extraction expenses increased by 14.3% due to effect of acquisition of share in project in the Republic of Congo, as well as an increase in other production expenses in Kazakhstan and Azerbaijan. Our per BOE hydrocarbon extraction expenses outside Russia increased by 52.2% mainly as a result of a reduction of gas production in Uzbekistan and fixed costs factor, as well as the ruble devaluation.

Own refining expenses

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(millions of rubles)					
Refining expenses at the Group refineries	20,611	22,274	(7.5)	42,885	46,965	(8.7)
in Russia.....	9,570	9,544	0.3	19,114	20,191	(5.3)
outside Russia	11,041	12,730	(13.3)	23,771	26,774	(11.2)
	(rubles per tonne)					
Refining expenses at the Group refineries	1,524	1,303	16.9	1,401	1,402	(0.1)
in Russia.....	1,031	873	18.1	945	930	1.6
outside Russia	2,603	2,069	25.8	2,287	2,274	0.6

Compared to the first quarter of 2020, refining expenses at our domestic refineries didn't change significantly. An increase in maintenance costs at the Nizhny Novgorod and Ukhta refineries was offset by a seasonal decrease in energy and fuel costs and a decrease in throughput. At the same time, consumption of purchased additives increased as a result of lower production of own additives due to maintenance works at our refineries. Outside Russia, our expenses decreased by 13.3% largely due to lower throughput and lower energy and fuel costs, despite the ruble devaluation against euro.

Compared to the first half of 2019, expenses at our domestic refineries decreased by 5.3%. Outside Russia, our expenses decreased by 11.2% due to lower throughput volumes, as well as a decline in fuel and energy costs, despite the ruble devaluation against euro.

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Along with our own production of refined products, we process crude oil at third-party refineries.

At the end of 2016, as part of our trading business development, a Group company entered into a 3-year tolling agreement with a Canadian refinery. Related refining expenses represented variable toll that was mostly the difference between the price of feedstock supplied, including various related costs, and the selling price of the refined products taken. When the refined products were sold, this toll was naturally offset by the respective refined products sales revenue. The agreed compensation was received by the Group company for execution of this agreement.

In August 2019, the agreement was extended till 2022 with modification of certain provisions. As a result, the agreement is now treated as a financing arrangement with recognizing in the profit or loss statement only interest earned on the financing provided and administrative fee. Thus, we do not recognize the tolling fee starting from September 2019.

Expenses for crude oil transportation to refineries

Expenses for crude oil and refined products transportation to refineries include pipeline, railway, freight and other costs related to delivery of crude oil and refined products to refineries for further processing.

Our expenses for crude oil transportation to refineries decreased by 13.4% compared to the first quarter of 2020, and increased by 11.6% compared to the first half of 2019.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	2019	Change, %
	(millions of rubles)					
Own feedstock transportation to our domestic refineries	9,837	10,814	(9.0)	20,651	20,213	2.2
Own feedstock transportation by russian subsidiaries to our international refineries	1,842	2,718	(32.2)	4,560	2,778	64.1
Other feedstock transportation costs outside Russia ...	1,807	2,041	(11.5)	3,848	3,055	26.0
Crude oil transportation to refineries	13,486	15,573	(13.4)	29,059	26,046	11.6

Power generation and distribution expenses

Power generation and distribution expenses decreased by 10.1% compared to the first quarter of 2020 due to seasonality, and were 1.8% lower compared to the first half of 2019.

Petrochemical expenses

Our petrochemical expenses increased by 4.4% quarter-on-quarter and decreased by 3.3% year-on-year driven mainly by dynamics of costs and consumption volumes of raw materials.

Cost of purchased crude oil, gas and products

Cost of purchased crude oil, gas and products includes cost of crude oil and refined products purchased for trading or refining, gas and fuel oil to supply our power generation entities and the result of hedging of crude oil and refined products sales.

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(millions of rubles)					
Cost of purchased crude oil in Russia.....	1,924	4,873	(60.5)	6,797	8,985	(24.4)
Cost of purchased crude oil outside Russia	216,482	518,915	(58.3)	735,397	1,134,822	(35.2)
Compensation crude oil related to West Qurna-2 project.....	7,941	8,300	(4.3)	16,241	15,485	4.9
Cost of purchased crude oil.....	226,347	532,088	(57.5)	758,435	1,159,292	(34.6)
Cost of purchased refined products in Russia.....	4,704	10,920	(56.9)	15,624	17,945	(12.9)
Cost of purchased refined products outside Russia.....	231,658	380,305	(39.1)	611,963	993,788	(38.4)
Cost of purchased refined products	236,362	391,225	(39.6)	627,587	1,011,733	(38.0)
Other purchases	11,498	16,494	(30.3)	27,992	50,680	(44.8)
Net loss/(gain) from hedging of trading operations	15,493	(129,641)	-	(114,148)	44,285	-
Change in crude oil and petroleum products inventory.....	(94,730)	161,509	-	66,779	(68,082)	-
Total cost of purchased crude oil, gas and products.....	394,970	971,675	(59.4)	1,366,645	2,197,908	(37.8)

In the second quarter and the first half of 2020, cost of purchased crude oil, gas and products decreased by 59.4% quarter-on-quarter and by 37.8% year-on-year, which was mostly driven by international crude oil and refined products prices dynamics.

The quarterly dynamics of Cost of purchased crude oil, gas and products in 2020 was impacted by inventory write-downs to its net realizable value. The substantial price decline at the end of March led to inventory write-down of 92 billion RUB in the first quarter of 2020, approximately 58 billion RUB of which related to our trading operations and was offset by the hedging gain. In the first half of 2020, as a result of the price rebound in the end of June, inventory write-downs amounted to 5 billion RUB, 1 billion RUB of which were trading-related.

Transportation expenses

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(millions of rubles)					
Crude oil transportation expenses.....	33,052	29,273	12.9	62,325	49,640	25.6
in Russia.....	11,974	11,811	1.4	23,785	24,763	(3.9)
outside Russia	21,078	17,462	20.7	38,540	24,877	54.9
Refined products transportation expenses.....	44,675	46,814	(4.6)	91,489	79,833	14.6
in Russia.....	23,407	22,529	3.9	45,936	44,395	3.5
outside Russia	21,268	24,285	(12.4)	45,553	35,438	28.5
Other transportation expenses.....	1,832	3,972	(53.9)	5,804	7,781	(25.4)
in Russia.....	608	515	18.1	1,123	1,008	11.4
outside Russia	1,224	3,457	(64.6)	4,681	6,773	(30.9)
Total transportation expenses.....	79,559	80,059	(0.6)	159,618	137,254	16.3

Compared to the first quarter of 2020 and the first half of 2019, our expenses for transportation of crude oil increased by 12.9% and 25.6%, respectively. Outside Russia, an increase was mainly due to higher freight and storage expenses and the ruble devaluation effect. In Russia, our expenses didn't change significantly compared to the first quarter of 2020 and decreased compared to the first half of 2019 mainly as a result of lower crude oil export supplies, which was partially offset by an inventory effect and tariffs indexation.

Our expenses for transportation of refined products decreased by 4.6% compared to the first quarter of 2020 and increased by 14.6% compared to the first half of 2019. Outside Russia, there was a decrease in supply volumes against both comparative periods, however, compared to the first half of 2019, the decrease was fully offset by an increase in freight expenses. Compared to the first quarter of 2020, our expenses in Russia increased due to an inventory effect,

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which was partially offset by a decline in refined products supplies. Compared to the first half of 2019, our expenses in Russia increased mainly due to tariffs indexation and higher export volumes, which was partially offset by a decline in refined products domestic sales.

A decrease in other transportation expenses outside Russia compared to both the first quarter of 2020 and the first half of 2019 resulted from a decline of gas supplies from our projects in Uzbekistan to China.

Selling, general and administrative expenses

Selling, general and administrative expenses include payroll costs (excluding production staff costs of extraction entities, refineries and power generation entities), insurance costs (except for property insurance related to extraction, refinery and power generation equipment), costs of maintenance of social infrastructure, movement in allowance for expected credit losses and other expenses. Our selling, general and administrative expenses are roughly equally split between domestic and international operations.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
	(millions of rubles)					
Payroll costs included in selling, general and administrative expenses	23,486	15,004	56.5	38,490	34,514	11.5
Other selling, general and administrative expenses	20,783	21,258	(2.2)	42,041	41,946	0.2
Share-based compensation.....	7,842	7,842	-	15,684	15,684	-
Expenses on allowance for expected credit losses	301	1,005	(70.0)	1,306	6,416	(79.6)
Total selling, general and administrative expenses	52,412	45,109	16.2	97,521	98,560	(1.1)

Our selling, general and administrative expenses increased by 16.2% compared to the first quarter of 2020 and decreased by 1.1% compared to the first half of 2019.

An increase in selling, general and administrative expenses compared to the first quarter of 2020 was mainly due to higher payroll costs as a result of salary indexation and bonus accruals in our international trading subsidiaries, as well as the ruble devaluation.

Dynamics of our selling, general and administrative expenses compared to the first half of 2019 was largely defined by a decrease in expenses on allowance for expected credit losses on the back of an accrual of 4.7 billion RUB related to our projects in Uzbekistan in the first quarter of 2019. This decrease was partially offset by an increase in payroll costs due to indexation and the ruble devaluation.

Depreciation, depletion and amortization

Compared to the first quarter of 2020, our depreciation, depletion and amortization expenses decreased by 9.0% mainly as a result of lower production volumes, as well as lower amount of cost compensation related to our West Qurna-2 project in Iraq.

Compared to the first half of 2019, our depreciation, depletion and amortization expenses didn't change significantly.

Equity share in (loss) income of affiliates

The Group has investments in equity method affiliates and corporate joint ventures. These companies are primarily engaged in crude oil exploration, production, marketing and distribution operations in the Russian Federation, crude oil production and marketing in Kazakhstan. Currently, our largest affiliates are Tengizchevroil, an exploration and production company, operating in Kazakhstan, Bashneft-Polus, an exploration and production company that develops the Trebs and Titov oilfields in Timan-Pechora, Russia, South Caucasus Pipeline Company and Caspian Pipeline Consortium, midstream companies in Azerbaijan and Kazakhstan, respectively.

In the second quarter of 2020, our share in loss of affiliates amounted to 3 million RUB compared to income of 4.4 billion RUB in the first quarter of 2020. In the first half of 2020, our share in income of affiliates decreased by 60.2%, compared to the first half of 2019. The dynamics was mainly due to decline in hydrocarbon prices.

Taxes other than income taxes

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
(millions of rubles)						
In Russia						
Mineral extraction taxes	76,282	174,539	(56.3)	250,821	434,648	(42.3)
Tax on additional income	423	2,211	(80.9)	2,634	9,461	(72.2)
Social security taxes and contributions	7,325	7,569	(3.2)	14,894	14,347	3.8
Property tax	6,093	6,408	(4.9)	12,501	11,068	12.9
Other taxes	469	481	(2.5)	950	1,118	(15.0)
Total in Russia	90,592	191,208	(52.6)	281,800	470,642	(40.1)
International						
Mineral extraction taxes	6	6	-	12	-	-
Social security taxes and contributions	1,653	1,450	14.0	3,103	2,995	3.6
Property tax	234	205	14.1	439	447	(1.8)
Other taxes	856	839	2.0	1,695	1,429	18.6
Total internationally	2,749	2,500	10.0	5,249	4,871	7.8
Total taxes other than income taxes	93,341	193,708	(51.8)	287,049	475,513	(39.6)

Our taxes other than income taxes decreased by 51.8% compared to the first quarter of 2020 and by 39.6% compared to the first half of 2019, mainly as a result of a decrease in mineral extraction tax expense on the back of a decrease in the tax rate by 53.9% and 43.1%, respectively, due to lower crude oil prices and lower crude oil extraction volumes. This was partially compensated by inventory effect. TAI expenses decreased due to a decline of crude oil prices, while expenses, except export duties, were at the same level.

The following table summarizes data on application of reduced and zero mineral extraction tax rates for crude oil produced in Russia (excluding special tax regimes).

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
(millions of rubles)						
Decrease in extraction taxes from application of reduced rates for crude oil production	10,338	24,363	(57.6)	34,701	64,360	(46.1)
(thousands of tonnes)						
Volume of crude oil production subject to:						
reduced rates (ultra-high viscosity)	603	601	0.3	1,204	1,023	17.7
reduced rates (tax holidays for specific regions and high viscosity oil)	1,016	1,052	(3.4)	2,068	2,108	(1.9)
reduced rates (low permeability deposits)	401	384	4.4	785	479	63.9
reduced rates (Tyumen deposits)	183	211	(13.3)	394	319	23.5
reduced rates (depleted fields)	4,783	5,364	(10.8)	10,147	9,561	6.1
reduced rates (other)	449	690	(34.9)	1,139	1,207	(5.6)
Total volume of production subject to reduced rates	7,435	8,302	(10.4)	15,737	14,697	7.1

The Group also applies special tax regime for offshore crude oil production at certain fields and deposits. In the second quarter and the first half of 2020, volumes of production subject to such regimes amounted to 1,610 thousand tonnes and 3,197 thousand tonnes, respectively (compared to 1,587 thousand tonnes in the first quarter of 2020 and 3,225 thousand tonnes in the first half of 2019).

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The table below summarizes our production from license areas subject to TAI in the respective periods.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
(millions of rubles)						
Mineral extraction tax for crude oil and gas condensate on license areas under TAI	3,484	4,470	(22.1)	7,954	13,279	(40.1)
(thousands of tonnes)						
Group 1	514	536	(4.1)	1,050	1,003	4.7
Group 3	767	768	(0.1)	1,535	1,411	8.8
Group 4	24	23	4.3	47	18	>100
Total volume of crude oil and gas condensate production at license areas subject to TAI.....	1,305	1,327	(1.7)	2,632	2,432	8.2

Excise and export tariffs

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
(millions of rubles)						
In Russia						
Excise tax on refined products	29,613	32,084	(7.7)	61,697	66,027	(6.6)
Excise tax on oil feedstock (excluding damper).....	(6,364)	(11,221)	(43.3)	(17,585)	(15,899)	10.6
Damper	30,421	12,524	>100	42,945	(26,951)	-
Crude oil export tariffs	14,677	32,151	(54.3)	46,828	75,512	(38.0)
Refined products export tariffs.....	4,772	9,187	(48.1)	13,959	23,559	(40.7)
Total in Russia	73,119	74,725	(2.1)	147,844	122,248	20.9
International						
Excise tax and sales taxes on refined products.....	40,368	37,934	6.4	78,302	90,573	(13.5)
Crude oil export tariffs	6	13	(53.8)	19	29	(34.5)
Refined products export and import tariffs, net.....	18	7	>100	25	(194)	-
Total internationally.....	40,392	37,954	6.4	78,346	90,408	(13.3)
Total excise and export tariffs	113,511	112,679	0.7	226,190	212,656	6.4

Compared to the first quarter of 2020, crude oil and refined products export tariffs declined mainly due to a decrease in export duty rates as a result of a decline in crude oil price, export duty lag effect and also due to a decrease in crude oil export volumes beyond Customs Union. These effects were partially compensated by inventory effect and the ruble devaluation.

In the second quarter of 2020, excise tax on refined products in Russia decreased compared to the previous quarter mainly due to a decrease in sales volumes subject to excise taxes as a result of lower demand, which was partially offset by an increase of excise tax rates for middle distillates in Russia. Internationally, excise tax on refined products increased mainly as a result of the ruble devaluation.

Compared to the first half of 2019, crude oil and refined products export tariffs declined due to a decrease in export duty rates as a result of ongoing tax manoeuvre and a decline in crude oil prices, which was partially offset by the export duty lag effect, inventory effect and the ruble devaluation. Despite an increase in refined products export volumes, the export tariffs expenses declined due to a decrease in the share of heavy refined products in total export volume.

Compared to the first half of 2019, excise tax in Russia and internationally decreased due to lower demand. Internationally, this effect was partially compensated by the ruble devaluation.

Proceeds from excise tax on feedstock, excluding damper, decreased by 43.3% compared to the first quarter of 2020 as a result of excise tax rate decrease due to a decline in crude oil prices and also as a result of lower volume of refined products output. Compared to the first half of 2019, proceeds from excise tax on feedstock increased by 10.6% due to ongoing tax manoeuvre and as a result of improvements in refined products slate and the ruble devaluation, which was almost entirely offset by a decline in crude oil prices. In the first half of 2020, the damper became negative as a result of a decrease in export netbacks for gasoline and diesel fuel below respective fixed benchmarks and was paid to the budget. In the second quarter of 2020, damper expenses increased as a result of lower gasoline and diesel fuel export prices, which was partially offset by a decline in sales volumes in Russia due to a lower demand for motor fuels.

Negative values of international refined products export and import tariffs in 2019 are a result of the compensation of import tariffs in the USA.

Exploration expenses

In the second quarter of 2020, we charged to expense the costs of dry exploratory wells in Romania, Norway and Timan-Pechora region of Russia.

Foreign exchange (loss) gain

Foreign exchange gains or losses are mostly related to revaluation of US dollar and euro net monetary position of the Group entities that largely consists of accounts receivables and loans, mostly intra-group, given or received in currencies other than the entities' functional currencies.

In the second quarter of 2020, foreign exchange gain amounted to 4 billion RUB and in the first half of 2020 foreign exchange loss amounted to 11 billion RUB, compared to a foreign exchange loss of 15 billion RUB in the first quarter of 2020 and a gain of 6 billion RUB in the first half of 2019.

Other (expenses) income

Other (expenses) income include the financial effects of disposals of assets, impairment losses, revisions of estimates and other non-operating gains and losses.

In the second quarter of 2020, the Group recognized an impairment loss for its international exploration and production assets in the amount of 39 billion RUB, 36 billion RUB of which related to the projects in Uzbekistan, and a reversal of a provision related to our project in Egypt in the amount of 2 billion RUB.

In the first quarter of 2020, the Group recognized an impairment loss for its exploration and production assets in Russia and abroad in the amount of 8 billion RUB, as well as fixed assets and other non-current assets for its refining, marketing and distribution assets outside Russia in the amount of 36 billion RUB.

Income taxes

The maximum statutory income tax rate in Russia is 20%. Nevertheless, the actual effective income tax rate may be higher due to non-deductible expenses or lower due to certain non-taxable gains and application of reduced regional income tax rates in Russia.

In the second quarter and the first half of 2020, we incurred losses before income tax in the amounts of 6 billion RUB and 28 billion RUB, respectively. At the same time, our total income tax expense decreased by 11 billion RUB, or by 45.8%, compared to the first quarter of 2020, and by 49 billion RUB, or by 57.5%, compared to the first half of 2019.

Recognition of income tax expense in the first half of 2020 despite incurred loss before income taxes resulted from write-offs of deferred tax assets related to tax loss carry forwards and non-recognition of deferred tax assets related to impairment losses in certain international downstream and upstream subsidiaries as it is not probable that taxable profit will be available against which these temporary differences can be utilized, and changes in tax rates of certain regional income tax incentives.

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Non-GAAP items reconciliation

EBITDA reconciliation

EBITDA is not defined under IFRS. We define EBITDA as profit from operating activities before depreciation, depletion and amortization. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and to raise and service debt. EBITDA should not be considered in isolation as an alternative to profit or any other measure of performance under IFRS.

	Q2 2020	Q1 2020	1 st half of 2020	1 st half of 2019
	(millions of rubles)			
(Loss) profit for the period attributable to PJSC LUKOIL shareholders	(18,720)	(45,960)	(64,680)	330,481
Add back				
Profit for the period attributable to non-controlling interests	263	176	439	1,110
Income tax expense	12,664	23,378	36,042	84,723
Financial income	(2,685)	(4,811)	(7,496)	(12,059)
Financial costs	11,323	10,249	21,572	22,710
Foreign exchange (gain) loss	(3,620)	14,910	11,290	(5,508)
Equity share in loss (income) of affiliates	3	(4,431)	(4,428)	(11,122)
Other expenses	44,463	46,614	91,077	10,332
Depreciation, depletion and amortization	100,725	110,718	211,443	209,560
EBITDA	144,416	150,843	295,259	630,227

EBITDA by operating segments

Exploration and production segment

Sales (including excise and export tariffs)	252,158	437,851	690,009	1,214,251
Operating expenses	(64,174)	(70,069)	(134,243)	(134,386)
Cost of purchased crude oil, gas and products	(939)	(19,480)	(20,419)	(15,742)
Transportation expenses	(13,931)	(16,165)	(30,096)	(33,818)
Selling, general and administrative expenses	(10,378)	(12,986)	(23,364)	(26,076)
Taxes other than income taxes	(76,616)	(179,099)	(255,715)	(463,062)
Excise and export tariffs	(11,071)	(30,482)	(41,553)	(69,453)
Exploration expenses	(2,703)	(381)	(3,084)	(1,508)
EBITDA of Exploration and production segment	72,346	109,189	181,535	470,206

Refining, marketing and distribution segment

Sales (including excise and export tariffs)	971,426	1,628,374	2,599,800	3,870,250
Operating expenses	(40,505)	(48,977)	(89,482)	(111,784)
Cost of purchased crude oil, gas and products	(637,111)	(1,352,377)	(1,989,488)	(3,263,253)
Transportation expenses	(79,335)	(73,318)	(152,653)	(111,824)
Selling, general and administrative expenses	(33,248)	(27,176)	(60,424)	(59,928)
Taxes other than income taxes	(6,511)	(6,351)	(12,862)	(12,474)
Excise and export tariffs	(95,972)	(79,884)	(175,856)	(137,882)
EBITDA of Refining, marketing and distribution segment	78,744	40,291	119,035	173,105
EBITDA of Corporate and other segment	(5,441)	(10,689)	(16,130)	(15,739)
Elimination	(1,233)	12,052	10,819	2,655
EBITDA	144,416	150,843	295,259	630,227

Free cash flow reconciliation

	Q2 2020	Q1 2020	1 st half of 2020	1 st half of 2019
	(millions of rubles)			
Net cash provided by operating activities	142,752	185,730	328,482	513,242
Capital expenditures	(117,245)	(130,211)	(247,456)	(204,976)
Free cash flow	25,507	55,519	81,026	308,266

Liquidity and capital resources

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(millions of rubles)					
Net cash provided by operating activities	142,752	185,730	(23.1)	328,482	513,242	(36.0)
including (increase) decrease in working capital	(12,889)	45,531	-	32,642	(64,537)	-
Net cash used in investing activities	(114,324)	(129,718)	(11.9)	(244,042)	(209,163)	16.7
Net cash provided by (used in) financing activities	137,621	(151,630)	-	(14,009)	(261,875)	(94.7)

Changes in operating assets and liabilities:

	Q2 2020	Q1 2020	Change, %	1 st half of		Change, %
				2020	2019	
	(millions of rubles)					
Decrease (increase) in accounts receivable	80,146	71,465	12.1	151,611	(103,571)	-
(Increase) decrease in inventory	(82,906)	164,663	-	81,757	(62,541)	-
(Decrease) increase in accounts payable	(27,217)	(164,651)	(83.5)	(191,868)	71,688	-
Increase (decrease) in net taxes other than on income payable	6,397	(13,347)	-	(6,950)	26,815	-
Change in other current assets and liabilities	10,691	(12,599)	-	(1,908)	3,072	-
Total (increase) decrease in working capital	(12,889)	45,531	-	32,642	(64,537)	-

Operating activities

Our primary source of cash flow is funds generated from our operations. Our cash generated from operations decreased by 23.1% compared to the first quarter of 2020 and by 36.0% compared to the first half of 2019 as a result of lower profitability of our core operations. Moreover, our operating cash flow was impacted by the working capital changes, negatively in the second quarter and positively in the first half of 2020.

Investing activities

Our cash used in investing activities decreased by 11.9% compared to the previous quarter, and increased by 16.7% compared to the first half of 2019, that largely resulted from the dynamics of capital expenditures.

Our capital expenditures decreased by 10.0% compared to the first quarter of 2020, and increased by 20.7% compared to the first half of 2019.

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	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
(millions of rubles)						
Capital expenditures						
Exploration and production						
West Siberia	40,808	45,824	(10.9)	86,632	67,476	28.4
Timan-Pechora	24,018	19,002	26.4	43,020	35,641	20.7
Ural region	9,661	11,418	(15.4)	21,079	16,903	24.7
Volga region.....	8,941	10,175	(12.1)	19,116	16,489	15.9
Other in Russia.....	1,317	2,604	(49.4)	3,921	4,711	(16.8)
Total in Russia.....	84,745	89,023	(4.8)	173,768	141,220	23.0
Iraq	5,309	9,885	(46.3)	15,194	10,579	43.6
Other outside Russia.....	7,311	10,673	(31.5)	17,984	19,793	(9.1)
Total outside Russia.....	12,620	20,558	(38.6)	33,178	30,372	9.2
Total exploration and production.....	97,365	109,581	(11.1)	206,946	171,592	20.6
Refining, marketing and distribution						
Russia.....	13,800	16,319	(15.4)	30,119	22,228	35.5
refining.....	11,212	11,639	(3.7)	22,851	14,420	58.5
retail.....	772	1,311	(41.1)	2,083	1,954	6.6
other.....	1,816	3,369	(46.1)	5,185	5,854	(11.4)
International	5,647	3,731	51.4	9,378	9,493	(1.2)
refining.....	4,880	2,752	77.3	7,632	7,170	6.4
retail.....	611	957	(36.2)	1,568	1,279	22.6
other.....	156	22	>100	178	1,044	(83.0)
Total refining, marketing and distribution.....	19,447	20,050	(3.0)	39,497	31,721	24.5
Corporate and other	433	580	(25.3)	1,013	1,663	(39.1)
Total capital expenditures.....	117,245	130,211	(10.0)	247,456	204,976	20.7

Compared to the first quarter of 2020, a decrease in our upstream capital expenditures in Russia mainly related to West Siberia and was a result of cost optimization measures. At the same time, our upstream capital expenditures in Timan-Pechora increased that was mainly due to an increase in production drilling footage.

Capital expenditures in Volga region decreased compared to the first quarter of 2020 mainly due to payments related to previously incurred and accrued capital expenditures. At the same time, we increased investment at the V.Grayfer (Rakushechnoye) field.

Compared to the first half of 2019, an increase in our upstream capital expenditures in Russia was mainly in West Siberia and was a result of an increase in production drilling footage.

Compared to the first half of 2019, our capital expenditures in domestic refining segment increased mainly due to construction and payments schedule of a construction of delayed coker complex at our Nizhny Novgorod refinery.

The table below presents exploration and production capital expenditures at our growth projects.

	Q2 2020	Q1 2020	Change, %	1 st half of 2020	1 st half of 2019	Change, %
(millions of rubles)						
West Siberia (Yamal)	4,634	6,627	(30.1)	11,261	11,736	(4.0)
Caspian region (Projects in Russia)	7,937	8,431	(5.9)	16,368	13,905	17.7
Timan-Pechora (Yaregskoye field).....	3,133	2,688	16.6	5,821	4,147	40.4
Iraq (West Qurna-2 project).....	4,776	9,268	(48.5)	14,044	9,177	53.0
Iraq (Block-10)	533	617	(13.6)	1,150	1,402	(18.0)
Uzbekistan	1,306	1,439	(9.2)	2,745	7,314	(62.5)
Total.....	22,319	29,070	(23.2)	51,389	47,681	7.8

Financing activities

In the second quarter of 2020, net movements of short-term and long-term debt generated an inflow of 153 billion RUB, compared to an outflow of 11 billion RUB in the first quarter of 2020. In the first half of 2020, net movements of short-term and long-term debt generated an inflow of 142 billion RUB, compared to an outflow of 35 billion RUB in the first half of 2019.

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On 6 May 2020, a Group company raised new debt via issuance of non-convertible bonds totaling \$1.5 billion (109.1 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 3.875% per annum. All bonds were placed at face value and have a half year coupon period. LUKOIL intends to use the net proceeds of the issuance for general corporate purposes. The bonds have been assigned a rating of BBB+ by Fitch and BBB by Standard & Poor's.

In August 2018, we announced the start of an open market buyback programme which was completed on 20 August 2019. In the first half of 2019, a Group company spent 133,605 million RUB in relation to this programme. From the start of the programme and also taking into account tender offers that took place in July-August 2019 and December 2019 – January 2020, 57.1 million ordinary shares and depositary receipts of the Company were purchased in aggregate. All of the purchased shares were cancelled.

Other information

Sectoral sanctions against the Russian companies

In July–September 2014, the United States (“US”), the European Union (“EU”) and several other countries imposed a set of sanctions on Russia, including sectoral sanctions which affect several Russian oil and gas companies. The US Department of the Treasury has placed the Company onto the Sectoral Sanctions Identifications List subject to Directive 4 of the Office of foreign assets control (OFAC). Directive 4 prohibits US companies and individuals from providing, exporting, or re-exporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area spreading from the Russian territory and claimed by the Russian Federation.

From January 2018 (based on acts adopted in August–October 2017), the US expanded abovementioned sanctions to include certain categories of international oil projects initiated on or after 29 January 2018 in any part of the world, in which companies placed on the Sectoral Sanctions Identifications List subject to Directive 4 (including the Company) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

Management believes that current sanctions do not have a material adverse effect on the current or planned Group's oil projects. At the same time, the Company continues to monitor and evaluate potential risks for its operations in connection with sanctions.

Operations in Iraq

The Group is exposed to political, economic and legal risks due to its operations in Iraq. Management monitors these risks and believes that there is no adverse effect on the Group's financial position that can be reasonably estimated at present.