



**PJSC LUKOIL**

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

**for the three-month periods ended  
31 December and 30 September 2020  
and for the years  
2020 and 2019**

## **PJSC LUKOIL**

### **Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 December and 30 September 2020 and for the years 2020 and 2019**

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The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 December 2020 and results of its operations for the three-month periods ended 31 December and 30 September 2020 and for the years 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") consolidated financial statements, including notes and supplementary information on oil and gas exploration and production activities.

References to "LUKOIL," "the Company," "the Group," "we" or "us" are references to PJSC LUKOIL and its subsidiaries and associates. 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. Please see "Forward-looking statements" on page 44 for a discussion of some factors that could cause actual results to differ materially.*

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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 15.4 billion BOE at 1 January 2021 and comprised of 11.7 billion barrels of crude oil and 22.2 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 2020 amounted to 2.1 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, retail sales of 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 2020 amounted to 1.2 million barrels per day, and we produced 1.2 million tonnes of petrochemicals, including olefins, polyolefins and products of organic synthesis.

We market our own and purchased 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 2020 amounted to 12.7 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 2020, our total output of commercial electrical energy was 17.1 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 exceeded \$46 per barrel in August 2020. Acceleration of COVID-19 spread in October 2020 resulted in a renewal of lockdown measures in different countries and a decline in the price for Brent to \$36 per barrel. Progress with testing of vaccines against COVID-19 pushed the price for Brent up to \$52 per barrel by the end of December 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.

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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. At the same time, since September we have been recovering our gas production in Uzbekistan on the back of growing demand for gas from China, and as of December 2020 production was back to the project levels.

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. By the end of 2020, production stepped up sequentially by approximately 100 thousand barrels per day as compared to the May level. Due to the agreement crude oil production was also cut at some of our international projects. For example, production at the West Qurna-2 project in Iraq was 90 thousand barrels per day below its capacity as at the end of 2020.

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 starting from 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 2020 were approximately 25% lower at our European refineries and approximately 9% lower at our Russian refineries as compared to 2019.

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 the second half of 2020, reached approximately 94% of the level of the second half of 2019.

The impact of the pandemic on the Group's financial performance in 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 (excluding lease obligations) of only 122 billion RUB at the end 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 programme.

## Key financial and operational results

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
(millions of rubles)						
Sales .....	1,530,339	1,456,650	5.1	5,639,401	7,841,246	(28.1)
EBITDA <sup>1</sup> , including .....	189,612	202,223	(6.2)	687,094	1,236,192	(44.4)
Exploration and production segment.....	166,567	151,979	9.6	500,081	893,950	(44.1)
Refining, marketing and distribution segment .....	46,649	77,638	(39.9)	243,322	371,642	(34.5)
EBITDA <sup>1</sup> net of West Qurna-2 project.....	182,496	196,008	(6.9)	655,098	1,214,502	(46.1)
Profit for the period attributable to LUKOIL shareholders.....	29,435	50,420	(41.6)	15,175	640,178	(97.6)
Capital expenditures .....	135,161	112,826	19.8	495,443	449,975	10.1
Free cash flow <sup>2</sup> .....	85,482	114,623	(25.4)	281,131	701,869	(59.9)
Free cash flow before changes in working capital .....	61,252	88,318	(30.6)	197,954	708,650	(72.1)
(thousand BOE per day)						
Production of hydrocarbons, including our share in associates and joint ventures.....	2,099	1,927	8.9	2,117	2,380	(11.1)
crude oil and natural gas liquids.....	1,573	1,545	1.8	1,651	1,815	(9.0)
gas .....	526	382	37.7	466	565	(17.5)
Refinery throughput at the Group refineries .....	1,047	1,183	(11.5)	1,174	1,381	(15.0)

<sup>1</sup> Profit from operating activities before depreciation, depletion and amortization.

<sup>2</sup> Cash flow from operating activities less capital expenditures.

In the fourth quarter of 2020, compared to the previous quarter, our results were positively impacted by an increase in international gas production volumes, higher crude oil production volumes, the ruble depreciation, an increase in international hydrocarbon prices, higher positive export duty lag effect, as well as positive inventory effect at our refineries. At the same time, these were more than offset by the accounting specifics of our international trading operations, lower refinery throughput volumes, weaker refining and trading margins.

The dynamics of our results compared to 2019 was largely defined by the impacts of the COVID-19 pandemic, such as a decrease in international hydrocarbon prices and refining margins, lower hydrocarbon production and refinery throughput 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 the ruble depreciation, higher trading margin and accounting specifics of our international trading operations and an increase in share of high-margin volumes in our domestic crude oil production.

As a result, our EBITDA decreased by 6.2% and by 44.4% compared to the third quarter of 2020 and the full year 2019, respectively.

Stronger ruble as at the fourth quarter end as compared to the beginning of the quarter resulted in a currency exchange gain of 12 billion RUB in the fourth quarter of 2020 compared to a loss of 27 billion RUB in the third quarter of 2020. The ruble depreciation in 2020 resulted in a currency exchange loss of 26 billion RUB in 2020, as opposed to a gain of 1 billion RUB in 2019 as a result of the ruble appreciation.

Compared to the third quarter of 2020 and the full year 2019, our depreciation, depletion and amortization expenses decreased by 12.5% and by 2.3%, respectively. The decrease in the fourth quarter of 2020 was mainly due to positive effect of an increase in proved developed hydrocarbon reserves at Group's certain fields at the end of 2020 and consequent recalculation of depletion of respective fixed assets for the full year, despite an increase in depletion expenses in Uzbekistan following the recovery of gas production volumes.

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 the total amount of 115 billion RUB during 2020.

In the fourth quarter of 2020, profit attributable to LUKOIL shareholders amounted to 29 billion RUB, compared to profit in the amount of 50 billion RUB in the third quarter of 2020. In 2020, profit attributable to LUKOIL shareholders amounted to 15 billion RUB compared to profit in the amount of 640 billion RUB in 2019.

Our capital expenditures increased by 22 billion RUB, or by 19.8%, compared to the third quarter of 2020, and by 45 billion RUB, or by 10.1%, compared to 2019.

Our free cash flow amounted to 85 billion RUB in the fourth quarter of 2020, a decrease of 25.4% compared to the third quarter of 2020, that was mainly a result of an increase in capital expenditures, as well as the dynamics of the working capital.

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Our free cash flow amounted to 281 billion RUB in 2020, a decrease of 59.9% compared to 2019. Such decline was a result of a decrease in profitability of our core operations, as well as higher capital expenditures.

The Group's average daily hydrocarbon production increased by 8.9% compared to the third quarter of 2020 mainly as a result of gas production recovery in Uzbekistan, as well as due to partial lifting of external limitations on oil production under the new OPEC+ agreement. In 2020, the Group's average daily hydrocarbon production decreased by 11.1% compared to 2019 mainly due to the new OPEC+ agreement and a temporary decrease in gas supplies from Uzbekistan to China, that were driven by the negative impact of the COVID-19 pandemic on hydrocarbon demand.

Compared to the third quarter of 2020 and full year 2019, average daily throughput volumes at our refineries decreased by 11.5% and by 15.0%, respectively, mainly due to throughput optimization at some of the Group's refineries on the back of lower demand for petroleum products and decline in refining margins due to the COVID-19 pandemic, as well as scheduled maintenance works.

**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.



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

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(rubles per tonne)					
Diesel fuel .....	39,226	38,892	0.9	37,292	40,724	(8.4)
High-octane gasoline (Regular).....	39,139	42,049	(6.9)	39,727	38,243	3.9
High-octane gasoline (Premium).....	40,944	44,292	(7.6)	41,866	40,487	3.4
Fuel oil .....	13,889	10,625	30.7	10,990	14,514	(24.3)

Source: InfoTEK (excluding VAT).

### Changes in ruble exchange rate and inflation

A substantial part of our revenue is either denominated in US dollars and euro or correlated to some extent with US dollar crude oil prices, while most of our costs are settled in Russian rubles. Therefore, a depreciation 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.

	Q4 2020	Q3 2020	12 months of	
			2020	2019
Ruble inflation (CPI), % .....	2.0	0.2	4.9	3.0
Ruble to US dollar exchange rate				
Average for the period .....	76.2	73.6	72.1	64.7
At the beginning of the period .....	79.7	70.0	61.9	69.5
At the end of the period .....	73.9	79.7	73.9	61.9
Ruble to euro exchange rate				
Average for the period .....	90.8	86.0	82.4	72.5
At the beginning of the period .....	93.0	78.7	69.3	79.5
At the end of the period .....	90.7	93.0	90.7	69.3

Source: CBR, Federal State Statistics Service.

### Taxation

**Key upstream tax rates.** The following tables represent average statutory enacted rates applicable to our upstream operations in Russia with no taxation incentives:

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(US dollars per tonne)					
Mineral extraction tax <sup>1</sup> .....	131.34	127.87	2.7	120.87	201.40	(40.0)
Export duty on crude oil .....	43.21	44.03	(1.9)	45.87	93.77	(51.1)

<sup>1</sup> Translated from rubles using average exchange rate for the period.

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(rubles per tonne)					
Mineral extraction tax .....	10,011	9,406	6.4	8,720	13,038	(33.1)
Export duty on crude oil <sup>1</sup> .....	3,294	3,239	1.7	3,309	6,070	(45.5)

<sup>1</sup> 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.

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.

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**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:

$$\text{Rate} = 919 \times (\text{Price} - 15) \times \frac{\text{Exchange Rate}}{261} - \text{Incentive} + 428 \\ + \text{Tax Manoeuvre Factor} + \text{Damper Factors},$$

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 *Tax Manoeuvre Factor* is derived as Export duty reduction factor multiplied by the base export duty rate. The two fixed *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 new factor is linked to the export netbacks for gasoline and diesel fuel.

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 reduction factor.....	0.167	0.167	0.333	0.500	0.667	0.833	1
			(rubles)				
Damper Factor for gasoline .....	125	200	105	105	105	105	105
Damper Factor for diesel fuel.....	110	185	92	92	92	92	92

Mineral extraction tax on crude oil has the following types of tax incentives applied to our fields and deposits:

- A special reducing coefficient is applied to the standard tax rate depending on location, size and complexity of a particular field. This type of incentive with different coefficients is applied to our Yu. Korchagin field located in the Caspian offshore, 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, Sredne-Nazymnskoye and Imilorskoye fields and Tyumen deposits. Before the end of 2020 the incentive was applied to our highly depleted fields (more than 80% depletion), the Permian layers of our Usinskoye field in Timano-Pechora producing high-viscous crude oil as well as our Yaregskoye field producing extra-viscous crude oil. After the adoption of amendments to the Russian Tax Code in October 2020 these tax incentives have been cancelled as of 1 January 2021. The cancellation of mineral extraction tax incentives for our highly depleted fields was followed by allowance of inclusion of the respective license areas into Group 3 of tax on additional income (hereinafter TAI) regime (see below) as of beginning of 2021;
- 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 Sea;
- A fixed tax rate of 30% of the Urals price is applied to our offshore greenfields, located in the Baltic Sea;
- A special tax rate is applied to crude oil produced at license areas with TAI regime. For Groups 1 and 4 of TAI a discount to special tax rate is applied depending on the duration of commercial production at the particular license area. For highly depleted license areas in Group 3 of TAI a 20% discount is applied to special tax rate starting from 1 January 2024.

Some of the mineral extraction tax incentives are limited in time or capped 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 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 five groups of license areas. In Group 1, LUKOIL has nineteen license areas with greenfields in the Yamal-Nenets Autonomous District, including Pyakyakhinskoye field, and a number of fields in Timan-Pechora. In Group 3, LUKOIL has eight license areas with brownfields in West Siberia adopted TAI regime as of 1 January 2019, as well as 105 license areas with depleted reserves in different regions transferred to TAI regime since 1 January 2021. In Group 4, LUKOIL has two license areas with greenfields in traditional regions (West Siberia). LUKOIL has license areas neither in Group 2 nor in Group 5 of the TAI regime.



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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
<b>Under 2020 tax formulas</b>				
<b>Standard</b> .....	21.6	7.7	29.3	58.6
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
V. Vinogradov and Imilorskoye fields .....	13.4	7.7	21.1	42.1
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. Reinjecting 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.

	Q4 2020	Q3 2020	Change, %	12 months of 2020	2019	Change, %
	(US dollars per thousand cubic meters) <sup>1</sup>					
Nakhodkinskoye field .....	5.42	5.56	(2.5)	5.63	5.48	2.7
Pyakyakhinskoye field .....	7.05	7.06	(0.1)	6.97	8.26	(15.6)

<sup>1</sup> Translated from rubles using average exchange rate for the period.

	Q4 2020	Q3 2020	Change, %	12 months of 2020	2019	Change, %
	(rubles per thousand cubic meters)					
Nakhodkinskoye field .....	413	409	1.0	406	355	14.4
Pyakyakhinskoye field .....	537	519	3.5	503	535	(6.0)

**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.

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
	(rubles per tonne)					
Gasoline (below Euro-5) .....	13,100	13,100	-	13,100	13,100	-
Gasoline (Euro-5).....	12,752	12,752	-	12,752	12,314	3.6
Diesel fuel .....	8,835	8,835	-	8,835	8,541	3.4
Motor oils.....	5,616	5,616	-	5,616	5,400	4.0
Middle distillates*.....	13,766	15,075	(8.7)	14,524	9,241	57.2

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

Established excise tax rates are listed below.

	2020	2021	2022	2023
Gasoline (below Euro-5) .....	13,100	13,624	14,169	14,736
Gasoline (Euro-5).....	12,752	13,262	13,793	14,345
Diesel fuel .....	8,835	9,188	9,556	9,938
Motor oils.....	5,616	5,841	6,075	6,318

### 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 and starting from 2021 also includes an investment factor. The damper coefficient is calculated by multiplying the corresponding Compensation Coefficients 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 investment factor is a multiplier to the negative excise tax excluding the damper, which is applicable when a special agreement is signed with the Government providing for at least 60 billion RUB of investments into development of a refinery. The amount of the multiplier depends on the refinery's geography.

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

	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

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The following tables present the average enacted damper coefficients for the respective periods:

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
	(US dollars per tonne) <sup>1</sup>					
Gasoline .....	(45.90)	(61.19)	(25.0)	(89.65)	56.52	-
Diesel fuel .....	(54.85)	(74.63)	(26.5)	(78.06)	72.93	-

<sup>1</sup> Translated from rubles using average exchange rate for the period.

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
	(rubles per tonne)					
Gasoline .....	(3,498)	(4,501)	(22.3)	(6,468)	3,659	-
Diesel fuel .....	(4,181)	(5,490)	(23.8)	(5,632)	4,721	-

**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.

	Q4 2020 to Q3 2020	12 months of 2020 to 12 months of 2019
Transneft (crude oil) .....	0.0%	3.4%
Russian Railways (crude oil and refined products) .....	0.0%	3.5%

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**Reserves base**

The tables below summarize the net proved reserves of our consolidated subsidiaries and our share in net proved reserves of our associates and joint ventures under the standards of the US Securities and Exchange Commission (until the economic limit of commercial production is reached) that have been derived from our reserve reports audited by Miller and Lents Ltd, our independent reservoir engineers, at 31 December 2020 and 2019.

(hydrocarbons, millions of BOE)	31 December 2020	Production <sup>(1)</sup>	Changes in 2020		31 December 2019
			Extensions, discoveries and changes in structure	Revision of previous estimates	
West Siberia .....	7,884	(319)	284	(265)	8,185
Timan-Pechora .....	2,403	(113)	42	60	2,414
Ural region .....	2,156	(124)	93	(60)	2,247
Volga region .....	1,116	(90)	40	(8)	1,173
Other in Russia .....	163	(11)	3	(5)	176
Outside Russia .....	1,663	(118)	2	205	1,574
<b>Proved oil and gas reserves .....</b>	<b>15,385</b>	<b>(775)</b>	<b>464</b>	<b>(73)</b>	<b>15,769</b>
<b>Probable oil and gas reserves .....</b>	<b>5,581</b>				<b>6,217</b>
<b>Possible oil and gas reserves .....</b>	<b>2,802</b>				<b>3,000</b>

<sup>1</sup> Gas production shown before own consumption.

(crude oil, millions of barrels)	31 December 2020	Production	Changes in 2020		31 December 2019
			Extensions, discoveries and changes in structure	Revision of previous estimates	
West Siberia .....	5,789	(245)	235	(271)	6,070
Timan-Pechora .....	2,278	(102)	39	52	2,289
Ural region .....	2,030	(115)	88	(55)	2,112
Volga region .....	756	(80)	36	(10)	810
Other in Russia .....	160	(11)	3	(6)	174
Outside Russia .....	679	(51)	2	168	560
<b>Proved oil reserves .....</b>	<b>11,692</b>	<b>(604)</b>	<b>403</b>	<b>(122)</b>	<b>12,015</b>
<b>Probable oil reserves .....</b>	<b>4,105</b>				<b>4,671</b>
<b>Possible oil reserves .....</b>	<b>2,314</b>				<b>2,506</b>

(gas, billions of cubic feet)	31 December 2020	Production <sup>(1)</sup>	Changes in 2020		31 December 2019
			Extensions, discoveries and changes in structure	Revision of previous estimates	
West Siberia .....	12,572	(444)	289	39	12,688
Timan-Pechora .....	750	(65)	20	47	748
Ural region .....	754	(51)	31	(38)	812
Volga region .....	2,159	(58)	25	10	2,182
Other in Russia .....	16	(2)	-	4	14
Outside Russia .....	5,905	(404)	-	226	6,083
<b>Proved gas reserves .....</b>	<b>22,156</b>	<b>(1,024)</b>	<b>365</b>	<b>288</b>	<b>22,527</b>
<b>Probable gas reserves .....</b>	<b>8,861</b>				<b>9,275</b>
<b>Possible gas reserves .....</b>	<b>2,927</b>				<b>2,966</b>

<sup>1</sup> Gas production shown before own consumption.

The Company's proved hydrocarbon reserves at 31 December 2020 amounted to 15.4 billion BOE and comprised of 11.7 billion barrels of crude oil and 22.2 trillion cubic feet of gas.

As a result of geological exploration and production drilling conducted in 2020, LUKOIL added 464 million barrels of oil equivalent to proved reserves. The largest contribution was made by the assets in West Siberia, Ural region and Russian sector of the Caspian Sea.

Optimization of development systems and wellwork programmes at existing fields, as well as conversion of contingent resources to reserves added 258 million barrels of oil equivalent to proved reserves, which was more than offset by a 34% decrease in annual average oil price used for reserves estimate.

## 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 33 “Segment information” to our consolidated financial statements.

### Exploration and production

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

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
EBITDA .....	166,567	151,979	9.6	500,081	893,950	(44.1)
in Russia.....	147,964	136,108	8.7	421,573	729,077	(42.2)
outside Russia and Iraq .....	11,487	9,656	19.0	46,512	143,183	(67.5)
in Iraq.....	7,116	6,215	14.5	31,996	21,690	47.5
Hydrocarbon extraction expenses.....	51,037	46,670	9.4	198,911	210,867	(5.7)
in Russia.....	39,532	37,552	5.3	158,328	170,590	(7.2)
outside Russia and Iraq .....	6,567	5,297	24.0	23,371	23,267	0.4
in Iraq.....	4,938	3,821	29.2	17,212	17,010	1.2
	(rubles per BOE)					
Hydrocarbon unit extraction expenses (excluding Iraq).....	249	254	(1.8)	247	232	6.4
in Russia.....	251	241	4.0	243	237	2.2
outside Russia and Iraq .....	240	404	(40.6)	282	200	41.3
	(US dollars per BOE)					
Hydrocarbon unit extraction expenses (excluding Iraq).....	3.27	3.45	(5.2)	3.42	3.59	(4.5)
in Russia.....	3.29	3.28	0.3	3.36	3.67	(8.3)
outside Russia and Iraq .....	3.15	5.50	(42.7)	3.91	3.09	26.3

Our upstream EBITDA increased by 9.6% compared to the third quarter of 2020. In Russia, the increase was mainly a result of the effect of the ruble depreciation, higher crude oil prices, higher positive export duty lag effect, as well as higher crude oil production volumes, while an increase in operating expenses was a restraining factor. Outside Russia and Iraq, our EBITDA increased mainly as a result of an increased gas production volumes in Uzbekistan on the back of a recovery of demand for Uzbek gas from China. This was also supported by an increase in crude oil production volumes, the effect of the ruble depreciation and an increase in international hydrocarbon prices.

Compared to 2019, our upstream EBITDA decreased by 44.1%. In Russia, the decrease was mainly due to lower crude oil prices, negative export duty lag effect, and crude oil production cut due to the new OPEC+ agreement, that was partially offset by the ruble depreciation, lower operating expenses and bigger share of high-margin volumes in crude oil production. Outside Russia and Iraq, our upstream EBITDA decreased mainly owing to a decrease in international hydrocarbon prices and gas production volumes in Uzbekistan. The weaker ruble and higher volumes of crude oil production outside Russia and Iraq partially offset the impact of these negative factors.

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

The following table summarizes our hydrocarbon production by major regions.

	<b>Q4 2020</b>	<b>Q3 2020</b>	<b>Change, %</b>	<b>12 months of 2020</b>	<b>12 months of 2019</b>	<b>Change, %</b>
	(thousand BOE per day)					
<b>Crude oil and natural gas liquids</b>						
Consolidated subsidiaries						
West Siberia .....	641	620	3.4	669	765	(12.5)
Timan-Pechora .....	250	255	(2.0)	274	317	(13.6)
Ural region .....	314	304	3.3	313	334	(6.3)
Volga region .....	209	212	(1.4)	217	235	(7.7)
Other in Russia .....	27	29	(6.9)	29	32	(9.4)
<b>Total in Russia .....</b>	<b>1,441</b>	<b>1,420</b>	<b>1.5</b>	<b>1,502</b>	<b>1,683</b>	<b>(10.8)</b>
Iraq <sup>1</sup> .....	34	42	(19.0)	53	30	76.7
Other outside Russia .....	57	44	29.5	53	52	1.9
<b>Total outside Russia .....</b>	<b>91</b>	<b>86</b>	<b>5.8</b>	<b>106</b>	<b>82</b>	<b>29.3</b>
<b>Total consolidated subsidiaries .....</b>	<b>1,532</b>	<b>1,506</b>	<b>1.7</b>	<b>1,608</b>	<b>1,765</b>	<b>(8.9)</b>
Our share in associates						
in Russia .....	11	10	10.0	11	13	(15.4)
outside Russia .....	30	29	3.4	32	37	(13.5)
<b>Total share in production of associates .....</b>	<b>41</b>	<b>39</b>	<b>5.1</b>	<b>43</b>	<b>50</b>	<b>(14.0)</b>
<b>Total crude oil and natural gas liquids .....</b>	<b>1,573</b>	<b>1,545</b>	<b>1.8</b>	<b>1,651</b>	<b>1,815</b>	<b>(9.0)</b>
<b>Natural and petroleum gas<sup>2</sup></b>						
Consolidated subsidiaries						
West Siberia .....	194	200	(3.0)	203	201	1.0
Timan-Pechora .....	28	27	3.7	29	33	(12.1)
Ural region .....	26	21	23.8	23	23	-
Volga region .....	25	25	-	26	28	(7.1)
Other in Russia .....	0	0	-	0	1	(100.0)
<b>Total in Russia .....</b>	<b>273</b>	<b>273</b>	<b>-</b>	<b>281</b>	<b>286</b>	<b>(1.7)</b>
Uzbekistan .....	191	58	>100	128	228	(43.9)
Other outside Russia .....	50	40	25.0	46	40	15.0
<b>Total outside Russia .....</b>	<b>241</b>	<b>98</b>	<b>&gt;100</b>	<b>174</b>	<b>268</b>	<b>(35.1)</b>
<b>Total consolidated subsidiaries .....</b>	<b>514</b>	<b>371</b>	<b>38.5</b>	<b>455</b>	<b>554</b>	<b>(17.9)</b>
Share in associates						
in Russia .....	2	2	97.8	1	1	28.9
outside Russia .....	10	9	(2.0)	10	10	(4.3)
<b>Total share in production of associates .....</b>	<b>12</b>	<b>11</b>	<b>9.2</b>	<b>11</b>	<b>11</b>	<b>(0.3)</b>
<b>Total natural and petroleum gas .....</b>	<b>526</b>	<b>382</b>	<b>37.7</b>	<b>466</b>	<b>565</b>	<b>(17.5)</b>
<b>Total daily hydrocarbon production (excluding the West Qurna-2 project) .....</b>	<b>2,065</b>	<b>1,885</b>	<b>9.5</b>	<b>2,064</b>	<b>2,350</b>	<b>(12.2)</b>
<b>Total daily hydrocarbon production .....</b>	<b>2,099</b>	<b>1,927</b>	<b>8.9</b>	<b>2,117</b>	<b>2,380</b>	<b>(11.1)</b>
Including natural gas liquids produced at the gas processing plants .....	39	34	15.3	39	44	(11.6)

<sup>1</sup> Compensation crude oil related to the Group.

<sup>2</sup> 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.

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
	(thousands of tonnes)					
West Siberia .....	7,802	7,558	3.2	32,448	36,999	(12.3)
Timan-Pechora .....	3,335	3,275	1.8	14,102	16,099	(12.4)
Ural region .....	3,664	3,554	3.1	14,565	15,527	(6.2)
Volga region.....	2,509	2,531	(0.9)	10,339	11,207	(7.7)
Other in Russia.....	353	374	(5.6)	1,486	1,626	(8.6)
Crude oil produced in Russia .....	17,663	17,292	2.1	72,940	81,458	(10.5)
Iraq <sup>1</sup> .....	463	565	(18.1)	2,843	1,616	75.9
Other outside Russia.....	605	496	22.0	2,256	2,110	6.9
Crude oil produced outside Russia .....	1,068	1,061	0.7	5,099	3,726	36.8
<b>Total crude oil produced by consolidated subsidiaries.....</b>	<b>18,731</b>	<b>18,353</b>	<b>2.1</b>	<b>78,039</b>	<b>85,184</b>	<b>(8.4)</b>
<b>Our share in crude oil produced by associates:</b>						
in Russia.....	138	124	11.3	519	610	(14.9)
outside Russia.....	349	338	3.3	1,491	1,694	(12.0)
<b>Total crude oil produced.....</b>	<b>19,218</b>	<b>18,815</b>	<b>2.1</b>	<b>80,049</b>	<b>87,488</b>	<b>(8.5)</b>

<sup>1</sup> Compensation crude oil related to the Group.

Our main oil producing region is West Siberia where we produced 41.7% and 41.6% of our crude oil in the fourth quarter and the full year 2020 (41.2% in the third quarter of 2020 and 43.4% in 2019). Our crude oil production increased by 2.1% compared to the third quarter of 2020, and decreased by 8.5% compared to 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, (the 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 its 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. Initially it provided for stepped increases in crude oil production from August 2020 and January 2021, but this schedule has been adjusted depending on the market situation. 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. Due 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 August. By the end of 2020 crude oil production in Russia was gradually increased by approximately 100 thousand barrels per day as compared to the May level.

The new OPEC+ agreement also led to limitations on oil production by the Group at 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 in 2020 at the V. Vinogradov, Imilorskoye, Sredne-Nazymkoye and Pyakyakhinskoye fields increased by 20.4% year-on-year and exceeded 4.2 million tonnes.

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In 2020, high viscosity oil production at the Yaregskoye field and Permian reservoir of the Usinskoye field increased by 6.2% year-on-year, to 5.2 million tonnes.

Implementation of drilling programs at the V. Filanovsky and Yu. Korchagin fields in the Caspian Sea allowed to maintain production at project levels. In 2020, total oil and gas condensate production totaled 7.4 million tonnes. The V.Grayfer field development continues: jackets have been installed in the Caspian Sea for the fixed ice-resistant platform and accommodation platform, topsides of both platforms are being built at the shipyards.

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

	<b>Q4 2020</b>	<b>Q3 2020</b>	<b>Change, %</b>	<b>12 months of 2020</b>	<b>12 months of 2019</b>	<b>Change, %</b>
	(millions of cubic meters)					
West Siberia, including: .....	3,038	3,118	(2.6)	12,592	12,492	0.8
Nakhodkinskoye field .....	1,296	1,355	(4.4)	5,376	4,848	10.9
Pyakyakhinskoye field .....	880	902	(2.4)	3,599	3,433	4.8
Other fields.....	862	861	0.1	3,617	4,211	(14.1)
Timan-Pechora .....	434	415	4.6	1,810	2,050	(11.7)
Ural region .....	407	336	21.1	1,451	1,432	1.3
Volga region.....	388	394	(1.5)	1,593	1,711	(6.9)
Other in Russia.....	2	4	(50.0)	17	24	(29.2)
Gas produced in Russia .....	4,269	4,267	-	17,463	17,709	(1.4)
Uzbekistan.....	2,994	910	>100	7,947	14,130	(43.8)
Other outside Russia.....	765	622	23.0	2,861	2,478	15.5
Gas produced outside Russia.....	3,759	1,532	>100	10,808	16,608	(34.9)
<b>Total gas produced by consolidated subsidiaries..</b>	<b>8,028</b>	<b>5,799</b>	<b>38.4</b>	<b>28,271</b>	<b>34,317</b>	<b>(17.6)</b>
<b>Our share in gas produced by associates:</b>						
in Russia.....	40	32	25.0	115	88	30.7
outside Russia.....	157	138	13.8	619	641	(3.4)
<b>Total gas produced.....</b>	<b>8,225</b>	<b>5,969</b>	<b>37.8</b>	<b>29,005</b>	<b>35,046</b>	<b>(17.2)</b>

In the fourth quarter and the full year 2020, LUKOIL Group's gas production was 8.2 billion cubic meters and 29.0 billion cubic meters, respectively, which was 37.8% higher quarter-on-quarter, and 17.2% lower year-on-year. In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where gas is produced from the Nakhodkinskoe and Pyakyakhinskoe fields. Our gas production in Russia did not change significantly compared to the third quarter of 2020, and decreased by 1.4% compared to 2019 due to lower associated petroleum gas production that followed the crude oil production cut. Outside Russia, the main gas production region is Uzbekistan where we have shares in two PSAs. Our international gas production (including our share in associates' production) increased by 134.5% quarter-on-quarter as a result of a recovery of gas production in Uzbekistan, and decreased by 33.8% year-on-year, mainly due to temporarily 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. Starting from 1 May 2020, crude oil production at the field was reduced following the request from the Iraqi government due to the new OPEC+ agreement. As of the end of 2020, production at the field was approximately 90 thousand barrels per day below its capacity.

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.

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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*.

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 <sup>1</sup>	Remuneration fee	Crude oil received	Crude oil to be received
Cumulative at 31 December 2019 .....	9,229	548	9,242	535
Change in 2020 .....	549	127	626	50
<b>Cumulative at 31 December 2020.....</b>	<b>9,778</b>	<b>675</b>	<b>9,868</b>	<b>585</b>

<sup>1</sup> Including prepayments.

The West Qurna-2 project summary is presented below:

	Q4 2020		Q3 2020		Change, %	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production .....	28,783	4,208	27,002	3,948	6.6	6.6
Production related to cost compensation and remuneration .....	3,168	463	3,864	565	(18.1)	(18.1)
Shipment of compensation crude oil <sup>1</sup> .....	3,726	545	5,572	814	(33.0)	(33.0)
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation .....	10,788	142	8,441	114	27.8	24.6
Remuneration fee .....	1,894	25	1,409	19	34.4	31.6
	12,682	167	9,850	133	28.8	25.6
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) <sup>1</sup> .....	11,994	157	17,193	234	(30.2)	(32.9)
Extraction expenses .....	4,938	65	3,821	52	29.2	25.0
Depreciation, depletion and amortization .....	5,940	78	4,678	63	27.0	23.8
<b>EBITDA .....</b>	<b>7,116</b>	<b>93</b>	<b>6,215</b>	<b>85</b>	<b>14.5</b>	<b>9.4</b>

<sup>1</sup> 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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	12 months of				Change, %	
	2020		2019			
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production .....	124,295	18,172	142,684	20,860	(12.9)	(12.9)
Production related to cost compensation and remuneration .....	19,447	2,843	11,054	1,616	75.9	75.9
Shipment of compensation crude oil <sup>1</sup> .....	18,996	2,777	9,412	1,376	>100	>100
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation .....	42,604	597	35,836	554	18.9	7.8
Remuneration fee .....	7,694	107	8,023	124	(4.1)	(13.7)
	50,298	704	43,859	678	14.7	3.8
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) <sup>1</sup> .....	45,428	626	36,225	560	25.4	11.8
Extraction expenses .....	17,212	239	17,010	263	1.2	(9.1)
Depreciation, depletion and amortization .....	25,630	361	18,950	293	35.3	23.2
EBITDA .....	31,996	450	21,690	334	47.5	34.7

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

**Refining, marketing and distribution**

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

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
EBITDA .....	46,649	77,638	(39.9)	243,322	371,642	(34.5)
in Russia .....	43,573	42,357	2.9	180,753	301,136	(40.0)
outside Russia .....	3,076	35,281	(91.3)	62,569	70,506	(11.3)
Refining expenses at the Group refineries .....	25,563	24,165	5.8	92,613	96,543	(4.1)
in Russia .....	12,539	10,961	14.4	42,614	42,555	0.1
outside Russia .....	13,024	13,204	(1.4)	49,999	53,988	(7.4)
	(rubles per tonne)					
Unit refining expenses at the Group refineries .....	1,945	1,628	19.5	1,580	1,404	12.5
in Russia .....	1,295	1,074	20.6	1,062	964	10.2
outside Russia .....	3,760	2,845	32.2	2,703	2,195	23.1
	(US dollars per tonne)					
Unit refining expenses at the Group refineries .....	25.51	22.13	15.3	21.90	21.70	0.9
in Russia .....	16.99	14.60	16.4	14.73	14.90	(1.2)
outside Russia .....	49.33	38.68	27.5	37.46	33.91	10.5

Our refining, marketing and distribution EBITDA was 39.9% lower than in the third quarter of 2020. At the same time, in Russia, refining, marketing and distribution EBITDA increased by 2.9% largely due to a seasonal increase in profitability of our power generation business, positive inventory effect at our refineries, better results of our petrochemical and retail businesses. This growth was restrained by a decrease in refining margins, higher operating expenses at refineries and lower refinery throughput volumes. Outside Russia, our refining, marketing and distribution EBITDA decreased by 91.3% primarily due to the accounting specifics of our international trading operations. Moreover, our results outside Russia were negatively affected by lower refinery throughput volumes, refining and trading margins and weaker results of our retail network due to COVID-19 related lockdowns in Europe. The positive inventory effect at our foreign refineries partially offset the impact of these negative factors.

Compared to 2019, our refining, marketing and distribution EBITDA decreased by 34.5%. In Russia, our downstream EBITDA decreased largely due to a decline in refining margin, negative inventory effect at our refineries, weaker results of petrochemical and retail businesses, lower refinery throughput volumes, that was partially offset by optimization of refinery product slate. Outside Russia, our downstream EBITDA decreased by 11.3%. A decline in benchmark refining margin and negative inventory effect at our refineries were largely offset by an increase in trading margin, the accounting specifics of our international trading operations, as well as the ruble depreciation.

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**Refining and petrochemicals**

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

	<b>Q4 2020</b>	<b>Q3 2020</b>	<b>Change, %</b>	<b>12 months of 2020</b>	<b>12 months of 2019</b>	<b>Change, %</b>
	(thousands of tonnes)					
Refinery throughput at the Group refineries .....	13,145	14,848	(11.5)	58,608	68,746	(14.7)
in Russia .....	9,682	10,207	(5.1)	40,109	44,154	(9.2)
outside Russia, including .....	3,463	4,641	(25.4)	18,499	24,592	(24.8)
crude oil .....	3,085	4,215	(26.8)	16,888	22,673	(25.5)
refined products.....	378	426	(11.3)	1,611	1,919	(16.1)
Refinery throughput at third party refineries .....	28	41	(31.7)	146	4,460	(96.7)
<b>Total refinery throughput.....</b>	<b>13,173</b>	<b>14,889</b>	<b>(11.5)</b>	<b>58,754</b>	<b>73,206</b>	<b>(19.7)</b>
<b>Production of the Group refineries in Russia<sup>1</sup> .....</b>	<b>9,234</b>	<b>9,722</b>	<b>(5.0)</b>	<b>38,090</b>	<b>41,831</b>	<b>(8.9)</b>
diesel fuel.....	3,760	4,010	(6.2)	16,084	16,532	(2.7)
motor gasoline .....	1,479	2,104	(29.7)	7,076	7,864	(10.0)
fuel oil.....	965	839	15.0	3,142	4,657	(32.5)
jet fuel.....	487	692	(29.6)	2,182	2,843	(23.3)
lubricants and components.....	255	202	26.2	923	963	(4.2)
straight-run gasoline .....	636	430	47.9	2,458	2,655	(7.4)
vacuum gas oil.....	438	131	>100	589	332	77.4
bitumen.....	145	275	(47.3)	904	908	(0.4)
coke .....	257	265	(3.0)	1,108	1,072	3.4
bunker fuel.....	576	385	49.6	2,022	1,546	30.8
gas products.....	68	90	(24.4)	307	317	(3.2)
petrochemicals.....	53	82	(35.4)	298	392	(24.0)
other products .....	115	217	(47.0)	997	1,750	(43.0)
<b>Production of the Group refineries outside Russia .....</b>	<b>3,163</b>	<b>4,246</b>	<b>(25.5)</b>	<b>16,874</b>	<b>23,250</b>	<b>(27.4)</b>
diesel fuel.....	1,599	2,146	(25.5)	8,334	10,570	(21.2)
motor gasoline .....	608	1,064	(42.9)	3,778	5,065	(25.4)
fuel oil.....	77	193	(60.1)	754	2,121	(64.5)
jet fuel.....	127	86	47.7	539	1,149	(53.1)
straight-run gasoline .....	449	284	58.1	1,616	2,285	(29.3)
coke .....	24	16	50.0	76	107	(29.0)
bunker fuel.....	116	103	12.6	438	99	-
gas products.....	88	122	(27.9)	462	588	(21.4)
petrochemicals.....	11	11	-	45	43	4.7
other products .....	64	221	(71.0)	832	1,223	(32.0)
<b>Refined products produced by the Group.....</b>	<b>12,397</b>	<b>13,968</b>	<b>(11.2)</b>	<b>54,964</b>	<b>65,081</b>	<b>(15.5)</b>
Refined products produced at third party refineries ..	26	37	(29.7)	139	4,215	(96.7)
<b>Total refined products produced.....</b>	<b>12,423</b>	<b>14,005</b>	<b>(11.3)</b>	<b>55,103</b>	<b>69,296</b>	<b>(20.5)</b>
Reference: Net of cross-supplies of refined products between the Group refineries.....	158	455	(65.3)	1,397	1,561	(10.5)
<b>Products produced at petrochemical plants and facilities .....</b>	<b>332</b>	<b>283</b>	<b>17.3</b>	<b>1,228</b>	<b>1,137</b>	<b>8.0</b>
in Russia .....	253	198	27.8	898	790	13.7
outside Russia.....	79	85	(7.1)	330	347	(4.9)

<sup>1</sup> Net of cross-supplies of refined products among the Group.

In the fourth quarter and the full year 2020, refinery throughput at the Group refineries was 13.1 million tonnes and 58.6 million tonnes, respectively, which is 11.5% lower quarter-on-quarter and 14.7% lower year-on-year. The decline was attributable to throughput optimization at some of the Group's refineries on the back of lower demand for petroleum products and decline in refining margins due to the COVID-19 pandemic, as well as to scheduled maintenance works.

In the fourth quarter of 2020, refinery throughput decreased by 5.1% in Russia mainly due to scheduled maintenance works at Volgograd and Nizhny Novgorod refineries, and decreased by 25.4% outside Russia, mainly due to scheduled maintenance works and throughput optimization at refineries in Italy and Bulgaria.

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In 2020, refinery throughput in Russia was 9.2% lower year-on-year due to scheduled maintenance works and throughput optimization at refineries. Our refinery throughput in Europe was 24.8% lower year-on-year due to scheduled maintenance works at refineries in Bulgaria, Italy and the Netherlands, as well as throughput optimization.

In the periods considered, 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 associated 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 and our retail chains.

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.

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
(thousands of tonnes)						
<b>Crude oil purchases</b>						
In Russia.....	245	85	>100	704	756	(6.9)
For trading internationally.....	10,807	13,728	(21.3)	51,678	52,299	(1.2)
For refining internationally.....	2,880	3,761	(23.4)	13,241	21,686	(38.9)
Shipment of the West Qurna-2 compensation crude oil.....	545	814	(33.0)	2,777	1,376	>100
<b>Total crude oil purchased.....</b>	<b>14,477</b>	<b>18,388</b>	<b>(21.3)</b>	<b>68,400</b>	<b>76,117</b>	<b>(10.1)</b>

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

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
(thousands of tonnes)						
<b>Refined products purchases</b>						
In Russia.....	227	114	99.1	730	920	(20.7)
For trading internationally.....	14,820	11,840	25.2	49,455	51,179	(3.4)
For refining internationally.....	266	392	(32.3)	1,558	2,095	(25.6)
<b>Total refined products purchased.....</b>	<b>15,313</b>	<b>12,346</b>	<b>24.0</b>	<b>51,743</b>	<b>54,194</b>	<b>(4.5)</b>
<b>Petrochemical products purchases</b>						
In Russia.....	34	36	(5.6)	135	39	>100
For trading internationally.....	130	134	(3.1)	606	863	(29.7)
For refining internationally.....	48	46	4.6	177	186	(5.0)
<b>Total petrochemical products purchased.....</b>	<b>212</b>	<b>216</b>	<b>(1.9)</b>	<b>918</b>	<b>1,088</b>	<b>(15.6)</b>

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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:

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
(millions of rubles)						
Exports of crude oil to Customs Union .....	11,675	12,633	(7.6)	29,913	63,879	(53.2)
Exports of crude oil beyond Customs Union.....	170,215	138,690	22.7	584,474	996,096	(41.3)
<b>Total crude oil exports .....</b>	<b>181,890</b>	<b>151,323</b>	<b>20.2</b>	<b>614,387</b>	<b>1,059,975</b>	<b>(42.0)</b>
(thousands of tonnes)						
Exports of crude oil to Customs Union .....	664	664	-	1,779	2,716	(34.5)
Exports of crude oil beyond Customs Union.....	7,371	6,121	20.4	30,330	34,378	(11.8)
<b>Total crude oil exports .....</b>	<b>8,035</b>	<b>6,785</b>	<b>18.4</b>	<b>32,109</b>	<b>37,094</b>	<b>(13.4)</b>
Exports of crude oil through Transneft, excluding ESPO pipeline.....	4,675	3,268	43.1	18,440	21,255	(13.2)
ESPO pipeline .....	600	599	0.2	1,739	1,738	0.1
CPC pipeline .....	1,402	1,341	4.5	5,317	5,281	0.7
Exports of crude oil through the Group's transportation infrastructure .....	1,358	1,577	(13.9)	6,613	8,820	(25.0)
<b>Total crude oil exports .....</b>	<b>8,035</b>	<b>6,785</b>	<b>18.4</b>	<b>32,109</b>	<b>37,094</b>	<b>(13.4)</b>
<b>Supply of exported crude oil to refineries .....</b>	<b>239</b>	<b>395</b>	<b>(39.5)</b>	<b>3,131</b>	<b>3,354</b>	<b>(6.6)</b>

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
(millions of rubles)						
<b>Refined and petrochemical products exports .....</b>	<b>119,827</b>	<b>89,799</b>	<b>33.4</b>	<b>419,665</b>	<b>623,632</b>	<b>(32.7)</b>
(thousands of tonnes)						
<b>Refined products exports</b>						
diesel fuel.....	2,050	2,227	(7.9)	9,716	10,205	(4.8)
gasoline .....	2	-	-	654	491	33.2
fuel oil.....	744	631	17.9	1,916	1,962	(2.3)
jet fuel .....	10	2	>100	19	10	90.0
lubricants and components.....	167	128	30.5	607	629	(3.5)
gas refinery products.....	146	145	0.7	695	769	(9.6)
other products .....	1,377	629	>100	4,314	4,663	(7.5)
<b>Total refined products exports .....</b>	<b>4,496</b>	<b>3,762</b>	<b>19.5</b>	<b>17,921</b>	<b>18,729</b>	<b>(4.3)</b>
<b>Total petrochemicals exports.....</b>	<b>102</b>	<b>110</b>	<b>(7.3)</b>	<b>388</b>	<b>302</b>	<b>28.5</b>

The volume of our crude oil exports from Russia increased by 18.4% compared to the third quarter of 2020 as a result of lower throughput at our domestic refineries and higher crude oil production volumes, and decreased by 13.4% compared to 2019 due to crude oil production cut resulting from the new OPEC+ agreement. In the fourth quarter and the full year 2020, we exported 45.5% and 44.0% of our domestic crude oil production (39.2% in the third quarter of 2020 and 45.5% in 2019), respectively.

The volume of our refined products exports increased by 19.5% compared to the third quarter of 2020 due to a seasonal decrease in domestic demand, and decreased by 4.3% compared to 2019 due to lower production.

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 reduce transportation costs and 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. In 2020, 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.

In the fourth quarter and the full year 2020, we sold 2.3 million tonnes and 9.0 million tonnes of motor fuels via our domestic retail network, which was 10.3% less compared to the third quarter of 2020 and 9.1% less compared to 2019. Outside Russia, retail sales decreased by 7.3% compared to the third quarter of 2020 and by 12.6% compared to 2019.

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In the fourth quarter and the full year 2020, our jet fuel deliveries volume net of trading operations amounted to 0.6 million tonnes and 2.5 million tonnes compared to 0.7 million tonnes in the third quarter of 2020 and 3.4 million tonnes in 2019.

In the fourth quarter and the full year 2020, our bunkering volume net of trading operations amounted to 0.5 million tonnes and 2.7 million tonnes compared to 0.6 million tonnes in the third quarter of 2020 and 4.3 million tonnes in 2019.

**Power generation.** We own commercial electricity and heat generation facilities in the Southern regions of European Russia, Romania and Italy. We also own renewable energy capacity in Russia and abroad. In the fourth quarter and the full year 2020, our total output of commercial electrical energy was 4.4 billion kWh and 17.1 billion kWh (3.7 billion kWh in the third quarter of 2020 and 18.3 billion kWh in 2019), and our total output of commercial heat energy was approximately 3.6 million Gcal and 10.0 million Gcal (0.8 million Gcal in the third quarter of 2020 and 10.1 million Gcal in 2019), respectively.

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

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
<b>Revenues</b>						
Sales (including excise and export tariffs).....	1,530,339	1,456,650	5.1	5,639,401	7,841,246	(28.1)
<b>Costs and other deductions</b>						
Operating expenses .....	(113,987)	(108,953)	4.6	(439,973)	(457,710)	(3.9)
Cost of purchased crude oil, gas and products.....	(843,611)	(790,660)	6.7	(3,000,916)	(4,308,073)	(30.3)
Transportation expenses .....	(71,893)	(61,388)	17.1	(292,899)	(278,798)	5.1
Selling, general and administrative expenses .....	(56,018)	(45,488)	23.1	(199,027)	(197,172)	0.9
Depreciation, depletion and amortization.....	(90,558)	(103,439)	(12.5)	(405,440)	(415,094)	(2.3)
Taxes other than income taxes .....	(148,479)	(133,550)	11.2	(569,078)	(928,190)	(38.7)
Excise and export tariffs .....	(104,160)	(113,950)	(8.6)	(444,300)	(425,763)	4.4
Exploration expenses.....	(2,579)	(438)	>100	(6,114)	(9,348)	(34.6)
<b>Profit from operating activities .....</b>	<b>99,054</b>	<b>98,784</b>	<b>0.3</b>	<b>281,654</b>	<b>821,098</b>	<b>(65.7)</b>
Finance income .....	1,930	3,625	(46.8)	13,051	25,134	(48.1)
Finance costs .....	(10,853)	(11,697)	(7.2)	(44,122)	(44,356)	(0.5)
Equity share in income of associates and joint ventures .....	3,017	4,029	(25.1)	11,474	18,246	(37.1)
Foreign exchange gain (loss).....	12,460	(27,280)	-	(26,110)	923	-
Other expenses .....	(44,790)	(1,293)	>100	(137,160)	(27,691)	>100
<b>Profit before income taxes .....</b>	<b>60,818</b>	<b>66,168</b>	<b>(8.1)</b>	<b>98,787</b>	<b>793,354</b>	<b>(87.5)</b>
Current income taxes.....	(19,321)	(17,325)	11.5	(61,362)	(144,615)	(57.6)
Deferred income taxes.....	(11,535)	2,069	-	(20,792)	(6,518)	>100
<b>Total income tax expense .....</b>	<b>(30,856)</b>	<b>(15,256)</b>	<b>&gt;100</b>	<b>(82,154)</b>	<b>(151,133)</b>	<b>(45.6)</b>
<b>Profit for the period .....</b>	<b>29,962</b>	<b>50,912</b>	<b>(41.1)</b>	<b>16,633</b>	<b>642,221</b>	<b>(97.4)</b>
<b>Profit for the period attributable to:</b>						
PJSC LUKOIL shareholders .....	29,435	50,420	(41.6)	15,175	640,178	(97.6)
Non-controlling interests.....	527	492	7.1	1,458	2,043	(28.6)
<b>Earnings per share</b>						
Profit for the period attributable to PJSC LUKOIL shareholders per share of common stock (in Russian rubles):						
Basic .....	45.11	77.27	(41.6)	23.31	963.28	(97.6)
Diluted .....	43.38	74.42	(41.7)	22.46	934.73	(97.6)

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

**PJSC LUKOIL**
**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 December and 30 September 2020 and for the years 2020 and 2019**
**Sales revenues**

Sales breakdown	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
<b>Crude oil</b>						
Export and sales on international markets other than Customs Union .....	455,450	476,913	(4.5)	1,838,509	2,575,571	(28.6)
Export and sales to Customs Union .....	11,610	12,648	(8.2)	30,137	64,890	(53.6)
Domestic sales .....	4,031	8,457	(52.3)	23,522	22,528	4.4
	<b>471,091</b>	<b>498,018</b>	<b>(5.4)</b>	<b>1,892,168</b>	<b>2,662,989</b>	<b>(28.9)</b>
Cost compensation and remuneration at the West Qurna-2 project .....	12,682	9,850	28.8	50,298	43,859	14.7
	<b>483,773</b>	<b>507,868</b>	<b>(4.7)</b>	<b>1,942,466</b>	<b>2,706,848</b>	<b>(28.2)</b>
<b>Refined products</b>						
Export and sales on international markets						
Wholesales .....	661,087	555,275	19.1	2,245,940	3,403,202	(34.0)
Retail .....	82,813	85,153	(2.7)	303,021	345,162	(12.2)
Domestic sales						
Wholesales .....	81,085	94,013	(13.8)	340,320	443,667	(23.3)
Retail .....	115,573	129,610	(10.8)	445,343	480,048	(7.2)
	<b>940,558</b>	<b>864,051</b>	<b>8.9</b>	<b>3,334,624</b>	<b>4,672,079</b>	<b>(28.6)</b>
<b>Petrochemicals</b>						
Export and sales on international markets .....	14,921	13,244	12.7	57,036	91,687	(37.8)
Domestic sales .....	10,474	7,356	42.4	36,386	40,971	(11.2)
	<b>25,395</b>	<b>20,600</b>	<b>23.3</b>	<b>93,422</b>	<b>132,658</b>	<b>(29.6)</b>
<b>Gas</b>						
Sales on international markets .....	30,280	7,973	>100	68,200	138,997	(50.9)
Domestic sales .....	8,190	8,119	0.9	32,649	32,490	0.5
	<b>38,470</b>	<b>16,092</b>	<b>&gt;100</b>	<b>100,849</b>	<b>171,487</b>	<b>(41.2)</b>
<b>Sales of energy and related services</b>						
Sales on international markets .....	1,923	3,796	(49.3)	10,451	14,604	(28.4)
Domestic sales .....	15,903	10,010	58.9	53,607	53,276	0.6
	<b>17,826</b>	<b>13,806</b>	<b>29.1</b>	<b>64,058</b>	<b>67,880</b>	<b>(5.6)</b>
<b>Other</b>						
Export and sales on international markets .....	13,923	22,741	(38.8)	63,813	48,024	32.9
Domestic sales .....	10,394	11,492	(9.6)	40,169	42,270	(5.0)
	<b>24,317</b>	<b>34,233</b>	<b>(29.0)</b>	<b>103,982</b>	<b>90,294</b>	<b>15.2</b>
<b>Total sales .....</b>	<b>1,530,339</b>	<b>1,456,650</b>	<b>5.1</b>	<b>5,639,401</b>	<b>7,841,246</b>	<b>(28.1)</b>

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Sales volumes	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
(thousands of tonnes)						
Crude oil						
Export and sales on international markets other than Customs Union .....	18,687	20,670	(9.6)	81,391	84,281	(3.4)
Export and sales to Customs Union.....	669	669	-	1,799	2,753	(34.7)
Domestic sales.....	190	449	(57.7)	1,415	947	49.4
	<b>19,546</b>	<b>21,788</b>	<b>(10.3)</b>	<b>84,605</b>	<b>87,981</b>	<b>(3.8)</b>
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project .....	463	565	(18.1)	2,843	1,616	75.9
	<b>20,009</b>	<b>22,353</b>	<b>(10.5)</b>	<b>87,448</b>	<b>89,597</b>	<b>(2.4)</b>
Refined products						
Export and sales on international markets						
Wholesales .....	21,703	19,569	10.9	80,095	92,392	(13.3)
Retail.....	933	1,006	(7.3)	3,667	4,194	(12.6)
Domestic sales						
Wholesales .....	2,726	3,230	(15.6)	12,011	14,506	(17.2)
Retail.....	2,327	2,595	(10.3)	9,032	9,935	(9.1)
	<b>27,689</b>	<b>26,400</b>	<b>4.9</b>	<b>104,805</b>	<b>121,027</b>	<b>(13.4)</b>
Petrochemicals						
Export and sales on international markets .....	284	295	(3.7)	1,269	1,547	(18.0)
Domestic sales.....	190	163	16.6	771	699	10.3
	<b>474</b>	<b>458</b>	<b>3.5</b>	<b>2,040</b>	<b>2,246</b>	<b>(9.2)</b>
(millions of cubic meters)						
Gas						
Sales on international markets.....	4,223	1,616	161.3	11,288	15,785	(28.5)
Domestic sales.....	3,107	3,171	(2.0)	12,777	12,942	(1.3)
	<b>7,330</b>	<b>4,787</b>	<b>53.1</b>	<b>24,065</b>	<b>28,727</b>	<b>(16.2)</b>

Realized average sales prices		Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
Average realized price on international markets							
Crude oil (beyond Customs Union) <sup>1</sup> ..	(RUB/barrel)	3,325	3,148	5.6	3,082	4,169	(26.1)
Crude oil (Customs Union) .....	(RUB/barrel)	2,368	2,579	(8.2)	2,285	3,216	(28.9)
Refined products							
Wholesales.....	(RUB/tonne)	30,461	28,375	7.3	28,041	36,834	(23.9)
Retail.....	(RUB/tonne)	88,760	84,645	4.9	82,635	82,299	0.4
Petrochemicals .....	(RUB/tonne)	52,539	44,895	17.0	44,946	59,268	(24.2)
Gas (excluding royalty).....	(RUB/1,000 m <sup>3</sup> )	7,170	4,934	45.3	6,042	8,806	(31.4)
Crude oil (beyond Customs Union) <sup>1</sup> ..	(\$/barrel)	43.62	42.79	1.9	42.71	64.40	(33.7)
Crude oil (Customs Union) .....	(\$/barrel)	31.06	35.06	(11.4)	31.68	49.67	(36.2)
Refined products							
Wholesales.....	(\$/tonne)	400	386	3.6	389	569	(31.7)
Retail.....	(\$/tonne)	1,164	1,151	1.2	1,145	1,271	(9.9)
Petrochemicals .....	(\$/tonne)	689	610	12.9	623	916	(32.0)
Gas (excluding royalty).....	(\$/1,000 m <sup>3</sup> )	94	67	40.3	84	136	(38.4)
Average realized price within Russia							
Crude oil.....	(RUB/barrel)	2,894	2,570	12.6	2,268	3,245	(30.1)
Refined products							
Wholesales.....	(RUB/tonne)	29,745	29,106	2.2	28,334	30,585	(7.4)
Retail.....	(RUB/tonne)	49,666	49,946	(0.6)	49,307	48,319	2.0
Petrochemicals .....	(RUB/tonne)	55,126	45,129	22.2	47,193	58,614	(19.5)
Gas <sup>2</sup> .....	(RUB/1,000 m <sup>3</sup> )	2,636	2,560	3.0	2,555	2,510	1.8

<sup>1</sup> Excluding cost compensation and remuneration at the West Qurna-2 project.

<sup>2</sup> 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 fourth quarter of 2020, our revenues were positively affected by higher volumes of refined products trading, recovery of gas production in Uzbekistan, an increase in crude oil production as a result of partial lifting of the external limitations on oil production under the new OPEC+ agreement, the ruble depreciation as well as an increase in international hydrocarbon prices. Among main adverse factors were lower volumes of crude oil trading and a decrease in retail sales volumes.

In 2020, our revenues were negatively affected by a sharp decrease in international hydrocarbon prices, crude oil production cut in Russia due to the new OPEC+ agreement, a decrease in refinery throughput volumes, refined products trading volumes and retail sales volumes, as well as a reduction in gas production in Uzbekistan due to temporary lower demand for Uzbek gas from China.

*Sales of crude oil*

Compared to the third quarter of 2020, our crude oil sales revenue decreased by 52.3% in Russia due to lower domestic sales volumes because of their redirection to export, and by 4.5% outside Russia largely as a result of lower international trading volumes, that was partially offset by the ruble depreciation and an increase in crude oil prices.

Compared to 2019, our international crude oil sales revenue decreased by 28.6% mainly as a result of a decrease in crude oil prices by 26.1%. Our domestic crude oil sales revenue increased by 4.4%, despite a decrease in crude oil prices by 30.1%, due to an increase in sales volumes by 49.4%.

*Sales of refined products*

Sales breakdown	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
<b>Wholesales outside Russia.....</b>	<b>661,086</b>	<b>555,275</b>	<b>19.1</b>	<b>2,245,939</b>	<b>3,403,202</b>	<b>(34.0)</b>
diesel fuel.....	260,898	230,128	13.4	937,614	1,637,550	(42.7)
motor gasoline.....	122,540	135,036	(9.3)	440,292	637,327	(30.9)
fuel oil.....	127,681	107,307	19.0	414,171	521,882	(20.6)
jet fuel.....	5,017	5,925	(15.3)	20,866	97,202	(78.5)
lubricants and components.....	18,500	15,477	19.5	67,454	65,726	2.6
gas products.....	21,336	17,545	21.6	76,703	53,515	43.3
others.....	105,114	43,857	>100	288,839	390,000	(25.9)
<b>Retail outside Russia .....</b>	<b>82,813</b>	<b>85,153</b>	<b>(2.7)</b>	<b>303,021</b>	<b>345,162</b>	<b>(12.2)</b>
<b>Wholesales in Russia .....</b>	<b>81,085</b>	<b>94,013</b>	<b>(13.8)</b>	<b>340,320</b>	<b>443,667</b>	<b>(23.3)</b>
diesel fuel.....	26,104	28,645	(8.9)	110,395	116,906	(5.6)
motor gasoline.....	10,327	15,411	(33.0)	43,959	48,539	(9.4)
fuel oil.....	2,514	2,492	0.9	8,789	33,124	(73.5)
jet fuel.....	16,779	20,217	(17.0)	77,138	128,672	(40.1)
lubricants and components.....	6,513	7,397	(12.0)	25,866	25,265	2.4
gas products.....	4,038	3,683	9.6	11,805	10,903	8.3
others.....	14,810	16,168	(8.4)	62,368	80,258	(22.3)
<b>Retail in Russia .....</b>	<b>115,573</b>	<b>129,610</b>	<b>(10.8)</b>	<b>445,343</b>	<b>480,048</b>	<b>(7.2)</b>
<b>Total refined products sales .....</b>	<b>940,557</b>	<b>864,051</b>	<b>8.9</b>	<b>3,334,623</b>	<b>4,672,079</b>	<b>(28.6)</b>

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Sales volumes	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
	(thousands of tonnes)					
<b>Wholesales outside Russia .....</b>	<b>21,704</b>	<b>19,569</b>	<b>10.9</b>	<b>80,096</b>	<b>92,392</b>	<b>(13.3)</b>
diesel fuel .....	7,796	7,310	6.6	29,745	39,002	(23.7)
motor gasoline .....	3,648	4,284	(14.8)	13,926	15,015	(7.3)
fuel oil .....	5,400	5,410	(0.2)	20,415	20,121	1.5
jet fuel.....	143	213	(32.9)	654	2,323	(71.8)
lubricants and components .....	289	217	33.2	1,075	997	7.8
gas products.....	641	645	(0.6)	2,855	1,902	50.1
others .....	3,787	1,490	>100	11,426	13,032	(12.3)
<b>Retail outside Russia .....</b>	<b>933</b>	<b>1,006</b>	<b>(7.3)</b>	<b>3,667</b>	<b>4,194</b>	<b>(12.6)</b>
diesel fuel .....	645	676	(4.6)	2,508	2,814	(10.9)
motor gasoline .....	251	287	(12.5)	1,012	1,195	(15.3)
gas products.....	37	43	(14.0)	147	185	(20.5)
<b>Wholesales in Russia .....</b>	<b>2,726</b>	<b>3,230</b>	<b>(15.6)</b>	<b>12,011</b>	<b>14,506</b>	<b>(17.2)</b>
diesel fuel .....	650	712	(8.7)	2,720	2,733	(0.5)
motor gasoline .....	256	353	(27.5)	1,091	1,257	(13.2)
fuel oil .....	190	224	(15.2)	899	2,184	(58.8)
jet fuel.....	556	691	(19.5)	2,401	3,138	(23.5)
lubricants and components .....	88	103	(14.6)	373	361	3.3
gas products.....	163	158	3.2	598	648	(7.7)
others .....	823	989	(16.8)	3,929	4,185	(6.1)
<b>Retail in Russia.....</b>	<b>2,327</b>	<b>2,595</b>	<b>(10.3)</b>	<b>9,032</b>	<b>9,935</b>	<b>(9.1)</b>
diesel fuel .....	905	940	(3.7)	3,450	3,715	(7.1)
motor gasoline .....	1,408	1,640	(14.1)	5,527	6,161	(10.3)
gas products.....	14	15	(6.7)	55	59	(6.8)
<b>Total refined products volumes.....</b>	<b>27,690</b>	<b>26,400</b>	<b>4.9</b>	<b>104,806</b>	<b>121,027</b>	<b>(13.4)</b>

Compared to 2019, our refined products sales revenue was significantly affected by lower sales volumes and prices as a result of a sharp decrease in demand due to the COVID-19 pandemic.

The fourth quarter of 2020 vs. the third quarter of 2020

- Our revenue from the wholesales of refined products outside Russia increased by 19.1% due to an increase in average realized prices by 7.3% and volumes by 10.9% as a result of an increase in volumes of trading operations.
- International retail revenue decreased by 2.7% due to a decrease in sales volumes by 7.3% as a result of lower demand for refined products due to a resumption of COVID-19 related restrictions in Europe, as well as a seasonality factor.
- Revenue from the wholesale and retail sales of refined products on the domestic market decreased by 13.8% and by 10.8%, respectively, mainly as a result of a seasonal decrease in sales volumes.

Full year 2020 vs. full year 2019

- Our revenue from the wholesales of refined products outside Russia decreased by 34.0% as a result of a decrease in average realized prices by 23.9% and sales volumes by 13.3% due to a decrease in volumes of trading operations and production.
- Our international retail revenue decreased by 12.2% as a result of a decrease in sales volumes and prices that was partially offset by the ruble depreciation.
- Our revenue from the wholesales of refined products on the domestic market decreased by 23.3% as a result of a decrease in sales volumes and our average realized prices.
- Our revenue from refined products retail sales in Russia decreased by 7.2% as a result of a decrease in sales volumes that was partially offset by an increase in our average realized prices.

*Sales of petrochemical products*

Compared to the third quarter of 2020, our revenue from sales of petrochemical products increased by 23.3%, as a result of higher production volumes in Russia, as well as an increase in realized prices.

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Compared to 2019, our revenue from sales of petrochemical products decreased by 29.6%, mainly as a result of a decline in trading volumes outside Russia and realized prices.

#### *Sales of gas*

Compared to the third quarter of 2020, our revenue from gas sales increased by 139.1% as a result of a recovery of gas production in Uzbekistan that followed the resumption of gas exports from Uzbekistan to China.

During 2020, as a result of temporary decline in demand for Uzbek gas from China, we reduced gas production. As a result, our revenue from gas sales decreased by 41.2% compared to 2019.

#### *Sales of energy and related services*

Our revenue from sales of energy and related services increased by 29.1% compared to the third quarter of 2020, mainly due to a seasonality factor in Russia, and decreased by 5.6% compared to 2019, mainly due to changes in energy tariffs and sales volumes 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 third quarter of 2020, revenue from other sales decreased by 29.0% largely as a result of a decrease in non-petrol revenue of our retail network due to seasonality in Russia and Europe, as well as lower demand due to a resumption of COVID-19 related restrictions in Europe.

Compared to 2019, revenue from other sales increased by 15.2% largely as a result of an increase in revenues from transportation services outside Russia due to higher tariffs and volumes, as well as an increase in non-petrol revenue of our retail network.

Moreover, other sales revenue for the third quarter and the full year 2020 included 5.9 billion RUB (approximately €68 million) of loss compensation in relation to energy supplies in Sicily, Italy in 2015 (other sales revenue for 2019 included 2.2 billion RUB (approximately €30 million) of similar compensation related to 2016 supplies).

## Operating expenses

Operating expenses include the following:

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
Hydrocarbon extraction expenses <sup>1</sup> .....	46,099	42,849	7.6	181,699	193,857	(6.3)
Extraction expenses at the West Qurna-2 field.....	4,938	3,821	29.2	17,212	17,010	1.2
Own refining expenses .....	25,563	24,165	5.8	92,613	96,543	(4.1)
Refining expenses at third-party refineries.....	103	148	(30.4)	524	7,175	(92.7)
Expenses for feedstock transportation to refineries..	10,715	11,919	(10.1)	51,693	52,884	(2.3)
Power generation and distribution expenses.....	8,250	7,406	11.4	29,991	30,432	(1.4)
Petrochemical expenses.....	3,700	3,057	21.0	12,731	12,463	2.2
Other operating expenses .....	14,619	15,588	(6.2)	53,510	47,346	13.0
<b>Total operating expenses.....</b>	<b>113,987</b>	<b>108,953</b>	<b>4.6</b>	<b>439,973</b>	<b>457,710</b>	<b>(3.9)</b>

<sup>1</sup> 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 33 "Segment information" to our consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs, are not divided by the type of expenses within one company 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, labour 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.

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
	(millions of rubles)					
Hydrocarbon extraction expenses.....	46,099	42,849	7.6	181,699	193,857	(6.3)
in Russia .....	39,532	37,552	5.3	158,328	170,590	(7.2)
outside Russia <sup>1</sup> .....	6,567	5,297	24.0	23,371	23,267	0.4
	(rubles per BOE)					
Hydrocarbon unit extraction expenses.....	249	254	(1.8)	247	232	6.4
in Russia .....	251	241	4.0	243	237	2.2
outside Russia <sup>1</sup> .....	240	404	(40.6)	282	200	41.3

<sup>1</sup> Excluding extraction expenses at the West Qurna-2 field.

Compared to the third quarter, our extraction expenses in Russia increased by 5.3% mainly due to higher production volumes and a seasonal increase in energy and transport costs. At the same time, hydrocarbon unit extraction expenses in Russia increased by only 4.0%. Our extraction expenses outside Russia increased by 24.0% due to a recovery of gas production in Uzbekistan, that also led to a decrease in our hydrocarbon unit extraction expenses outside Russia by 40.6% as gas has lower unit extraction expenses compared to crude oil.

Compared to 2019, our extraction expenses in Russia decreased by 7.2% mainly due to lower production volumes and cost reduction programme. However, our hydrocarbon unit extraction expenses increased by 2.2% due to certain share of fixed costs. Outside Russia, our hydrocarbon extraction expenses were flat despite lower production volumes. A decrease in extraction expenses in Uzbekistan as a result of production cut was offset by higher expenses due to the effect of acquisition of a share in the Marine XII project in the Republic of Congo. Our hydrocarbon unit extraction expenses outside Russia increased by 41.3% mainly as a result of a decrease in share of gas in our hydrocarbon production, which has lower unit extraction expenses compared to crude oil. The ruble depreciation also contributed to the increase in extraction expenses outside Russia.

*Own refining expenses*

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
	(millions of rubles)					
Refining expenses at the Group refineries.....	25,563	24,165	5.8	92,613	96,543	(4.1)
in Russia .....	12,539	10,961	14.4	42,614	42,555	0.1
outside Russia.....	13,024	13,204	(1.4)	49,999	53,988	(7.4)
	(rubles per tonne)					
Unit refining expenses at the Group refineries.....	1,945	1,628	19.5	1,580	1,404	12.5
in Russia .....	1,295	1,074	20.6	1,062	964	10.2
outside Russia.....	3,760	2,845	32.2	2,703	2,195	23.1

Compared to the third quarter of 2020, refining expenses at the Group refineries increased by 5.8%. In Russia, refining expenses increased by 14.4% mainly as a result of an increase in maintenance costs. Outside Russia, refining expenses decreased by 1.4% due to lower throughput volumes that was partly offset by an increase in energy and fuel costs and effect of ruble depreciation against euro.

Compared to 2019, expenses at our refineries decreased by 4.1%. In Russia, refining expenses did not change, as the effect of lower throughput volumes was offset by higher maintenance cost. Outside Russia, expenses at our refineries decreased by 7.4% mainly due to lower throughput volumes, as well as a decline in fuel and energy costs, despite the ruble depreciation against euro.

*Refining expenses at third-party refineries*

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.

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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 feedstock transportation to refineries*

Expenses for feedstock 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 feedstock transportation to refineries decreased by 10.1% compared to the third quarter of 2020 mainly due to lower refinery throughput and decreased by 2.3% compared to 2019.

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
				(millions of rubles)		
Own feedstock transportation to our domestic refineries.....	9,618	10,910	(11.8)	41,179	40,648	1.3
Own feedstock transportation from Russia to our international refineries.....	460	155	>100	5,175	6,182	(16.3)
Other feedstock transportation costs outside Russia..	637	854	(25.4)	5,339	6,054	(11.8)
<b>Feedstock transportation to refineries .....</b>	<b>10,715</b>	<b>11,919</b>	<b>(10.1)</b>	<b>51,693</b>	<b>52,884</b>	<b>(2.3)</b>

#### *Power generation and distribution expenses*

Power generation and distribution expenses increased by 11.4% compared to the third quarter of 2020 mainly due to a seasonal factor, and decreased by 1.4% compared to 2019.

#### *Petrochemical expenses*

Compared to the third quarter of 2020, our petrochemical expenses increased by 21.0% mainly due to an increase in output in Russia. In 2020, petrochemical expenses increased by 2.2% compared to 2019, an effect of higher production volumes was nearly offset by lower maintenance costs in Russia in 2020.

#### *Other operating expenses*

Other operating expenses include expenses of the Group's upstream and downstream entities that do not relate to their core activities, namely transportation and extraction services, costs of other services provided and goods sold by our production and marketing companies, and of non-core businesses of the Group.

Compared to the third quarter of 2020, other operating expenses decreased by 6.2%, largely as a result of lower volumes of non-petrol sales through our retail network. Compared to 2019, they increased by 13.0%, as a result of an increase in volumes of non-petrol sales through our retail network and increase in volumes of transportation services rendered.

#### **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.

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	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
Cost of purchased crude oil in Russia .....	5,354	1,637	>100	13,788	18,123	(23.9)
Cost of purchased crude oil outside Russia .....	331,310	394,981	(16.1)	1,461,688	2,229,352	(34.4)
Compensation crude oil related to West Qurna-2 project.....	11,994	17,193	(30.2)	45,428	36,225	25.4
<b>Cost of purchased crude oil .....</b>	<b>348,658</b>	<b>413,811</b>	<b>(15.7)</b>	<b>1,520,904</b>	<b>2,283,700</b>	<b>(33.4)</b>
Cost of purchased refined products in Russia.....	9,846	5,573	76.7	31,043	37,146	(16.4)
Cost of purchased refined products outside Russia ...	457,157	351,106	30.2	1,420,226	1,930,711	(26.4)
<b>Cost of purchased refined products .....</b>	<b>467,003</b>	<b>356,679</b>	<b>30.9</b>	<b>1,451,269</b>	<b>1,967,857</b>	<b>(26.3)</b>
Other purchases .....	24,380	11,767	>100	64,139	82,157	(21.9)
Net loss/(gain) from hedging of trading operations...	38,224	(3,690)	-	(79,614)	61,333	-
Change in crude oil and petroleum products inventory .....	(34,654)	12,093	-	44,218	(86,974)	-
<b>Total cost of purchased crude oil, gas and products.....</b>	<b>843,611</b>	<b>790,660</b>	<b>6.7</b>	<b>3,000,916</b>	<b>4,308,073</b>	<b>(30.3)</b>

In the fourth quarter and the full year 2020, cost of purchased crude oil, gas and products increased by 6.7% quarter-on-quarter and decreased by 30.3% year-on-year.

An increase in domestic purchases of crude oil and refined products compared to the previous quarter was mostly related to refinery and petrochemical feedstock. Outside Russia, a decrease in crude oil purchases and an increase in refined products purchases compared to the third quarter of 2020 were both driven by the respective changes in volumes of trading. A more than two-fold quarter-on-quarter increase in other purchases was largely a result of development of our gas trading activities in Europe.

A year-on-year decrease was mostly driven by the dynamics of international crude oil and refined products prices.

**Transportation expenses**

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
Crude oil transportation expenses.....	23,260	21,562	7.9	107,147	98,406	8.9
in Russia .....	11,387	10,938	4.1	46,110	46,946	(1.8)
outside Russia .....	11,873	10,624	11.8	61,037	51,460	18.6
Refined products transportation expenses .....	41,205	36,832	11.9	169,526	162,648	4.2
in Russia .....	19,385	19,402	(0.1)	84,723	89,842	(5.7)
outside Russia.....	21,820	17,430	25.2	84,803	72,806	16.5
Other transportation expenses .....	7,428	2,994	>100	16,226	17,744	(8.6)
in Russia .....	836	1,310	(36.2)	3,269	2,200	48.6
outside Russia.....	6,592	1,684	>100	12,957	15,544	(16.6)
<b>Total transportation expenses .....</b>	<b>71,893</b>	<b>61,388</b>	<b>17.1</b>	<b>292,899</b>	<b>278,798</b>	<b>5.1</b>

Compared to the third quarter of 2020, our expenses for transportation of crude oil and refined products increased by 7.9% and 11.9%, respectively. In Russia, our expenses for transportation of crude oil increased mainly as a result of higher export volumes, while our expenses for transportation of refined products did not change significantly. Outside Russia, our expenses increased as a result of higher volumes of refined products transportation, higher volumes of crude oil transportation by pipeline transport and the ruble depreciation, which was partly offset by lower volumes of crude oil transportation by sea.

Compared to 2019, our expenses for transportation of crude oil and refined products increased by 8.9% and 4.2%, respectively. In Russia, our expenses for transportation of crude oil decreased as a result of lower export volumes, that was partly offset by tariffs indexation, negative inventory effect and higher domestic sales volumes. Our expenses for transportation of refined products in Russia decreased as a result of lower supplies, despite tariffs indexation. Outside Russia, our expenses for transportation of crude oil and refined products increased mainly as a result of higher freight rates, storage expenses increase and the ruble depreciation, despite lower volumes of supplies.



## Taxes other than income taxes

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
(millions of rubles)						
<b>In Russia</b>						
Mineral extraction taxes.....	129,118	115,938	11.4	495,877	849,445	(41.6)
Tax on additional income .....	2,985	1,026	>100	6,645	16,229	(59.1)
Social security taxes and contributions .....	6,471	7,072	(8.5)	28,437	27,308	4.1
Property tax .....	6,189	6,110	1.3	24,800	22,663	9.4
Other taxes .....	491	671	(26.8)	2,112	2,515	(16.0)
<b>Total in Russia .....</b>	<b>145,254</b>	<b>130,817</b>	<b>11.0</b>	<b>557,871</b>	<b>918,160</b>	<b>(39.2)</b>
<b>International</b>						
Mineral extraction taxes.....	4	7	(42.9)	23	22	4.5
Social security taxes and contributions .....	1,849	1,674	10.5	6,626	6,109	8.5
Property tax .....	331	235	40.9	1,005	906	10.9
Other taxes .....	1,041	817	27.4	3,553	2,993	18.7
<b>Total internationally .....</b>	<b>3,225</b>	<b>2,733</b>	<b>18.0</b>	<b>11,207</b>	<b>10,030</b>	<b>11.7</b>
<b>Total taxes other than income taxes.....</b>	<b>148,479</b>	<b>133,550</b>	<b>11.2</b>	<b>569,078</b>	<b>928,190</b>	<b>(38.7)</b>

Our taxes other than income taxes increased by 11.2% compared to the third quarter of 2020 mainly as a result of an increase in mineral extraction tax expense on the back of an increase in the tax rate by 6.4% due to higher crude oil prices and the ruble depreciation, as well as due to higher crude oil extraction volumes, which was partially compensated by inventory effect. TAI expenses increased due to higher crude oil prices. Also, TAI expenses for the third quarter of 2020 include a downward adjustment related to 2019 in the amount of 1.5 billion RUB.

Compared to 2019, our taxes other than income taxes decreased by 38.7% mainly as a result of a decrease in mineral extraction tax expense on the back of a decrease in the tax rate by 33.1% due to lower crude oil prices and lower crude oil extraction volumes. TAI expenses decreased due to a decline of crude oil prices.

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).

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
(millions of rubles)						
<b>Decrease in extraction taxes from application of reduced rates for crude oil production .....</b>	<b>23,235</b>	<b>21,322</b>	<b>9.0</b>	<b>79,146</b>	<b>127,018</b>	<b>(37.7)</b>
(thousands of tonnes)						
Volume of crude oil production subject to:						
reduced rates (ultra-high viscosity).....	599	624	(4.0)	2,427	2,157	12.5
reduced rates (tax holidays for specific regions and high viscosity oil).....	1,146	1,074	6.7	4,289	4,221	1.6
reduced rates (low permeability deposits).....	434	409	6.1	1,628	1,422	14.5
reduced rates (Tyumen deposits) .....	174	168	3.6	736	725	1.5
reduced rates (depleted fields) .....	4,358	4,339	0.4	18,456	19,050	(3.1)
reduced rates (other) .....	595	482	23.4	2,216	2,503	(11.5)
<b>Total volume of production subject to reduced rates .....</b>	<b>7,306</b>	<b>7,096</b>	<b>3.0</b>	<b>29,752</b>	<b>30,078</b>	<b>(1.1)</b>

A special tax regime is applied for crude oil production at certain Group's offshore fields and deposits. In the fourth quarter and the full year 2020, volumes of production subject to such regimes amounted to 1,533 thousand tonnes and 6,389 thousand tonnes, respectively (compared to 1,659 thousand tonnes in the third quarter of 2020 and 6,436 thousand tonnes in 2019).

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

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
(millions of rubles)						
<b>Mineral extraction tax for crude oil and gas condensate on license areas under TAI.....</b>	<b>5,483</b>	<b>5,084</b>	<b>7.8</b>	<b>18,521</b>	<b>25,429</b>	<b>(27.2)</b>
(thousands of tonnes)						
Group 1.....	496	525	(5.5)	2,071	2,011	3.0
Group 3.....	748	747	0.1	3,030	2,896	4.6
Group 4.....	23	25	(8.0)	95	41	>100
<b>Total volume of crude oil and gas condensate production at license areas subject to TAI .....</b>	<b>1,267</b>	<b>1,297</b>	<b>(2.3)</b>	<b>5,196</b>	<b>4,948</b>	<b>5.0</b>

**Excise and export tariffs**

	Q4 2020	Q3 2020	Change, %	12 months of 2020	12 months of 2019	Change, %
(millions of rubles)						
<b>In Russia</b>						
Excise tax on refined products.....	31,438	39,168	(19.7)	132,303	140,659	(5.9)
Excise tax on oil feedstock (excluding damper) .....	(9,781)	(10,515)	(7.0)	(37,881)	(31,212)	21.4
Damper .....	11,807	18,334	(35.6)	73,086	(57,237)	-
Crude oil export tariffs.....	14,895	9,162	62.6	70,885	141,622	(49.9)
Refined products export tariffs .....	7,781	4,720	64.9	26,460	46,058	(42.6)
<b>Total in Russia .....</b>	<b>56,140</b>	<b>60,869</b>	<b>(7.8)</b>	<b>264,853</b>	<b>239,890</b>	<b>10.4</b>
<b>International</b>						
Excise tax and sales taxes on refined products .....	47,875	53,002	(9.7)	179,179	186,078	(3.7)
Crude oil export tariffs.....	15	14	7.1	48	51	(5.9)
Refined products export and import tariffs, net .....	130	65	100.0	220	(256)	-
<b>Total internationally .....</b>	<b>48,020</b>	<b>53,081</b>	<b>(9.5)</b>	<b>179,447</b>	<b>185,873</b>	<b>(3.5)</b>
<b>Total excise and export tariffs .....</b>	<b>104,160</b>	<b>113,950</b>	<b>(8.6)</b>	<b>444,300</b>	<b>425,763</b>	<b>4.4</b>

Compared to the third quarter of 2020, crude oil export tariffs increased mainly due to an increase in crude oil export volumes beyond Customs Union and a simultaneous decrease in the share of crude oil subject to export duty incentives in overall export volume, and also due to inventory effect. An increase in refined products export tariffs was influenced by an increase in total export volume of refined products beyond Customs Union and an increase in the share of exports of heavy refined products with a higher export duty rate.

In the fourth quarter of 2020, excise tax on refined products in Russia and internationally decreased compared to the previous quarter mainly due to lower sales volumes subject to excise taxes as a result of a seasonal decrease in demand. Internationally, this effect was partially compensated by the ruble depreciation.

Compared to 2019, crude oil and refined products export tariffs declined mainly due to a decline in crude oil prices and a decrease in export duty rates as a result of ongoing tax manoeuvre, which was partially offset by the export duty lag effect, inventory effect and the ruble depreciation. Export tariffs also declined due to a decrease in volumes of crude oil and refined products export beyond Customs Union.

Compared to 2019, excise tax in Russia and internationally decreased due to lower sales volumes. In Russia this effect was partially offset by excise tax rates increase. Internationally, a decrease was partially compensated by the ruble depreciation.

Proceeds from excise tax on feedstock, excluding damper, decreased by 7.0% compared to the third quarter of 2020 as a result of decreased volumes of refined products output and changes in refined products slate, which was partially compensated by excise tax rate increase due to higher crude oil prices and the ruble depreciation. Compared to 2019, proceeds from excise tax on feedstock, excluding damper, increased by 21.4% due to ongoing tax manoeuvre and as a result of improvements in refined products slate and the ruble depreciation, which was almost entirely offset by a decline in crude oil prices.

In 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 fourth quarter of 2020, damper expenses decreased as a result of higher gasoline and diesel fuel export netback and a decrease in sales volumes in Russia due to a decrease in demand.

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

In 2019, we charged to expense approximately 5.8 billion RUB related to dry exploratory well in Romania.

#### **Foreign exchange gain (loss)**

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 of our international subsidiaries and loans, mostly intra-group, given or received in currencies other than the entities' functional currencies ("other currencies").

Foreign exchange gains in the fourth quarter and foreign exchange losses in 2020 resulted mostly from the ruble appreciation in the fourth quarter and the ruble depreciation in 2020. That was amplified by an increase in negative net monetary position in other currencies due to a decrease in accounts receivables after the crude oil price drop and an increase in indebtedness in US dollars. A foreign exchange loss in the third quarter of 2020 was a result of the ruble depreciation during that period. In 2019, the Group's net monetary position in other currencies was more balanced and the ruble exchange rate was less volatile that both resulted in a relatively insignificant foreign exchange gains.

#### **Other expenses**

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

In the fourth quarter of 2020, the Group recognized an impairment loss for its exploration and production assets in Russia in the amount of 3.0 billion RUB and abroad in the amount of 0.1 billion RUB. The Group also recognized an impairment loss for its refining, marketing and distribution assets in Russia and abroad in the amount of 7.7 billion RUB and 21.6 billion RUB, respectively.

In the third quarter of 2020, the Group recognized a reversal of impairment of receivables related to our project in Egypt in the amount of 5.3 billion RUB.

In the second quarter of 2020, the Group recognized an impairment loss for its international exploration and production assets in the amount of 38 billion RUB, 36 billion RUB of which related to the projects in Uzbekistan, and a reversal of impairment of receivables 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.

In the fourth quarter of 2019, the Group recognized an impairment loss for its exploration and production assets in Russia and abroad in the amount of 21.4 billion RUB, as well as for its refining, marketing and distribution assets in Russia and abroad in the amount of 1.3 billion RUB. At the same time, the Group recognized an impairment reversal of 9.7 billion RUB in 2019, which was mainly a result of improvement of economic parameters of our production projects in West Siberia and European part of Russia.

#### **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.

Our total income tax expense increased by 16 billion RUB, or by 102.3%, compared to the third quarter of 2020, and decreased by 69 billion RUB, or by 45.6%, compared to 2019.

High effective income tax rate in 2020 resulted from write-offs of deferred tax assets related to tax loss carry forwards in certain international downstream 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.

	Q4 2020	Q3 2020	12 months of 2020      2019	
	(millions of rubles)			
<b>Profit for the period attributable to PJSC LUKOIL shareholders .....</b>	<b>29,435</b>	<b>50,420</b>	<b>15,175</b>	<b>640,178</b>
Add back				
Profit for the period attributable to non-controlling interests .....	527	492	1,458	2,043
Income tax expense .....	30,856	15,256	82,154	151,133
Financial income .....	(1,930)	(3,625)	(13,051)	(25,134)
Financial costs .....	10,853	11,697	44,122	44,356
Foreign exchange (gain) loss .....	(12,460)	27,280	26,110	(923)
Equity share in income of associates and joint ventures .....	(3,017)	(4,029)	(11,474)	(18,246)
Other expenses .....	44,790	1,293	137,160	27,691
Depreciation, depletion and amortization .....	90,558	103,439	405,440	415,094
<b>EBITDA .....</b>	<b>189,612</b>	<b>202,223</b>	<b>687,094</b>	<b>1,236,192</b>

**EBITDA by operating segments**

**Exploration and production segment**

Sales (including excise and export tariffs) .....	448,851	403,379	1,542,239	2,364,184
Operating expenses .....	(65,934)	(62,166)	(262,343)	(274,934)
Cost of purchased crude oil, gas and products .....	(12,546)	(19,819)	(52,784)	(40,350)
Transportation expenses .....	(19,893)	(13,375)	(63,364)	(69,589)
Selling, general and administrative expenses .....	(16,297)	(9,009)	(48,670)	(47,964)
Taxes other than income taxes .....	(149,506)	(135,366)	(540,587)	(891,051)
Excise and export tariffs .....	(15,529)	(11,227)	(68,309)	(136,998)
Exploration expenses .....	(2,579)	(438)	(6,101)	(9,348)
<b>EBITDA of Exploration and production segment .....</b>	<b>166,567</b>	<b>151,979</b>	<b>500,081</b>	<b>893,950</b>

**Refining, marketing and distribution segment**

Sales (including excise and export tariffs) .....	1,491,819	1,434,361	5,525,980	7,624,198
Operating expenses .....	(55,063)	(51,013)	(195,558)	(228,576)
Cost of purchased crude oil, gas and products .....	(1,203,280)	(1,110,035)	(4,302,803)	(6,362,401)
Transportation expenses .....	(60,222)	(56,781)	(269,656)	(229,007)
Selling, general and administrative expenses .....	(31,593)	(28,590)	(120,607)	(121,383)
Taxes other than income taxes .....	(6,508)	(6,538)	(25,908)	(25,323)
Excise and export tariffs .....	(88,504)	(103,766)	(368,126)	(285,866)
<b>EBITDA of Refining, marketing and distribution segment .....</b>	<b>46,649</b>	<b>77,638</b>	<b>243,322</b>	<b>371,642</b>
<b>EBITDA of Corporate and other segment .....</b>	<b>(10,629)</b>	<b>(12,619)</b>	<b>(39,378)</b>	<b>(39,962)</b>
<b>Elimination .....</b>	<b>(12,975)</b>	<b>(14,775)</b>	<b>(16,931)</b>	<b>10,562</b>
<b>EBITDA .....</b>	<b>189,612</b>	<b>202,223</b>	<b>687,094</b>	<b>1,236,192</b>

**Free cash flow reconciliation**

	Q4 2020	Q3 2020	12 months of 2020      2019	
	(millions of rubles)			
Net cash provided by operating activities .....	220,643	227,449	776,574	1,151,844
Capital expenditures .....	(135,161)	(112,826)	(495,443)	(449,975)
<b>Free cash flow .....</b>	<b>85,482</b>	<b>114,623</b>	<b>281,131</b>	<b>701,869</b>

**Liquidity and capital resources**

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
Net cash provided by operating activities.....	220,643	227,449	(3.0)	776,574	1,151,844	(32.6)
including decrease (increase) in working capital ..	24,230	26,305	(7.9)	83,177	(6,781)	-
Net cash used in investing activities .....	(139,024)	(109,703)	26.7	(492,769)	(510,126)	(3.4)
Net cash used in financing activities .....	(156,988)	(343,008)	(54.2)	(514,005)	(582,344)	(11.7)

## Changes in operating assets and liabilities:

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
Decrease (increase) in accounts receivable .....	33,137	(56,609)	-	128,139	(48,023)	-
(Increase) decrease in inventory .....	(48,398)	4,509	-	37,868	(69,171)	-
Increase (decrease) in accounts payable .....	57,014	65,549	(13.0)	(69,305)	88,977	-
(Decrease) increase in net taxes other than on income payable.....	(9,639)	26,789	-	10,200	24,053	(57.6)
Change in other current assets and liabilities.....	(7,884)	(13,933)	(43.4)	(23,725)	(2,617)	>100
<b>Total decrease (increase) in working capital .....</b>	<b>24,230</b>	<b>26,305</b>	<b>(7.9)</b>	<b>83,177</b>	<b>(6,781)</b>	<b>-</b>

**Operating activities**

Our primary source of cash flow is funds generated from our operations. Our cash generated from operations decreased by 3.0% and by 32.6% compared to the third quarter of 2020 and full year 2019, respectively, as a result of a decrease in profitability of our core operations. Moreover, our operating cash flow was positively impacted by the dynamics in working capital.

**Investing activities**

Compared to the previous quarter, our cash used in investing activities increased by 26.7% largely as a result of an increase in capital expenditures. Compared to 2019, our cash used in investing activities decreased by 3.4%, an increase in capital expenditures was more than offset by lower spending on acquisitions of subsidiaries.

Our capital expenditures increased by 19.8% compared to the third quarter of 2020, and by 10.1% compared to 2019.

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 December and 30 September 2020 and for the years 2020 and 2019**

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
<b>Capital expenditures</b>						
Exploration and production						
West Siberia.....	31,921	31,614	1.0	150,167	141,266	6.3
Timan-Pechora.....	19,103	19,844	(3.7)	81,967	66,808	22.7
Ural region.....	9,280	9,374	(1.0)	39,733	37,243	6.7
Volga region.....	25,974	16,649	56.0	61,739	43,798	41.0
Other in Russia.....	2,803	2,962	(5.4)	9,686	10,778	(10.1)
<b>Total in Russia.....</b>	<b>89,081</b>	<b>80,443</b>	<b>10.7</b>	<b>343,292</b>	<b>299,893</b>	<b>14.5</b>
Iraq.....	6,565	4,620	42.1	26,379	22,833	15.5
Other outside Russia.....	6,732	5,166	30.3	29,882	42,214	(29.2)
<b>Total outside Russia.....</b>	<b>13,297</b>	<b>9,786</b>	<b>35.9</b>	<b>56,261</b>	<b>65,047</b>	<b>(13.5)</b>
<b>Total exploration and production.....</b>	<b>102,378</b>	<b>90,229</b>	<b>13.5</b>	<b>399,553</b>	<b>364,940</b>	<b>9.5</b>
Refining, marketing and distribution						
Russia.....	25,277	17,090	47.9	72,486	62,740	15.5
refining.....	16,152	12,563	28.6	51,566	39,912	29.2
retail.....	1,883	562	>100	4,528	4,189	8.1
other.....	7,242	3,965	82.6	16,392	18,639	(12.1)
International.....	6,298	4,882	29.0	20,558	18,400	11.7
refining.....	4,753	4,121	15.3	16,506	12,327	33.9
retail.....	1,216	695	75.0	3,479	4,318	(19.4)
other.....	329	66	>100	573	1,755	(67.4)
<b>Total refining, marketing and distribution.....</b>	<b>31,575</b>	<b>21,972</b>	<b>43.7</b>	<b>93,044</b>	<b>81,140</b>	<b>14.7</b>
Corporate and other.....	1,208	625	93.3	2,846	3,895	(26.9)
<b>Total capital expenditures.....</b>	<b>135,161</b>	<b>112,826</b>	<b>19.8</b>	<b>495,443</b>	<b>449,975</b>	<b>10.1</b>

Compared to the third quarter of 2020, an increase in our upstream capital expenditures in Russia was mainly due to development of V. Grayfer field in the Caspian Sea.

Quarter-on-quarter dynamics of capital expenditures of our refining and marketing segment in Russia was mainly defined by construction schedule of delayed coker unit at our refinery in Nizhny Novgorod.

Year-on-year increase in exploration and production capital expenditures in Russia was mainly due to active development of fields in Timan-Pechora and of V. Grayfer field in the Caspian Sea. Year-on-year increase in capital expenditures of our refining and marketing segment in Russia was mainly a result of construction of delayed coker unit at our refinery in Nizhny Novgorod. Outside Russia, the increase in capital expenditures of our refining and marketing segment was due to modernization works and overhauls at our refineries. Dynamics of our capital expenditures was also affected by the ruble depreciation.

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

	Q4 2020	Q3 2020	Change, %	12 months of		Change, %
				2020	2019	
	(millions of rubles)					
West Siberia (Yamal).....	3,547	2,112	67.9	16,920	21,383	(20.9)
Caspian region (Projects in Russia).....	24,265	15,450	57.1	56,083	36,362	54.2
Timan-Pechora (Yaregskoye field).....	390	3,660	(89.3)	9,871	7,756	27.3
Iraq (West Qurna-2 project).....	6,028	4,163	44.8	24,235	19,967	21.4
Iraq (Block-10).....	537	457	17.5	2,144	2,866	(25.2)
Uzbekistan.....	1,126	19	>100	3,890	11,605	(66.5)
<b>Total.....</b>	<b>35,893</b>	<b>25,861</b>	<b>38.8</b>	<b>113,143</b>	<b>99,939</b>	<b>13.2</b>

**Financing activities**

In the fourth quarter of 2020, net movements of short-term and long-term debt generated an outflow of 108 billion RUB, compared to an outflow of 96 billion RUB in the third quarter of 2020. In 2020, net movements of short-term and long-term debt generated an outflow of 62 billion RUB, compared to an outflow of 113 billion RUB in 2019.

## PJSC LUKOIL

### Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 December and 30 September 2020 and for the years 2020 and 2019

On 6 May 2020, a Group company raised new debt via issuance of non-convertible bonds totaling \$1.5 billion. 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 November 2020, a Group company repaid the bonds issued in 2010 in the amount of \$1 billion.

In August 2018, we announced the start of an open market buyback programme, which was completed on 20 August 2019. In 2019, a Group company spent 243,691 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.

#### Credit rating

Standard & Poor's Ratings Services set the Company's issuer credit rating to BBB.

Moody's set the Company's long-term issuer rating to Baa2.

Fitch Ratings set the Company's long-term issuer default rating to BBB+.

#### Debt maturity

The following table displays the breakdown of our total debt obligation by maturity dates.

	Total	2021	2022	2023	2024	2025	After	
			(millions of rubles)					
Short term debt .....	21,258	21,258	-	-	-	-	-	
Long-term bank loans and borrowings .	112,660	26,846	21,082	15,499	15,452	12,708	21,073	
6.656% Non-convertible US dollar bonds, maturing 2022 .....	36,901	-	36,901	-	-	-	-	
4.563% Non-convertible US dollar bonds, maturing 2023 .....	110,737	-	-	110,737	-	-	-	
4.750% Non-convertible US dollar bonds, maturing 2026 .....	73,751	-	-	-	-	-	73,751	
3.875% Non-convertible US dollar bonds, maturing 2030 .....	110,532	-	-	-	-	-	110,532	
Lease obligation <sup>1</sup> .....	193,872	34,532	19,609	17,744	17,029	15,699	89,259	
<b>Total.....</b>	<b>659,711</b>	<b>82,636</b>	<b>77,592</b>	<b>143,980</b>	<b>32,481</b>	<b>28,407</b>	<b>294,615</b>	

<sup>1</sup> Discounted amounts. Undiscounted cash flows are presented in Note 36 «Capital and risk management» to our consolidated financial statements.

#### Litigation and claims

The Group is involved in various claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition. See Note 30 "Commitments and contingencies" to our consolidated financial statements for detailed information on claims and legal proceedings involving the Group.

#### Critical accounting policies

The preparation of financial statements in conformity with IFRS requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. See Note 3 "Summary of significant accounting policies" to our consolidated financial statements for descriptions of the Company's major accounting policies. Certain of these accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used.

## **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.

## **Forward-looking statements**

Certain statements in this document are not historical facts and are “forward-looking.” We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to products or services
- statements of future economic performance
- statements of assumptions underlying such statements.

Forward looking statements that may be made by us from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios. Words such as “believes,” “anticipates,” “expects,” “estimates,” “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include:

- inflation, interest rate and exchange rate fluctuations
- the price of oil
- the effects of, and changes in, Russian government policy
- the effects of competition in the geographic and business areas in which we conduct operations
- the effects of changes in laws, regulations, taxation or accounting standards or practices
- our ability to increase market share for our products and control expenses
- acquisitions or divestitures
- technological changes
- our success at managing the risks of the aforementioned factors.

*This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made, and, subject to any continuing obligations under the Listing Rules of the U.K. Listing Authority, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.*