



PJSC LUKOIL

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

**for the three-month periods ended
30 September and 30 June 2020
and nine-month periods ended
30 September 2020 and 2019**

PJSC LUKOIL

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

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

References to "LUKOIL," "the Company," "the Group," "we" or "us" are references to PJSC LUKOIL and its subsidiaries and 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.

Table of Contents

Business overview.....	4
Impact of COVID-19 on the Group's operations	4
Key financial and operational results	6
Changes in the Group structure	7
Main macroeconomic factors affecting our results of operations	8
International crude oil and refined products prices	8
Domestic crude oil and refined products prices	8
Changes in ruble exchange rate and inflation	9
Taxation	9
Transportation tariffs on crude oil, natural gas and refined products in Russia	14
Segments highlights	15
Exploration and production.....	15
West Qurna-2 project.....	18
Refining, marketing and distribution	20
Financial results	25
Sales revenues	26
Operating expenses	30
Cost of purchased crude oil, gas and products	32
Transportation expenses.....	33
Selling, general and administrative expenses.....	34
Depreciation, depletion and amortization	34
Equity share in income (loss) of associates.....	34
Taxes other than income taxes	35
Excise and export tariffs.....	36
Exploration expenses	37
Foreign exchange (loss) gain	37
Other expenses	37
Income taxes	37
Non-GAAP items reconciliation	38
EBITDA reconciliation	38
Free cash flow reconciliation	38
Liquidity and capital resources	39
Operating activities	39
Investing activities	39
Financing activities	40
Other information.....	41
Sectoral sanctions against the Russian companies	41
Operations in Iraq.....	41

Business overview

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

LUKOIL is one of the world's largest publicly traded vertically integrated energy companies. Our proved reserves under SEC standards amounted to 15.8 billion BOE at 1 January 2020 and comprised of 12.0 billion barrels of crude oil and 22.5 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and gas in Russia and internationally. In Russia, our major oil producing regions are West Siberia, Timan-Pechora, Ural and Volga region. Our international upstream segment includes stakes in PSAs and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria, Mexico, the Republic of Congo and the UAE. Our daily hydrocarbon production in the nine months of 2020 amounted to 2.1 million BOE, with liquid hydrocarbons representing approximately 79% of our overall production volumes.

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

We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. We also own two petrochemical plants in Russia and have petrochemical facilities at our refineries in Bulgaria and Italy. Along with our own production of refined products, we refine crude oil at third party refineries depending on market conditions and other factors. Throughput at our refineries in the nine months of 2020 amounted to 1.2 million barrels per day, and we produced 0.9 million tonnes of petrochemicals, including olefins, polyolefins and products of organic synthesis.

We market our own and third-party crude oil and refined products through our sales channels in Russia, Europe, South-East Asia, Central and North America and other regions. We own petrol stations in 19 countries. Most of our retail networks are located close to our refineries. Our retail sales in the nine months of 2020 amounted to 9.4 million tonnes of refined products. We also supply jet fuel to airports and bunker fuel to sea and river ports in and outside Russia.

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally. In the nine months of 2020, our total output of electrical energy was 12.7 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 \$43 per barrel in the middle of November 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.

PJSC LUKOIL

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

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

Due to the new OPEC+ agreement we cut our crude oil production in Russia in May 2020 by approximately 310 thousand barrels per day, or by 19%, as compared to our daily crude oil production in Russia in the first quarter of 2020. To minimize the negative impact of this production cut on our financial performance the cut was implemented at the least profitable fields. We subsequently increased our crude oil production in Russia by approximately 20 thousand barrels per day in July and incrementally by approximately 60 thousand barrels per day in the beginning of August. According to the current terms of the agreement we may further increase our crude oil production in Russia from 1 January 2021 and then recover the rest of the cut from 1 May 2022. Due to the new OPEC+ agreement crude oil production was also reduced at some of our international projects. For example, in May we cut production at the West Qurna-2 project in Iraq by 70 thousand barrels per day, in the middle of June we incrementally cut production at this project by approximately 50 thousand barrels per day and we subsequently increased production by approximately 30 thousand barrels per day in the middle of October 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 in the second and the third quarters of 2020 in order to efficiently react to the adverse macro changes. As a result of optimization as well as major scheduled maintenance works at several refineries average daily refinery throughput volumes in the second quarter of 2020 were approximately 30% lower at our European refineries and approximately 15% lower at our Russian refineries as compared to the first quarter of 2020. After completion of scheduled maintenance works, we partially recovered refinery throughput volumes that increased in the third quarter of 2020 by 10% as compared to the second quarter of 2020, but were 19% lower as compared to the third quarter of 2019 due to optimized utilization rates.

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 third quarter of 2020, reached approximately 95% of the level of the third quarter of 2019.

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

Management believes that the Group is in a solid financial condition and has adequate liquidity with net financial debt position (excluding lease obligations) at only 152 billion RUB as of the end of the nine months 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

	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
	(millions of rubles)					
Sales	1,456,650	986,427	47.7	4,109,062	5,928,807	(30.7)
EBITDA ¹ , including	202,223	144,416	40.0	497,482	958,032	(48.1)
Exploration and production segment.....	151,979	72,346	>100	333,514	682,164	(51.1)
Refining, marketing and distribution segment	77,638	78,744	(1.4)	196,673	289,485	(32.1)
EBITDA ¹ net of West Qurna-2 project.....	196,008	137,163	42.9	472,602	938,447	(49.6)
Profit (loss) for the period attributable to LUKOIL shareholders.....	50,420	(18,720)	-	(14,260)	520,868	-
Capital expenditures	112,826	117,245	(3.8)	360,282	314,038	14.7
Free cash flow ²	114,623	25,507	>100	195,649	517,125	(62.2)
Free cash flow before changes in working capital	88,318	38,396	>100	136,702	568,866	(76.0)
	(thousand BOE per day)					
Production of hydrocarbons, including our share in associates	1,927	2,064	(6.6)	2,124	2,367	(10.3)
crude oil and natural gas liquids.....	1,545	1,650	(6.4)	1,678	1,815	(7.5)
gas	382	414	(7.7)	446	552	(19.2)
Refinery throughput at the Group refineries	1,183	1,089	8.6	1,216	1,389	(12.5)

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

² Cash flow from operating activities less capital expenditures.

In the third quarter of 2020, as compared to the second quarter of 2020, our results were positively impacted by an increase in international crude oil prices, bigger share of high-margin volumes in our domestic crude oil production, higher throughput volumes and better product slate at our refineries, and an increase in domestic refining margins, as well as accounting specifics of our international trading operations. At the same time, this was partially offset by lower crude oil production in Russia due to the new OPEC+ agreement, lower positive inventory effect, as well as a decrease in international gas production volumes and trading margin.

The dynamics of our results compared to the nine months of 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, an increase in share of high-margin volumes in our domestic crude oil production, higher trading margin and accounting specifics of our international trading operations.

As a result, our EBITDA increased by 40.0% compared to the second quarter of 2020, and decreased by 48.1% compared to the nine months of 2019.

Depreciation of the ruble in the third quarter of 2020 resulted in a currency exchange loss of 27 billion RUB in the third quarter of 2020 compared to a gain of 4 billion RUB in the second quarter of 2020, and a currency exchange loss of 39 billion RUB in the nine months of 2020, as opposed to a gain of 1 billion RUB in the nine months of 2019.

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

In the third quarter of 2020, profit attributable to LUKOIL shareholders amounted to 50 billion RUB, compared to a loss in the amount of 19 billion RUB in the second quarter of 2020. In the nine months of 2020, loss attributable to LUKOIL shareholders amounted to 14 billion RUB compared to profit in the amount of 521 billion RUB in the nine months of 2019.

Our capital expenditures decreased by 4 billion RUB, or by 3.8%, compared to the second quarter of 2020, and increased by 46 billion RUB, or by 14.7%, compared to the nine months of 2019.

Our free cash flow amounted to 115 billion RUB in the third quarter of 2020, an increase of 349.4% compared to the second quarter of 2020. That was mainly a result of an increase in profitability of our core operations and a decrease in capital expenditures.

Our free cash flow amounted to 196 billion RUB in the nine months of 2020, a decrease of 62.2% compared to the nine months of 2019. Such decrease was a result of a decrease in profitability of our core operations, as well as of higher capital expenditures.

PJSC LUKOIL**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 30 September and 30 June 2020 and nine-month periods ended 30 September 2020 and 2019**

The Group's average daily hydrocarbon production decreased by 6.6% compared to the second quarter of 2020 and by 10.3% compared to the nine months of 2019 mainly due to the new OPEC+ agreement and a decrease in gas supply from Uzbekistan to China, that were driven by the negative impact of the COVID-19 pandemic on hydrocarbon demand.

In the third quarter of 2020, average daily throughput at our refineries increased by 8.6% compared to the previous quarter mainly due to completion of scheduled maintenance works at refineries. In the nine months of 2020, throughput at our refineries decreased by 12.5% compared to the nine months of 2019 due to throughput optimization at some of the Group's refineries in the second and the third quarters of 2020 on the back of lower demand for petroleum products and decline in refining margins, as well as due to 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.

Main macroeconomic factors affecting our results of operations

International crude oil and refined products prices

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

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

In the nine months of 2020, the price for Brent crude oil dropped sharply from \$70.0 per barrel in January to \$13.2 per barrel in the end of April as a result of a substantial decrease in global demand for crude oil due to the COVID-19 pandemic. Gradual recovery of global demand together with the new OPEC+ agreement led to a price increase to \$46.0 per barrel by the end of August. As a result, average price expressed in US dollars increased by 45.5% compared to the second quarter of 2020, and decreased by 36.6% compared to the nine months of 2019.

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(US dollars per barrel)						
Brent FOB dated.....	42.93	29.51	45.5	40.97	64.60	(36.6)
Urals crude (average MED and Rotterdam)	43.24	29.58	46.2	40.41	64.30	(37.2)
(US dollars per tonne)						
Diesel fuel 10 ppm (FOB Rotterdam)	353.88	279.65	26.5	367.87	592.18	(37.9)
High-octane gasoline (FOB Rotterdam)	394.45	269.13	46.6	377.77	618.63	(38.9)
Naphtha (FOB Rotterdam)	372.17	233.61	59.3	338.68	496.07	(31.7)
Jet fuel (FOB Rotterdam)	340.70	247.14	37.9	356.46	631.07	(43.5)
Vacuum gas oil (FOB Rotterdam).....	297.22	200.80	48.0	293.38	452.31	(35.1)
Marine fuel 0.5% (FOB Rotterdam).....	296.40	223.93	32.4	306.50	441.22	(30.5)
Fuel oil 3.5% (FOB Rotterdam)	240.35	161.54	48.8	209.93	364.63	(42.4)

Source: Platts, Argus.

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(rubles per barrel)						
Brent FOB dated.....	3,158	2,135	47.9	2,900	4,204	(31.0)
Urals crude (average MED and Rotterdam)	3,181	2,140	48.6	2,860	4,185	(31.7)
(rubles per tonne)						
Diesel fuel 10 ppm (FOB Rotterdam)	26,031	20,236	28.6	26,037	38,538	(32.4)
High-octane gasoline (FOB Rotterdam)	29,015	19,475	49.0	26,738	40,260	(33.6)
Naphtha (FOB Rotterdam)	27,377	16,904	62.0	23,971	32,284	(25.7)
Jet fuel (FOB Rotterdam)	25,062	17,883	40.1	25,229	41,069	(38.6)
Vacuum gas oil (FOB Rotterdam).....	21,863	14,530	50.5	20,765	29,436	(29.5)
Marine fuel 0.5% (FOB Rotterdam).....	21,803	16,204	34.6	21,694	28,714	(24.4)
Fuel oil 3.5% (FOB Rotterdam)	17,680	11,689	51.3	14,858	23,730	(37.4)

Translated to rubles using average exchange rate for the period.

Domestic crude oil and refined products prices

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

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

PJSC LUKOIL

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

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

	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
	(rubles per tonne)					
Diesel fuel	38,892	32,378	20.1	36,648	40,199	(8.8)
High-octane gasoline (Regular).....	42,049	39,056	7.7	39,924	38,161	4.6
High-octane gasoline (Premium).....	44,292	40,799	8.6	42,888	41,341	3.7
Fuel oil	10,625	7,486	41.9	10,023	15,977	(37.3)

Source: InfoTEK (excluding VAT).

Changes in ruble exchange rate and inflation

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

	Q3 2020	Q2 2020	9 months of	
			2020	2019
Ruble inflation (CPI), %	0.2	1.3	2.9	2.3
Ruble to US dollar exchange rate				
Average for the period	73.6	72.4	70.8	65.1
At the beginning of the period	70.0	77.7	61.9	69.5
At the end of the period	79.7	70.0	79.7	64.4
Ruble to euro exchange rate				
Average for the period	86.0	79.6	79.6	73.2
At the beginning of the period	78.7	85.7	69.3	79.5
At the end of the period	93.0	78.7	93.0	70.3

Source: CBR, Federal State Statistics Service.

Taxation

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

	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
	(US dollars per tonne)					
Mineral extraction tax ¹	127.87	67.36	89.8	117.08	202.42	(42.2)
Export duty on crude oil	44.03	22.20	98.3	46.77	95.49	(51.1)

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

	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
	(rubles per tonne)					
Mineral extraction tax	9,406	4,874	93.0	8,287	13,173	(37.1)
Export duty on crude oil ¹	3,239	1,606	>100	3,310	6,214	(46.8)

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

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

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

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

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

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

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

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

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

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

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

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

In October 2020, amendments to the Russian Tax Code were adopted, providing for the cancellation of reduced tax rates for fields producing extra-viscous and high-viscous crude oil starting from 1 January 2021.

Furthermore, the mineral extraction tax incentives for highly depleted fields will be cancelled starting from 1 January 2021, while the respective license areas will be allowed to be included into Group 3 of tax on additional income regime (see below).

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

In October 2020, the following amendments to the Russian Tax Code which will come into effect on 1 January 2021 were adopted:

- The indexation coefficient for losses carried forward starting from 2020 is reduced;
- For the tax periods 2021–2023, TAI tax base can be reduced by the historical cumulative losses attributable to the license area by no more than 50%;
- The maximum level of costs per tonne that are allowed to be deducted from the tax base is reduced.

PJSC LUKOIL

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

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

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

Crude oil export duty rate is denominated in US dollars per tonne of crude oil exported and is calculated by multiplying the base export duty rate calculated on a monthly basis by the adjusting factor from tables below.

International Urals price	Base export duty rate
Less than, or equal to, \$109.5 per tonne (\$15 per barrel)	\$0 per tonne
Above \$109.5 but less than, or equal to, \$146.0 per tonne (\$20 per barrel)	35% of the difference between the actual price and \$109.5 per tonne (or \$0.35 per barrel per each \$1 increase in crude oil price over \$15 per barrel)
Above \$146.0 but less than, or equal to, \$182.5 per tonne (\$25 per barrel)	\$12.78 per tonne plus 45% of the difference between the actual price and \$146.0 per tonne (or \$1.75 plus \$0.45 per barrel per each \$1 increase in crude oil price over \$20 per barrel)
Above \$182.5 per tonne (\$25 per barrel)	\$29.2 per tonne plus 30% of the difference between the actual price and \$182.5 per tonne (or \$4 plus \$0.3 per barrel per each \$1 increase in crude oil price over \$25 per barrel)

	2019	2020	2021	2022	2023	2024 and further
Adjusting factor	0.833	0.667	0.500	0.333	0.167	0

The rate for the next month is being based on average Urals price for the period from the 15th day of the previous month to the 14th day of the current month. This calculation methodology results in the so-called "export duty lag effect," when export duty rate lags the oil price changes, which may result in sizeable impact on our financial results in the periods of high oil price volatility. As a result of the tax manoeuvre, the lag effect will gradually migrate from the export duty to the mineral extraction tax by 2024.

	Q3 2020	Q2 2020	Change, %	9 months of 2020	2019	Change, %
	(US dollars per barrel)					
Urals price (Argus).....	43.24	29.58	46.2	40.41	64.30	(37.2)
Export duty on crude oil	6.03	3.04	98.4	6.41	13.08	(51.0)
Mineral extraction tax on crude oil	17.52	9.23	89.8	16.04	27.73	(42.2)
Net Urals price ¹	19.69	17.31	13.7	17.96	23.49	(23.5)
Export duty lag effect.....	0.28	0.33	(15.2)	(0.73)	0.06	-
Mineral extraction tax lag effect.....	0.14	0.17	(18.9)	(0.36)	0.01	-
Net Urals price ¹ assuming no lag	19.27	16.81	14.6	19.05	23.42	(18.6)
	(rubles per barrel) ²					
Urals price (Argus).....	3,181	2,140	48.6	2,860	4,185	(31.7)
Export duty on crude oil	444	220	>100	453	851	(46.8)
Mineral extraction tax on crude oil	1,288	668	92.8	1,135	1,805	(37.1)
Net Urals price ¹	1,449	1,252	15.7	1,272	1,529	(16.8)
Export duty lag effect.....	21	24	(12.5)	(52)	4	-
Mineral extraction tax lag effect.....	10	12	(15.5)	(26)	1	-
Net Urals price ¹ assuming no lag	1,418	1,216	16.6	1,350	1,524	(11.4)

¹ Urals price net of export duty and mineral extraction tax on crude oil.

² Translated to rubles using average exchange rate for the period.

Crude oil produced at some of our fields is subject to special export duty rates calculated according to specific formulas and are lower than the standard rates. A reduced rate is applied to crude oil produced at our Yaregskoye field producing extra-viscous crude oil and our Yu. Korchagin field in the Caspian offshore. A zero rate applies to crude oil of our V. Filanovsky field also located in the Caspian offshore, as well as the offshore greenfields in the Baltic Sea.

In October 2020, amendments to the Russian customs legislation were adopted, providing for the cancellation of reduced export duty rates applied to crude oil produced at our Yaregskoye and Yu. Korchagin fields starting from 1 January 2021.

Crude oil exported to member countries of the Customs Union in the Eurasian Economic Union of Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic (Customs Union) is not subject to export duties.

PJSC LUKOIL

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

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

Tax incentives

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

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

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

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(US dollars per thousand cubic meters) ¹					
Nakhodkinskoye field	5.56	5.54	0.3	5.71	5.44	4.9
Pyakyakhinskoye field	7.06	6.63	6.4	6.95	8.22	(15.4)

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(rubles per thousand cubic meters)					
Nakhodkinskoye field	409	401	2.0	404	354	14.1
Pyakyakhinskoye field	519	480	8.1	492	535	(8.0)

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.

PJSC LUKOIL

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

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.

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(rubles per tonne)					
Gasoline						
Below Euro-5.....	13,100	13,100	-	13,100	13,100	-
Euro-5.....	12,752	12,752	-	12,752	12,314	3.6
Diesel fuel						
All ecological classes.....	8,835	8,835	-	8,835	8,541	3.4
Motor oils.....	5,616	5,616	-	5,616	5,400	4.0
Middle distillates*.....	15,075	19,721	(23.6)	14,778	9,241	59.9

*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
Euro-5.....	12,752	13,262	13,793	14,345
Diesel fuel				
All ecological classes.....	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. The damper coefficient is calculated by multiplying *Compensation Coefficient* and a difference between gasoline and diesel fuel export netbacks at North-Western Russia delivery basis and corresponding *Fixed benchmarks*. When the damper coefficient is positive, it is payable by the Government to the refinery, and vice versa.

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

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

	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

PJSC LUKOIL**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 30 September and 30 June 2020 and nine-month periods ended 30 September 2020 and 2019**

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(US dollars per tonne) ¹					
Gasoline	(61.19)	(180.80)	(66.2)	(105.47)	59.64	-
Diesel fuel	(74.63)	(140.08)	(46.7)	(86.45)	75.68	-

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(rubles per tonne)					
Gasoline	(4,501)	(13,083)	(65.6)	(7,465)	3,881	-
Diesel fuel	(5,490)	(10,136)	(45.8)	(6,119)	4,925	-

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.

	Q3 2020 to Q2 2020	9 months of 2020 to 9 months of 2019
Transneft (crude oil)	0.0%	3.4%
Russian Railways (crude oil and refined products)	0.0%	3.5%

Segments highlights

Our operations are divided into three main business segments:

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

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

Exploration and production

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(millions of rubles)					
EBITDA	151,979	72,346	>100	333,514	682,164	(51.1)
in Russia.....	136,108	63,931	>100	273,609	555,969	(50.8)
outside Russia and Iraq	9,656	1,162	>100	35,025	106,610	(67.1)
in Iraq.....	6,215	7,253	(14.3)	24,880	19,585	27.0
Hydrocarbon extraction expenses.....	46,670	49,545	(5.8)	147,874	156,857	(5.7)
in Russia.....	37,552	39,252	(4.3)	118,796	127,305	(6.7)
outside Russia and Iraq	5,297	6,184	(14.3)	16,804	16,675	0.8
in Iraq.....	3,821	4,109	(7.0)	12,274	12,877	(4.7)
	(rubles per BOE)					
Hydrocarbon extraction expenses (excluding Iraq) ...	254	259	(2.0)	246	232	6.3
in Russia.....	241	247	(2.2)	240	237	1.4
outside Russia and Iraq	404	381	6.0	302	200	51.2
	(US dollars per BOE)					
Hydrocarbon extraction expenses (excluding Iraq) ...	3.45	3.58	(3.6)	3.48	3.56	(2.3)
in Russia.....	3.28	3.41	(3.8)	3.39	3.64	(6.8)
outside Russia and Iraq	5.50	5.27	4.3	4.27	3.07	39.1

Our upstream EBITDA increased by 110.1% compared to the second quarter of 2020. In Russia, the increase was mainly a result of higher crude oil prices, bigger share of high-margin volumes in our crude oil production, lower operating expenses and the effect of the ruble depreciation, that was partially offset by lower crude oil production due to the new OPEC+ agreement. Outside Russia and Iraq, our EBITDA was supported mainly by an increase in hydrocarbon prices and an increase in revenues on the back of a downward recalculation of Uzbek gas sales revenue for the first quarter of 2020 in the amount of 5.5 billion RUB in the second quarter of 2020, that was partially offset by lower production volumes.

Compared to the nine months of 2019, our upstream EBITDA decreased by 51.1%. 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 bigger share of high-margin volumes in crude oil production and the ruble depreciation. Outside Russia and Iraq, our upstream EBITDA decreased mainly as a result of a decrease in international hydrocarbon prices and gas production volumes.

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

PJSC LUKOIL

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

The following table summarizes our hydrocarbon production by major regions.

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(thousand BOE per day)					
Crude oil and natural gas liquids						
Consolidated subsidiaries						
West Siberia	620	657	(5.6)	679	767	(11.5)
Timan-Pechora	255	273	(6.6)	282	319	(11.6)
Ural region	304	299	1.7	313	334	(6.3)
Volga region	212	214	(0.9)	220	235	(6.4)
Other in Russia	29	29	-	29	32	(9.4)
Total in Russia	1,420	1,472	(3.5)	1,523	1,687	(9.7)
Iraq ¹	42	82	(48.8)	59	30	96.7
Other outside Russia	44	53	(17.0)	52	48	8.3
Total outside Russia	86	135	(36.3)	111	78	42.3
Total consolidated subsidiaries	1,506	1,607	(6.3)	1,634	1,765	(7.4)
Our share in associates						
in Russia	10	10	-	11	13	(15.4)
outside Russia	29	33	(12.1)	33	37	(10.8)
Total share in production of associates	39	43	(9.3)	44	50	(12.0)
Total crude oil and natural gas liquids	1,545	1,650	(6.4)	1,678	1,815	(7.5)
Natural and petroleum gas²						
Consolidated subsidiaries						
West Siberia	200	202	(1.0)	205	200	2.5
Timan-Pechora	27	29	(6.9)	30	33	(9.1)
Ural region	21	21	-	22	23	(4.3)
Volga region	25	25	-	26	27	(3.7)
Other in Russia	0	0	-	0	0	-
Total in Russia	273	277	(1.4)	283	283	-
Uzbekistan	58	78	(25.6)	107	221	(51.6)
Other outside Russia	40	47	(14.9)	45	37	21.6
Total outside Russia	98	125	(21.6)	152	258	(41.1)
Total consolidated subsidiaries	371	402	(7.7)	435	541	(19.6)
Share in associates						
in Russia	2	1	58.1	1	1	12.1
outside Russia	9	11	(13.3)	10	10	(4.5)
Total share in production of associates	11	12	(5.2)	11	11	(2.5)
Total natural and petroleum gas	382	414	(7.7)	446	552	(19.2)
Total daily hydrocarbon production (excluding the West Qurna-2 project)	1,885	1,982	(4.9)	2,065	2,337	(11.6)
Total daily hydrocarbon production	1,927	2,064	(6.6)	2,124	2,367	(10.3)
Including natural gas liquids produced at the gas processing plants	34	36	(5.9)	39	44	(12.1)

¹ Compensation crude oil related to the Group.

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

PJSC LUKOIL**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 30 September and 30 June 2020 and nine-month periods ended 30 September 2020 and 2019**

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

	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
	(thousands of tonnes)					
West Siberia	7,558	7,937	(4.8)	24,646	27,738	(11.1)
Timan-Pechora	3,275	3,469	(5.6)	10,767	12,094	(11.0)
Ural region	3,554	3,441	3.3	10,901	11,598	(6.0)
Volga region	2,531	2,539	(0.3)	7,830	8,377	(6.5)
Other in Russia	374	372	0.5	1,133	1,226	(7.6)
Crude oil produced in Russia	17,292	17,758	(2.6)	55,277	61,033	(9.4)
Iraq ¹	565	1,094	(48.4)	2,380	1,192	99.7
Other outside Russia	496	567	(12.5)	1,651	1,494	10.5
Crude oil produced outside Russia	1,061	1,661	(36.1)	4,031	2,686	50.1
Total crude oil produced by consolidated subsidiaries.....	18,353	19,419	(5.5)	59,308	63,719	(6.9)
Our share in crude oil produced by associates:						
in Russia	124	119	4.2	381	458	(16.8)
outside Russia	338	373	(9.4)	1,142	1,253	(8.9)
Total crude oil produced.....	18,815	19,911	(5.5)	60,831	65,430	(7.0)

¹ Compensation crude oil related to the Group.

Our main oil producing region is West Siberia where we produced 41.2% and 41.6% of our crude oil in the third quarter and the nine months of 2020 (40.9% in the second quarter of 2020 and 43.5% in the nine months of 2019). Our crude oil production decreased by 5.5% compared to the second quarter of 2020 and by 7.0% compared to the nine months of 2019.

The dynamics of our crude oil production volumes in Russia since the beginning of 2017 has been driven by external limitations due to an agreement of OPEC and some of the non-OPEC countries, including Russia, (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 our traditional regions (West Siberia, Timan-Pechora, and Ural) at the least-productive fields and fields with high water-cuts.

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

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 at the V. Vinogradov, Imilorskoye, Sredne-Nazymkoye and Pyakyakhinskoye fields increased in the nine months of 2020 by 23.6% year-on-year and exceeded 3.1 million tonnes.

Development of the Yaregskoye field and Permian reservoir of the Usinskoye field, including the launch of new steam-generating facilities, allowed increasing high viscosity oil production in the nine months of 2020 by 5.1% year-on-year, to 3.9 million tonnes.

In the Caspian Sea at the V. Filanovsky and Yu. Korchagin fields production was maintained at designed levels due to drilling programs. Total crude oil and gas condensate production at these fields in the nine months of 2020 was 5.6 million tonnes, which is 2.0% higher year-on-year. In September 2020, the installation of jackets of the fixed ice-resistant platform was completed as part of the V.I. Grayfer field development.

PJSC LUKOIL

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

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(millions of cubic meters)					
West Siberia, including:	3,118	3,124	(0.2)	9,554	9,290	2.8
Nakhodkinskoye field	1,355	1,377	(1.6)	4,080	3,578	14.0
Pyakyakhinskoye field	902	854	5.6	2,719	2,831	(4.0)
Other fields.....	861	893	(3.6)	2,755	2,881	(4.4)
Timan-Pechora	415	444	(6.5)	1,376	1,531	(10.1)
Ural region	336	325	3.4	1,044	1,045	(0.1)
Volga region.....	394	386	2.1	1,205	1,232	(2.2)
Other in Russia.....	4	5	(20.0)	15	18	(16.7)
Gas produced in Russia.....	4,267	4,284	(0.4)	13,194	13,116	0.6
Uzbekistan.....	910	1,204	(24.4)	4,953	10,255	(51.7)
Other outside Russia.....	622	732	(15.0)	2,096	1,704	23.0
Gas produced outside Russia.....	1,532	1,936	(20.9)	7,049	11,959	(41.1)
Total gas produced by consolidated subsidiaries..	5,799	6,220	(6.8)	20,243	25,075	(19.3)
Our share in gas produced by associates:						
in Russia.....	32	21	52.4	75	66	13.6
outside Russia.....	138	158	(12.7)	462	473	(2.3)
Total gas produced.....	5,969	6,399	(6.7)	20,780	25,614	(18.9)

In the third quarter and the nine months of 2020, LUKOIL Group's gas production was 6.0 billion cubic meters and 20.8 billion cubic meters, respectively, which was 6.7% lower quarter-on-quarter, and 18.9% 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 didn't change significantly. 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) decreased by 20.2% quarter-on-quarter, and by 39.6% year-on-year, mainly as a result of lower demand from China for gas produced in Uzbekistan amid the COVID-19 pandemic.

West Qurna-2 project

The West Qurna-2 field in Iraq is developed under the service contract, signed in January 2010. In May 2018, a Group company and Iraqi party signed a new field development plan, according to which, crude oil production is planned to increase to 800 thousand barrels per day by 2025. Starting from 1 May 2020, crude oil production was reduced by approximately 70 thousand barrels per day following the request from the Iraqi government due to the new OPEC+ agreement. The production was incrementally cut by approximately 50 thousand barrels per day in the middle of June and subsequently increased by approximately 30 thousand barrels per day in the middle of October 2020.

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

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

There are two steps of revenue recognition:

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

PJSC LUKOIL

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

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

(millions of US dollars)	Costs incurred ¹	Remuneration fee	Crude oil received	Crude oil to be received
Cumulative at 31 December 2019	9,229	548	9,242	535
Change in the nine months of 2020	419	95	468	46
Cumulative at 30 September 2020	9,648	643	9,710	581

¹ Including prepayments.

The West Qurna-2 project summary is presented below:

	Q3 2020		Q2 2020		Change, %	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production	27,002	3,948	31,822	4,652	(15.1)	(15.1)
Production related to cost compensation and remuneration	3,864	565	7,485	1,094	(48.4)	(48.4)
Shipment of compensation crude oil ¹	5,572	814	5,927	867	(6.1)	(6.1)
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation	8,441	114	9,288	129	(9.1)	(11.6)
Remuneration fee	1,409	19	2,288	31	(38.4)	(38.7)
	9,850	133	11,576	160	(14.9)	(16.9)
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) ¹	17,193	234	7,941	110	116.5	112.7
Extraction expenses	3,821	52	4,109	57	(7.0)	(8.8)
Depreciation, depletion and amortization	4,678	63	5,200	72	(10.0)	(12.5)
EBITDA	6,215	85	7,253	100	(14.3)	(15.0)

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

	9 months of				Change, %	
	2020		2019			
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production	95,512	13,964	105,586	15,437	(9.5)	(9.5)
Production related to cost compensation and remuneration	16,279	2,380	8,152	1,192	99.7	99.7
Shipment of compensation crude oil ¹	15,270	2,232	6,633	970	>100	>100
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation	31,816	455	26,759	412	18.9	10.4
Remuneration fee	5,800	82	5,988	92	(3.1)	(10.9)
	37,616	537	32,747	504	14.9	6.5
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) ¹	33,434	469	25,884	398	29.2	17.8
Extraction expenses	12,274	174	12,877	198	(4.7)	(12.1)
Depreciation, depletion and amortization	19,690	283	13,962	215	41.0	31.6
EBITDA	24,880	357	19,585	301	27.0	18.6

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

PJSC LUKOIL**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 30 September and 30 June 2020 and nine-month periods ended 30 September 2020 and 2019****Refining, marketing and distribution**

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

	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
				(millions of rubles)		
EBITDA	77,638	78,744	(1.4)	196,673	289,485	(32.1)
in Russia	42,357	33,066	28.1	137,180	229,552	(40.2)
outside Russia	35,281	45,678	(22.8)	59,493	59,933	(0.7)
Refining expenses at the Group refineries	24,165	20,611	17.2	67,050	71,907	(6.8)
in Russia	10,961	9,570	14.5	30,075	31,227	(3.7)
outside Russia	13,204	11,041	19.6	36,975	40,680	(9.1)
				(rubles per tonne)		
Refining expenses at the Group refineries	1,628	1,524	6.8	1,475	1,390	6.1
in Russia	1,074	1,031	4.2	988	937	5.5
outside Russia	2,845	2,603	9.3	2,459	2,210	11.3
				(US dollars per tonne)		
Refining expenses at the Group refineries	22.13	21.06	5.1	20.84	21.36	(2.4)
in Russia	14.60	14.25	2.5	13.97	14.40	(3.0)
outside Russia	38.68	35.97	7.5	34.74	33.95	2.3

Our refining, marketing and distribution EBITDA was 1.4% lower than in the second quarter of 2020. At the same time, in Russia, refining, marketing and distribution EBITDA increased by 28.1% largely due to an increase in refining margins, higher refinery throughput volumes, better product slate and higher sales volumes through our retail network, that was partially offset by lower positive inventory effect at our refineries and a decrease in retail margin. Outside Russia, our refining, marketing and distribution EBITDA declined primarily due to a decrease in trading and refining margins, as well as inventory effect. However, this was partially compensated by higher refinery throughput volumes, better refinery product slate, better results of our retail business, as well as the accounting specifics of our trading operations.

Compared to the nine months of 2019, our refining, marketing and distribution EBITDA decreased by 32.1%. In Russia, our downstream EBITDA decreased largely due to a decline in refining margin, weaker results of petrochemical and retail business, lower refinery throughput volumes and negative inventory effect at our refineries, that was partially offset by optimization of refinery product slate. Outside Russia, our downstream EBITDA was flat compared to the nine months of 2019. A decline in benchmark refining margin, lower throughput volumes and negative inventory effect at our refineries were largely offset by an increase in trading margin and the accounting specifics of our trading operations, as well as the ruble depreciation.

PJSC LUKOIL

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

Refining and petrochemicals

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

	Q3 2020	Q2 2020	Change, % (thousands of tonnes)	9 months of 2020	9 months of 2019	Change, %
Refinery throughput at the Group refineries	14,848	13,525	9.8	45,463	51,737	(12.1)
in Russia	10,207	9,283	10.0	30,427	33,326	(8.7)
outside Russia, including	4,641	4,242	9.4	15,036	18,411	(18.3)
crude oil	4,215	3,998	5.4	13,803	16,986	(18.7)
refined products.....	426	244	74.6	1,233	1,425	(13.5)
Refinery throughput at third party refineries	41	24	70.8	118	4,973	(97.6)
Total refinery throughput.....	14,889	13,549	9.9	45,581	56,710	(19.6)
Production of the Group refineries in Russia¹	9,722	8,781	10.7	28,856	31,611	(8.7)
diesel fuel.....	4,010	3,988	0.6	12,324	12,336	(0.1)
motor gasoline	2,104	1,517	38.7	5,597	5,855	(4.4)
fuel oil.....	839	547	53.4	2,177	3,710	(41.3)
jet fuel.....	692	374	85.0	1,695	2,187	(22.5)
lubricants and components.....	202	218	(7.3)	668	721	(7.4)
straight-run gasoline	430	656	(34.5)	1,822	2,032	(10.3)
vacuum gas oil.....	131	20	>100	151	281	(46.3)
bitumen.....	275	255	7.8	759	692	9.7
coke	265	289	(8.3)	851	780	9.1
bunker fuel.....	385	569	(32.3)	1,446	1,133	27.6
gas products.....	90	69	30.4	239	245	(2.4)
petrochemicals.....	82	63	30.2	245	289	(15.2)
other products	217	216	0.5	882	1,350	(34.7)
Production of the Group refineries outside Russia	4,246	3,860	10.0	13,711	17,400	(21.2)
diesel fuel.....	2,146	1,940	10.6	6,735	7,875	(14.5)
motor gasoline	1,064	955	11.4	3,170	3,756	(15.6)
fuel oil.....	193	145	33.1	677	1,648	(58.9)
jet fuel.....	86	83	3.6	412	874	(52.9)
straight-run gasoline	284	278	2.2	1,167	1,686	(30.8)
coke	16	17	(5.9)	52	84	(38.1)
bunker fuel.....	103	65	58.5	322	-	-
gas products.....	122	111	9.9	374	444	(15.8)
petrochemicals.....	11	11	-	34	34	-
other products	221	255	(13.3)	768	999	(23.1)
Refined products produced by the Group.....	13,968	12,641	10.5	42,567	49,011	(13.1)
Refined products produced at third party refineries ..	37	26	42.3	113	4,698	(97.6)
Total refined products produced.....	14,005	12,667	10.6	42,680	53,709	(20.5)
Reference: Net of cross-supplies of refined products between the Group refineries.....	455	296	53.7	1,239	1,078	14.9
Products produced at petrochemical plants and facilities	283	300	(5.7)	896	884	1.4
in Russia	198	219	(9.6)	645	620	4.0
outside Russia.....	85	81	4.9	251	264	(4.9)

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

In the third quarter and the nine months of 2020, refinery throughput at the Group refineries was 14.8 million tonnes and 45.5 million tonnes, respectively, which is 9.8% higher quarter-on-quarter and 12.1% lower year-on-year.

In the third quarter of 2020, refinery throughput increased by 10.0% in Russia and by 9.4% outside Russia compared to the second quarter of 2020 mainly due to scheduled maintenance works, that substantially impacted throughput volumes in the second quarter of 2020.

Compared to the nine months of 2019, throughput in Russia decreased to 30.4 million tonnes, or by 8.7%, due to scheduled maintenance works and throughput optimization at the Nizhny Novgorod and Ukhta refineries in the second quarter of 2020.

PJSC LUKOIL

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

The year-on-year throughput decline by 18.3% outside Russia was due to scheduled maintenance works at refineries in Bulgaria and the Netherlands, as well as throughput optimization at our European refineries in the second and third quarters of 2020.

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

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

Marketing and trading

In addition to our production, we purchase crude oil in Russia and on international markets. In Russia, we primarily purchase crude oil from 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.

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.

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(thousands of tonnes)						
Crude oil purchases						
In Russia.....	85	92	(7.6)	459	527	(12.9)
For trading internationally.....	13,728	11,645	17.9	40,871	39,106	4.5
For refining internationally.....	3,761	2,416	55.7	10,361	17,442	(40.6)
Shipment of the West Qurna-2 compensation crude oil.....	814	867	(6.1)	2,232	970	>100
Total crude oil purchased.....	18,388	15,020	22.4	53,923	58,045	(7.1)

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(thousands of tonnes)						
Refined products purchases						
In Russia.....	114	99	15.2	503	685	(26.6)
For trading internationally.....	11,840	10,395	13.9	34,635	38,385	(9.8)
For refining internationally.....	392	266	47.6	1,292	1,656	(22.0)
Total refined products purchased.....	12,346	10,760	14.7	36,430	40,726	(10.5)
Petrochemical products purchases						
In Russia.....	36	25	44.0	101	27	>100
For trading internationally.....	134	239	(43.9)	476	727	(34.5)
For refining internationally.....	46	42	9.1	129	142	(9.1)
Total petrochemical products purchased.....	216	306	(29.4)	706	896	(21.2)

PJSC LUKOIL

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

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:

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(millions of rubles)					
Exports of crude oil to Customs Union	12,633	5,605	>100	18,238	47,913	(61.9)
Exports of crude oil beyond Customs Union.....	138,690	95,482	45.3	414,259	751,856	(44.9)
Total crude oil exports	151,323	101,087	49.7	432,497	799,769	(45.9)
	(thousands of tonnes)					
Exports of crude oil to Customs Union	664	451	47.2	1,115	2,024	(44.9)
Exports of crude oil beyond Customs Union.....	6,121	7,756	(21.1)	22,959	25,607	(10.3)
Total crude oil exports	6,785	8,207	(17.3)	24,074	27,631	(12.9)
Exports of crude oil through Transneft, excluding ESPO pipeline.....	3,268	5,176	(36.9)	13,765	15,869	(13.3)
ESPO pipeline	599	300	99.7	1,139	1,258	(9.5)
CPC pipeline	1,341	1,322	1.4	3,915	3,868	1.2
Exports of crude oil through the Group's transportation infrastructure	1,577	1,409	11.9	5,255	6,636	(20.8)
Total crude oil exports	6,785	8,207	(17.3)	24,074	27,631	(12.9)
Supply of exported crude oil to refineries	395	1,160	(66.0)	2,892	2,521	14.7

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(millions of rubles)					
Refined and petrochemical products exports	89,799	74,456	20.6	299,838	473,403	(36.7)
	(thousands of tonnes)					
Refined products exports						
diesel fuel.....	2,227	2,624	(15.1)	7,666	7,681	(0.2)
gasoline	-	284	-	652	277	>100
fuel oil.....	631	112	>100	1,172	1,388	(15.6)
jet fuel	2	1	100.0	9	8	12.5
lubricants and components.....	128	138	(7.2)	440	466	(5.6)
gas refinery products.....	145	190	(23.7)	549	562	(2.3)
other products	629	1,283	(51.0)	2,937	3,567	(17.7)
Total refined products exports	3,762	4,632	(18.8)	13,425	13,949	(3.8)
Total petrochemicals exports.....	110	80	37.5	286	240	19.2

The volume of our crude oil exports from Russia decreased by 17.3% compared to the second quarter of 2020 due to higher refinery throughput volumes and lower crude oil production volumes, and by 12.9% compared to the nine months of 2019 mainly due to crude oil production cut resulting from the new OPEC+ agreement. In the third quarter and the nine months of 2020, we exported 39.2% and 43.6% of our domestic crude oil production (46.2% in the second quarter of 2020 and 45.3% in the nine months of 2019), respectively.

The volume of our refined products exports decreased by 18.8% compared to the second quarter of 2020 due to an increase in domestic demand, and by 3.8% compared to the nine months of 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 preserve the premium quality of crude oil and thus enables to achieve higher netbacks. All the volume of crude oil exported that bypassed Transneft was routed beyond the Customs Union.

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

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

PJSC LUKOIL

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

In the third quarter and the nine months of 2020, we sold 2.6 million tonnes and 6.7 million tonnes of motor fuels via our domestic retail network, which was 35.0% more compared to the second quarter of 2020 and 10.1% less compared to the nine months of 2019. Outside Russia, retail sales increased by 25.4% compared to the second quarter of 2020 and decreased by 13.2% compared to the nine months of 2019.

In the third quarter and the nine months of 2020, our jet fuel deliveries volume net of trading operations amounted to 0.7 million tonnes and 1.9 million tonnes compared to 0.4 million tonnes in the second quarter of 2020 and 2.6 million tonnes in the nine months of 2019.

In the third quarter and the nine months of 2020, our bunkering volume net of trading operations amounted to 0.6 million tonnes and 2.2 million tonnes compared to 0.8 million tonnes in the second quarter of 2020 and 3.4 million tonnes in the nine months of 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 third quarter and the nine months of 2020, our total output of commercial electrical energy was 3.7 billion kWh and 12.7 billion kWh (3.5 billion kWh in the second quarter of 2020 and 13.4 billion kWh in the nine months of 2019), and our total output of commercial heat energy was approximately 0.8 million Gcal and 6.4 million Gcal (1.4 million Gcal in the second quarter of 2020 and 6.7 million Gcal in the nine months of 2019), respectively.

PJSC LUKOIL**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 30 September and 30 June 2020 and nine-month periods ended 30 September 2020 and 2019****Financial results**

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

	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
	(millions of rubles)					
Revenues						
Sales (including excise and export tariffs).....	1,456,650	986,427	47.7	4,109,062	5,928,807	(30.7)
Costs and other deductions						
Operating expenses	(108,953)	(105,515)	3.3	(325,986)	(342,145)	(4.7)
Cost of purchased crude oil, gas and products.....	(790,660)	(394,970)	>100	(2,157,305)	(3,247,918)	(33.6)
Transportation expenses	(61,388)	(79,559)	(22.8)	(221,006)	(204,603)	8.0
Selling, general and administrative expenses	(45,488)	(52,412)	(13.2)	(143,009)	(144,198)	(0.8)
Depreciation, depletion and amortization.....	(103,439)	(100,725)	2.7	(314,882)	(314,064)	0.3
Taxes other than income taxes	(133,550)	(93,341)	43.1	(420,599)	(708,514)	(40.6)
Excise and export tariffs	(113,950)	(113,511)	0.4	(340,140)	(321,229)	5.9
Exploration expenses.....	(438)	(2,703)	(83.8)	(3,535)	(2,168)	63.1
Profit from operating activities	98,784	43,691	>100	182,600	643,968	(71.6)
Finance income	3,625	2,685	35.0	11,121	19,003	(41.5)
Finance costs	(11,697)	(11,323)	3.3	(33,269)	(33,582)	(0.9)
Equity share in income (loss) of associates	4,029	(3)	-	8,457	16,618	(49.1)
Foreign exchange (loss) gain.....	(27,280)	3,620	-	(38,570)	878	-
Other expenses	(1,293)	(44,463)	(97.1)	(92,370)	(3,803)	>100
Profit (loss) before income taxes.....	66,168	(5,793)	-	37,969	643,082	(94.1)
Current income taxes.....	(17,325)	(7,678)	>100	(42,041)	(119,010)	(64.7)
Deferred income taxes.....	2,069	(4,986)	-	(9,257)	(1,594)	>100
Total income tax expense	(15,256)	(12,664)	20.5	(51,298)	(120,604)	(57.5)
Profit (loss) for the period.....	50,912	(18,457)	-	(13,329)	522,478	-
Profit (loss) for the period attributable to:						
PJSC LUKOIL shareholders	50,420	(18,720)	-	(14,260)	520,868	-
Non-controlling interests.....	492	263	87.1	931	1,610	(42.2)
Earnings per share						
Profit (loss) for the period attributable to PJSC LUKOIL shareholders per share of common stock (in Russian rubles):						
Basic	77.27	(28.69)	-	(21.92)	776.42	-
Diluted	74.42	(28.69)	-	(21.92)	754.92	-

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 30 September and 30 June 2020 and nine-month periods ended 30 September 2020 and 2019
Sales revenues

Sales breakdown	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
	(millions of rubles)					
Crude oil						
Export and sales on international markets other than Customs Union	476,913	289,402	64.8	1,383,059	1,931,556	(28.4)
Export and sales to Customs Union	12,648	5,879	>100	18,527	48,669	(61.9)
Domestic sales	8,457	3,540	>100	19,491	14,713	32.5
	498,018	298,821	66.7	1,421,077	1,994,938	(28.8)
Cost compensation and remuneration at the West Qurna-2 project	9,850	11,576	(14.9)	37,616	32,747	14.9
	507,868	310,397	63.6	1,458,693	2,027,685	(28.1)
Refined products						
Export and sales on international markets						
Wholesales	555,275	383,779	44.7	1,584,853	2,592,385	(38.9)
Retail	85,153	60,567	40.6	220,208	260,813	(15.6)
Domestic sales						
Wholesales	94,013	68,404	37.4	259,235	335,071	(22.6)
Retail	129,610	93,474	38.7	329,770	359,708	(8.3)
	864,051	606,224	42.5	2,394,066	3,547,977	(32.5)
Petrochemicals						
Export and sales on international markets	13,244	13,080	1.3	42,115	76,772	(45.1)
Domestic sales	7,356	8,128	(9.5)	25,912	32,832	(21.1)
	20,600	21,208	(2.9)	68,027	109,604	(37.9)
Gas						
Sales on international markets	7,973	4,910	62.4	37,920	102,004	(62.8)
Domestic sales	8,119	7,752	4.7	24,459	23,809	2.7
	16,092	12,662	27.1	62,379	125,813	(50.4)
Sales of energy and related services						
Sales on international markets	3,796	1,984	91.3	8,528	11,652	(26.8)
Domestic sales	10,010	10,114	(1.0)	37,704	38,833	(2.9)
	13,806	12,098	14.1	46,232	50,485	(8.4)
Other						
Export and sales on international markets	22,741	14,874	52.9	49,890	35,125	42.0
Domestic sales	11,492	8,964	28.2	29,775	32,118	(7.3)
	34,233	23,838	43.6	79,665	67,243	18.5
Total sales	1,456,650	986,427	47.7	4,109,062	5,928,807	(30.7)

PJSC LUKOIL
Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 30 September and 30 June 2020 and nine-month periods ended 30 September 2020 and 2019

Sales volumes	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(thousands of tonnes)						
Crude oil						
Export and sales on international markets other than Customs Union	20,670	18,129	14.0	62,704	62,493	0.3
Export and sales to Customs Union.....	669	461	45.1	1,130	2,051	(44.9)
Domestic sales.....	449	356	26.1	1,225	599	>100
	21,788	18,946	15.0	65,059	65,143	(0.1)
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project	565	1,094	(48.4)	2,380	1,192	99.7
	22,353	20,040	11.5	67,439	66,335	1.7
Refined products						
Export and sales on international markets						
Wholesales	19,569	18,114	8.0	58,392	69,970	(16.5)
Retail	1,006	802	25.4	2,734	3,148	(13.2)
Domestic sales						
Wholesales	3,230	2,772	16.5	9,285	10,971	(15.4)
Retail	2,595	1,922	35.0	6,705	7,461	(10.1)
	26,400	23,610	11.8	77,116	91,550	(15.8)
Petrochemicals						
Export and sales on international markets	295	380	(22.4)	985	1,271	(22.5)
Domestic sales.....	163	206	(20.9)	581	553	5.1
	458	586	(21.8)	1,566	1,824	(14.1)
(millions of cubic meters)						
Gas						
Sales on international markets	1,616	2,025	(20.2)	7,065	11,397	(38.0)
Domestic sales.....	3,171	3,107	2.1	9,670	9,553	1.2
	4,787	5,132	(6.7)	16,735	20,950	(20.1)

Realized average sales prices		Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
Average realized price on international markets							
Crude oil (beyond Customs Union) ¹ ..	(RUB/barrel)	3,148	2,178	44.5	3,009	4,217	(28.6)
Crude oil (Customs Union)	(RUB/barrel)	2,579	1,740	48.2	2,237	3,237	(30.9)
Refined products							
Wholesales.....	(RUB/tonne)	28,375	21,187	33.9	27,142	37,050	(26.7)
Retail.....	(RUB/tonne)	84,645	75,520	12.1	80,544	82,850	(2.8)
Petrochemicals	(RUB/tonne)	44,895	34,421	30.4	42,756	60,403	(29.2)
Gas (excluding royalty).....	(RUB/1,000 m ³)	4,934	2,425	>100	5,367	8,950	(40.0)
Crude oil (beyond Customs Union) ¹ ..	(\$/barrel)	42.79	30.10	42.2	42.52	64.79	(34.4)
Crude oil (Customs Union)	(\$/barrel)	35.06	24.04	45.8	31.60	49.74	(36.5)
Refined products							
Wholesales.....	(\$/tonne)	386	293	31.7	383	569	(32.6)
Retail.....	(\$/tonne)	1,151	1,044	10.3	1,138	1,273	(10.6)
Petrochemicals	(\$/tonne)	610	476	28.3	604	928	(34.9)
Gas (excluding royalty).....	(\$/1,000 m ³)	67	34	>100	76	138	(44.9)
Average realized price within Russia							
Crude oil.....	(RUB/barrel)	2,570	1,357	89.4	2,171	3,351	(35.2)
Refined products							
Wholesales.....	(RUB/tonne)	29,106	24,677	17.9	27,920	30,542	(8.6)
Retail.....	(RUB/tonne)	49,946	48,634	2.7	49,183	48,212	2.0
Petrochemicals	(RUB/tonne)	45,129	39,456	14.4	44,599	59,371	(24.9)
Gas ²	(RUB/1,000 m ³)	2,560	2,495	2.6	2,529	2,492	1.5

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

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

PJSC LUKOIL

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

In the third quarter of 2020, our revenues were positively affected by an increase in international hydrocarbon prices, refinery throughput volumes and crude oil, refined products trading and retail sales volumes. Among main adverse factors were a crude oil production cut in Russia due to the new OPEC+ agreement and reduction in gas production in Uzbekistan.

In the nine months of 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 and refined products trading and retail sales volumes, as well as a reduction in gas production in Uzbekistan due to lower demand for Uzbek gas from China.

Sales of crude oil

Compared to the second quarter of 2020, our crude oil sales revenue increased by 64.8% outside Russia and by 138.9% in Russia. This increase was largely a result of an increase in crude oil prices and higher international trading volumes.

Compared to the nine months of 2019, our international crude oil sales revenue decreased by 28.4% as a result of a decrease in crude oil prices by 28.6%. Our domestic crude oil sales revenue increased by 32.5%, despite a decrease in crude oil prices by 35.2%, due to an increase in sales volumes by 104.5%.

Sales of refined products

Sales breakdown	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(millions of rubles)					
Wholesales outside Russia.....	555,275	383,779	44.7	1,584,853	2,592,385	(38.9)
diesel fuel.....	230,128	168,470	36.6	676,716	1,238,797	(45.4)
motor gasoline.....	135,036	59,468	>100	317,752	487,923	(34.9)
fuel oil.....	107,307	75,885	41.4	286,490	387,341	(26.0)
jet fuel.....	5,925	851	>100	15,849	88,390	(82.1)
lubricants and components.....	15,477	15,890	(2.6)	48,954	50,496	(3.1)
gas products.....	17,545	14,481	21.2	55,367	38,491	43.8
others.....	43,857	48,734	(10.0)	183,725	300,947	(39.0)
Retail outside Russia	85,153	60,567	40.6	220,208	260,813	(15.6)
Wholesales in Russia	94,013	68,404	37.4	259,235	335,071	(22.6)
diesel fuel.....	28,645	27,836	2.9	84,291	84,176	0.1
motor gasoline.....	15,411	8,225	87.4	33,632	36,425	(7.7)
fuel oil.....	2,492	1,049	>100	6,275	28,514	(78.0)
jet fuel.....	20,217	10,849	86.3	60,359	97,339	(38.0)
lubricants and components.....	7,397	6,113	21.0	19,353	19,836	(2.4)
gas products.....	3,683	1,783	>100	7,767	8,238	(5.7)
others.....	16,168	12,549	28.8	47,558	60,543	(21.4)
Retail in Russia	129,610	93,474	38.7	329,770	359,708	(8.3)
Total refined products sales	864,051	606,224	42.5	2,394,066	3,547,977	(32.5)

PJSC LUKOIL

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

Sales volumes	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
	(thousands of tonnes)					
Wholesales outside Russia	19,569	18,114	8.0	58,392	69,970	(16.5)
diesel fuel	7,310	6,638	10.1	21,949	29,365	(25.3)
motor gasoline	4,284	2,535	69.0	10,278	11,477	(10.4)
fuel oil	5,410	5,229	3.5	15,015	14,918	0.7
jet fuel.....	213	33	>100	511	2,116	(75.9)
lubricants and components	217	273	(20.5)	786	769	2.2
gas products.....	645	738	(12.6)	2,214	1,381	60.3
others	1,490	2,668	(44.2)	7,639	9,944	(23.2)
Retail outside Russia	1,006	802	25.4	2,734	3,148	(13.2)
diesel fuel	676	555	21.8	1,863	2,107	(11.6)
motor gasoline	287	217	32.3	761	901	(15.5)
gas products.....	43	30	43.3	110	140	(21.4)
Wholesales in Russia	3,230	2,772	16.5	9,285	10,971	(15.4)
diesel fuel	712	701	1.6	2,070	1,975	4.8
motor gasoline	353	228	54.8	835	947	(11.8)
fuel oil	224	171	31.0	709	1,761	(59.7)
jet fuel.....	691	407	69.8	1,845	2,385	(22.6)
lubricants and components	103	91	13.2	285	275	3.6
gas products.....	158	141	12.1	435	511	(14.9)
others	989	1,033	(4.3)	3,106	3,117	(0.4)
Retail in Russia.....	2,595	1,922	35.0	6,705	7,461	(10.1)
diesel fuel	940	747	25.8	2,545	2,777	(8.4)
motor gasoline	1,640	1,163	41.0	4,119	4,645	(11.3)
gas products.....	15	12	25.0	41	39	5.1
Total refined products volumes.....	26,400	23,610	11.8	77,116	91,550	(15.8)

Compared to the second quarter of 2020, our refined products sales revenue was positively affected by higher prices and volumes on the back of partial recovery of demand after its sharp decline as a consequence of COVID-19, as well as a seasonal factor.

Compared to the nine months of 2020, 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.

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

- Our revenue from the wholesales of refined products outside Russia increased by 44.7% due to an increase in average realized prices by 33.9% and volumes by 8.0% as a result of an increase in volumes of trading operations and production volumes.
- International retail revenue increased by 40.6% due to an increase in sales volumes by 25.4%, as well as higher average realized prices.
- Revenue from the wholesales and retail sales of refined products on the domestic market increased by 37.4% and by 38.7%, respectively, as a result of an increase in sales volumes, as well as higher average realized prices.

The nine months of 2020 vs. the nine months of 2019

- Our revenue from the wholesales of refined products outside Russia decreased by 38.9% as a result of a decrease in average realized prices by 26.7% and sales volumes by 16.5% due to a decrease in volumes of trading operations and production volumes.
- Our international retail revenue decreased by 15.6% as a result of a decrease in sales volumes and prices.
- Our revenue from the wholesales of refined products on the domestic market decreased by 22.6% as a result of a decrease in sales volumes and our realized prices.
- Our revenue from refined products retail sales in Russia decreased by 8.3% as a result of a decrease in sales volumes that was partially offset by an increase in our realized prices.

PJSC LUKOIL

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

Sales of petrochemical products

Compared to the second quarter of 2020, our revenue from sales of petrochemical products decreased by 2.9%, as a result of a decrease in trading volumes outside Russia, that was partially compensated by an increase in realized prices. In Russia, sales volumes of petrochemical products decreased due to higher export.

Compared to the nine months of 2019, our revenue from sales of petrochemical products decreased by 37.9%, mainly as a result of a decline in trading volumes outside Russia and realized prices.

Sales of gas

Compared to the second quarter of 2020, despite a decrease in sales volumes our revenue from gas sales increased by 27.1% as a result of the effect of a downward recalculation of Uzbek gas sales revenue for the first quarter of 2020 in the amount of 5.5 billion RUB in the second quarter of 2020.

During the nine months of 2020, as a result of decline in demand for Uzbek gas from China, we reduced gas production. As a result, our revenue from gas sales decreased by 50.4% compared to the nine months of 2019.

Sales of energy and related services

Compared to the second quarter of 2020 and the nine months of 2019, our revenue from sales of energy and related services increased by 14.1% and decreased by 8.4%, respectively, mainly due to changes of energy tariffs in Italy.

Other sales

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

Compared to the second quarter of 2020, revenue from other sales increased by 43.6% largely as a result of an increase in non-petrol revenue of our retail network due to seasonality and demand recovery after its decline due to the COVID-19 pandemic.

Compared to the nine months of 2019, revenue from other sales increased by 18.5% largely 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 nine months of 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 the third quarter and the nine months of 2019 included 2.2 billion RUB (approximately €30 million) of similar compensation related to 2016 supplies).

Operating expenses

Operating expenses include the following:

	Q3 2020	Q2 2020	Change, %	9 months of 2020	2019	Change, %
				(millions of rubles)		
Hydrocarbon extraction expenses ¹	42,849	45,436	(5.7)	135,600	143,980	(5.8)
Extraction expenses at the West Qurna-2 field.....	3,821	4,109	(7.0)	12,274	12,877	(4.7)
Own refining expenses	24,165	20,611	17.2	67,050	71,907	(6.8)
Refining expenses at third-party refineries	148	87	70.1	421	8,691	(95.2)
Expenses for feedstock transportation to refineries ...	11,919	13,486	(11.6)	40,978	39,616	3.4
Power generation and distribution expenses.....	7,406	6,785	9.2	21,741	21,915	(0.8)
Petrochemical expenses.....	3,057	3,051	0.2	9,031	9,084	(0.6)
Other operating expenses	15,588	11,950	30.4	38,891	34,075	14.1
Total operating expenses.....	108,953	105,515	3.3	325,986	342,145	(4.7)

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

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

PJSC LUKOIL**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 30 September and 30 June 2020 and nine-month periods ended 30 September 2020 and 2019***Hydrocarbon extraction expenses*

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	2019	Change, %
	(millions of rubles)					
Hydrocarbon extraction expenses.....	42,849	45,436	(5.7)	135,600	143,980	(5.8)
in Russia	37,552	39,252	(4.3)	118,796	127,305	(6.7)
outside Russia ¹	5,297	6,184	(14.3)	16,804	16,675	0.8
	(rubles per BOE)					
Hydrocarbon extraction expenses.....	254	259	(2.0)	246	232	6.3
in Russia	241	247	(2.2)	240	237	1.4
outside Russia ¹	404	381	6.0	302	200	51.2

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

Compared to the previous quarter, our extraction expenses in Russia decreased by 4.3% mainly due to lower production volume, as well as a decline in energy costs, overhauls costs and expenses on artificial stimulation of reservoirs as part of cost reduction programme. At the same time, as our hydrocarbon expenses include certain share of fixed costs, per BOE hydrocarbon extraction expenses in Russia decreased by only 2.2%. Our extraction expenses outside Russia decreased by 14.3% due to a gas production cut in Uzbekistan. At the same time, our per BOE hydrocarbon extraction expenses outside Russia increased by 6.0% mainly as a result of fixed costs factor, as well as the ruble depreciation.

Compared to the nine months of 2019, our extraction expenses in Russia decreased by 6.7% mainly due to lower production volumes, as well as lower overhauls costs and a decrease in expenses on artificial stimulation of reservoir as part of cost reduction programme. However, our per BOE hydrocarbon extraction expenses increased by 1.4% due to certain share of fixed costs. Outside Russia, our hydrocarbon extraction expenses were flat despite lower production volumes. A decrease of 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. Our per BOE hydrocarbon extraction expenses outside Russia increased by 51.2% mainly as a result of a reduction of gas production in Uzbekistan, as well as the ruble depreciation.

Own refining expenses

	Q3 2020	Q2 2020	Change, %	9 months of 2020	2019	Change, %
	(millions of rubles)					
Refining expenses at the Group refineries.....	24,165	20,611	17.2	67,050	71,907	(6.8)
in Russia	10,961	9,570	14.5	30,075	31,227	(3.7)
outside Russia.....	13,204	11,041	19.6	36,975	40,680	(9.1)
	(rubles per tonne)					
Refining expenses at the Group refineries.....	1,628	1,524	6.8	1,475	1,390	6.1
in Russia	1,074	1,031	4.2	988	937	5.5
outside Russia.....	2,845	2,603	9.3	2,459	2,210	11.3

Compared to the second quarter of 2020, refining expenses at the Group refineries increased by 17.2% due to higher throughput, as well as an increase in maintenance costs, energy and fuel costs. Moreover, refining expenses increased as a result of higher consumption of purchased additives in Russia and the ruble depreciation against euro outside Russia.

Compared to the nine months of 2019, expenses at our refineries decreased by 6.8% 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.

PJSC LUKOIL

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

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

Our expenses for feedstock transportation to refineries decreased by 11.6% compared to the second quarter of 2020, and increased by 3.4% compared to the nine months of 2019.

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
				(millions of rubles)		
Own feedstock transportation to our domestic refineries.....	10,910	9,837	10.9	31,561	30,939	2.0
Own feedstock transportation from Russia to our international refineries.....	155	1,842	(91.6)	4,715	4,698	0.4
Other feedstock transportation costs outside Russia..	854	1,807	(52.7)	4,702	3,979	18.2
Feedstock transportation to refineries	11,919	13,486	(11.6)	40,978	39,616	3.4

Power generation and distribution expenses

Power generation and distribution expenses increased by 9.2% compared to the second quarter of 2020, and didn't change compared to the nine months of 2019.

Petrochemical expenses

Our petrochemical expenses didn't change significantly both compared to the previous quarter and the nine months of 2019.

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 second quarter of 2020, other operating expenses increased by 4 billion RUB, or by 30.4%, largely as a result of higher non-petrol sales through our retail network. Compared to the nine months of 2019, they increased by 5 billion RUB, or by 14.1%, also 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.

PJSC LUKOIL

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

	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
	(millions of rubles)					
Cost of purchased crude oil in Russia	1,637	1,924	(14.9)	8,434	12,831	(34.3)
Cost of purchased crude oil outside Russia	394,981	216,482	82.5	1,130,378	1,721,798	(34.3)
Compensation crude oil related to West Qurna-2 project.....	17,193	7,941	>100	33,434	25,884	29.2
Cost of purchased crude oil	413,811	226,347	82.8	1,172,246	1,760,513	(33.4)
Cost of purchased refined products in Russia.....	5,573	4,704	18.5	21,197	28,046	(24.4)
Cost of purchased refined products outside Russia ...	351,106	231,658	51.6	963,069	1,459,994	(34.0)
Cost of purchased refined products	356,679	236,362	50.9	984,266	1,488,040	(33.9)
Other purchases	11,767	11,498	2.3	39,759	66,551	(40.3)
Net (gain)/loss from hedging of trading operations...	(3,690)	15,493	-	(117,838)	32,915	-
Change in crude oil and petroleum products inventory	12,093	(94,730)	-	78,872	(100,101)	-
Total cost of purchased crude oil, gas and products.....	790,660	394,970	>100	2,157,305	3,247,918	(33.6)

In the third quarter and the nine months of 2020, cost of purchased crude oil, gas and products increased by 100.2% quarter-on-quarter and decreased by 33.6% year-on-year, which was mostly driven by international crude oil and refined products prices dynamics.

The quarterly dynamics of Cost of purchased crude oil, gas and products in 2020 was also impacted by inventory write-down to its net realizable value in the first quarter of 2020. In the third quarter of 2020, we booked a relatively insignificant inventory write-down as opposed to a sizeable reversal of write-down in the second quarter of 2020.

Transportation expenses

	Q3 2020	Q2 2020	Change, %	9 months of		Change, %
				2020	2019	
	(millions of rubles)					
Crude oil transportation expenses.....	21,562	33,052	(34.8)	83,887	73,273	14.5
in Russia	10,938	11,974	(8.7)	34,723	35,024	(0.9)
outside Russia.....	10,624	21,078	(49.6)	49,164	38,249	28.5
Refined products transportation expenses	36,832	44,675	(17.6)	128,321	118,775	8.0
in Russia	19,402	23,407	(17.1)	65,338	66,824	(2.2)
outside Russia.....	17,430	21,268	(18.0)	62,983	51,951	21.2
Other transportation expenses	2,994	1,832	63.4	8,798	12,555	(29.9)
in Russia	1,310	608	>100	2,433	1,744	39.5
outside Russia.....	1,684	1,224	37.6	6,365	10,811	(41.1)
Total transportation expenses	61,388	79,559	(22.8)	221,006	204,603	8.0

Compared to the second quarter of 2020, our expenses for transportation of crude oil and refined products decreased by 34.8% and 17.6%, respectively. In Russia, our transportation expenses decreased mainly as a result of lower crude oil and refined products export supplies, as well as changes in modes of refined products transportation. Outside Russia, our expenses for transportation of crude oil and refined products decreased mainly as a result of lower freight rates, despite transportation volumes growth.

Compared to the nine months of 2019, our expenses for transportation of crude oil and refined products increased by 14.5% and 8.0%, respectively. In Russia, our expenses for transportation of crude oil didn't change. Tariffs indexation, negative inventory effect and higher domestic sales volumes were mostly offset by export volumes decrease. Our expenses for domestic transportation of refined products 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 and the ruble depreciation, despite lower refined products supplies.

An increase in other transportation expenses compared to the second quarter of 2020 was due to increased expenses for transportation of petrochemical products. A decrease in other transportation expenses compared to the nine months of 2019 resulted mainly from a decline of gas supplies from our projects in Uzbekistan to China.

PJSC LUKOIL**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 30 September and 30 June 2020 and nine-month periods ended 30 September 2020 and 2019****Selling, general and administrative expenses**

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(millions of rubles)					
Payroll costs included in selling, general and administrative expenses.....	18,204	23,486	(22.5)	56,694	52,471	8.0
Other selling, general and administrative expenses...	21,561	20,783	3.7	63,602	62,632	1.5
Share-based compensation	7,841	7,842	-	23,525	23,525	-
Expenses on allowance for expected credit losses.....	(2,118)	301	-	(812)	5,570	-
Total selling, general and administrative expenses.....	45,488	52,412	(13.2)	143,009	144,198	(0.8)

Our selling, general and administrative expenses decreased by 13.2% compared to the second quarter of 2020 mainly due to lower payroll costs in our international subsidiaries and as a result of changes in expenses on allowance for expected credit losses. This decrease was partially offset by an increase in selling expenses due to an increase in sales volumes on the back of partial recovery of global demand after its decline due to the COVID-19 pandemic.

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

Depreciation, depletion and amortization

Our depreciation, depletion and amortization expenses increased by 2.7% compared to the second quarter of 2020 and remained flat compared to the nine months of 2019.

Equity share in income (loss) of associates

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

In the third quarter of 2020, our share in profit of associates amounted to 4.0 billion RUB compared to loss of 3 million RUB in the second quarter of 2020. In the nine months of 2020, our share in income of associates decreased by 49.1%, compared to the nine months of 2019. The dynamics was explained by the hydrocarbon prices fluctuations.

Taxes other than income taxes

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(millions of rubles)						
In Russia						
Mineral extraction taxes.....	115,938	76,282	52.0	366,759	648,763	(43.5)
Tax on additional income	1,026	423	>100	3,660	12,828	(71.5)
Social security taxes and contributions	7,072	7,325	(3.5)	21,966	21,145	3.9
Property tax	6,110	6,093	0.3	18,611	16,720	11.3
Other taxes	671	469	43.1	1,621	1,847	(12.2)
Total in Russia	130,817	90,592	44.4	412,617	701,303	(41.2)
International						
Mineral extraction taxes.....	7	6	16.7	19	-	-
Social security taxes and contributions	1,674	1,653	1.3	4,777	4,312	10.8
Property tax	235	234	0.4	674	669	0.7
Other taxes	817	856	(4.6)	2,512	2,230	12.6
Total internationally	2,733	2,749	(0.6)	7,982	7,211	10.7
Total taxes other than income taxes.....	133,550	93,341	43.1	420,599	708,514	(40.6)

Our taxes other than income taxes increased by 43.1% compared to the second 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 93.0% due to higher crude oil prices, which was partially compensated by inventory effect and lower crude oil extraction volumes. TAI expenses increased due to crude oil prices growth.

Compared to the nine months of 2019, our taxes other than income taxes decreased by 40.6% mainly as a result of a decrease in mineral extraction tax expense on the back of a decrease in the tax rate by 37.1% due to lower crude oil prices and lower crude oil extraction volumes. TAI expenses decreased due to a decline of crude oil prices, while expenses, except export duties, remained unchanged.

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).

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(millions of rubles)						
Decrease in extraction taxes from application of reduced rates for crude oil production	21,390	10,338	>100	56,091	96,048	(41.6)
(thousands of tonnes)						
Volume of crude oil production subject to:						
reduced rates (ultra-high viscosity).....	624	603	3.5	1,828	1,600	14.3
reduced rates (tax holidays for specific regions and high viscosity oil).....	1,074	1,016	5.7	3,142	3,145	(0.1)
reduced rates (low permeability deposits).....	408	401	1.7	1,193	1,027	16.2
reduced rates (Tyumen deposits)	167	183	(8.7)	561	544	3.1
reduced rates (depleted fields)	4,532	4,783	(5.2)	14,679	14,347	2.3
reduced rates (other)	482	449	7.3	1,621	1,871	(13.4)
Total volume of production subject to reduced rates	7,287	7,435	(2.0)	23,024	22,534	2.2

A special tax regime is applied for crude oil production at certain Group's offshore fields and deposits. In the third quarter and the nine months of 2020, volumes of production subject to such regimes amounted to 1,659 thousand tonnes and 4,856 thousand tonnes, respectively (compared to 1,610 thousand tonnes in the second quarter of 2020 and 4,779 thousand tonnes in the nine months of 2019).

PJSC LUKOIL

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

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(millions of rubles)						
Mineral extraction tax for crude oil and gas condensate on license areas under TAI.....	5,084	3,484	45.9	13,038	19,010	(31.4)
(thousands of tonnes)						
Group 1.....	525	514	2.1	1,575	1,512	4.2
Group 3.....	747	767	(2.6)	2,282	2,136	6.8
Group 4.....	25	24	4.2	72	27	>100
Total volume of crude oil and gas condensate production at license areas subject to TAI	1,297	1,305	(0.6)	3,929	3,675	6.9

Excise and export tariffs

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(millions of rubles)						
In Russia						
Excise tax on refined products.....	39,168	29,613	32.3	100,865	105,160	(4.1)
Excise tax on oil feedstock (excluding damper)	(10,515)	(6,364)	65.2	(28,100)	(23,831)	17.9
Damper	18,334	30,421	(39.7)	61,279	(44,878)	-
Crude oil export tariffs.....	9,162	14,677	(37.6)	55,990	109,010	(48.6)
Refined products export tariffs	4,720	4,772	(1.1)	18,679	35,245	(47.0)
Total in Russia	60,869	73,119	(16.8)	208,713	180,706	15.5
International						
Excise tax and sales taxes on refined products	53,002	40,368	31.3	131,304	140,731	(6.7)
Crude oil export tariffs.....	14	6	>100	33	44	(25.0)
Refined products export and import tariffs, net	65	18	>100	90	(252)	-
Total internationally	53,081	40,392	31.4	131,427	140,523	(6.5)
Total excise and export tariffs	113,950	113,511	0.4	340,140	321,229	5.9

Compared to the second quarter of 2020, crude oil export tariffs declined mainly due to a decrease in crude oil export volumes beyond Customs Union and inventory effect, despite an increase in export duty rates due to higher crude oil prices. An increase in refined products export tariffs was influenced by an increase in export duty rates, but this effect was almost completely offset by inventory effect. The total export volume of refined products beyond Customs Union decreased, but the share of exports of heavy refined products with a higher export duty rate increased.

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

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

Compared to the nine months of 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, this effect was partially compensated by the ruble depreciation.

Proceeds from excise tax on feedstock, excluding damper, increased by 65.2% compared to the second quarter of 2020 as a result of excise tax rate increase due to higher crude oil prices and also as a result of increased volume of refined products output. Compared to the nine months of 2019, proceeds from excise tax on feedstock increased by 17.9% 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 the nine months of 2020, the damper became negative as a result of a decrease in export netbacks for gasoline and diesel fuel below respective fixed benchmarks and was paid to the budget. In the third quarter of 2020, damper expenses decreased as a result of higher gasoline and diesel fuel export netback, which was partially offset by an increase in sales volumes in Russia due to a demand recovery for motor fuels.

PJSC LUKOIL

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

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

Exploration expenses

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

Foreign exchange (loss) gain

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

In the third quarter and the nine months of 2020, foreign exchange losses resulted mostly from the ruble depreciation that was amplified by an increase in negative monetary position in other currencies due to a decrease in accounts receivables after the crude oil price drop. A foreign exchange gain in the second quarter of 2020 was a result of the ruble appreciation 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 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 39 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.

Income taxes

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

In the third quarter and the nine months of 2020, profit before income tax amounted to 66 billion RUB and 38 billion RUB, respectively, compared to loss in the amount of 6 billion RUB in the second quarter of 2020 and profit in the amount of 643 billion RUB in the nine months of 2019. Our total income tax expense increased by 3 billion RUB, or by 20.5%, compared to the second quarter of 2020, and decreased by 69 billion RUB, or by 57.5%, compared to the nine months of 2019.

High effective income tax rate in the nine months of 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.

PJSC LUKOIL

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

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.

	Q3 2020	Q2 2020	9 months of 2020	9 months of 2019
	(millions of rubles)			
Profit (loss) for the period attributable to PJSC LUKOIL shareholders ...	50,420	(18,720)	(14,260)	520,868
Add back				
Profit for the period attributable to non-controlling interests	492	263	931	1,610
Income tax expense	15,256	12,664	51,298	120,604
Financial income	(3,625)	(2,685)	(11,121)	(19,003)
Financial costs	11,697	11,323	33,269	33,582
Foreign exchange loss (gain)	27,280	(3,620)	38,570	(878)
Equity share in (income) loss of associates	(4,029)	3	(8,457)	(16,618)
Other expenses	1,293	44,463	92,370	3,803
Depreciation, depletion and amortization	103,439	100,725	314,882	314,064
EBITDA	202,223	144,416	497,482	958,032

EBITDA by operating segments

Exploration and production segment

Sales (including excise and export tariffs)	403,379	252,158	1,093,388	1,784,684
Operating expenses	(62,166)	(64,174)	(196,409)	(204,865)
Cost of purchased crude oil, gas and products	(19,819)	(939)	(40,238)	(30,024)
Transportation expenses	(13,375)	(13,931)	(43,471)	(50,743)
Selling, general and administrative expenses	(9,009)	(10,378)	(32,373)	(34,661)
Taxes other than income taxes	(135,366)	(76,616)	(391,081)	(676,394)
Excise and export tariffs	(11,227)	(11,071)	(52,780)	(103,665)
Exploration expenses	(438)	(2,703)	(3,522)	(2,168)
EBITDA of Exploration and production segment	151,979	72,346	333,514	682,164

Refining, marketing and distribution segment

Sales (including excise and export tariffs)	1,434,361	971,426	4,034,161	5,772,600
Operating expenses	(51,013)	(40,505)	(140,495)	(171,932)
Cost of purchased crude oil, gas and products	(1,110,035)	(637,111)	(3,099,523)	(4,821,104)
Transportation expenses	(56,781)	(79,335)	(209,434)	(167,622)
Selling, general and administrative expenses	(28,590)	(33,248)	(89,014)	(89,944)
Taxes other than income taxes	(6,538)	(6,511)	(19,400)	(19,081)
Excise and export tariffs	(103,766)	(95,972)	(279,622)	(213,432)
EBITDA of Refining, marketing and distribution segment	77,638	78,744	196,673	289,485
EBITDA of Corporate and other segment	(12,619)	(5,441)	(28,749)	(26,283)
Elimination	(14,775)	(1,233)	(3,956)	12,666
EBITDA	202,223	144,416	497,482	958,032

Free cash flow reconciliation

	Q3 2020	Q2 2020	9 months of 2020	9 months of 2019
	(millions of rubles)			
Net cash provided by operating activities	227,449	142,752	555,931	831,163
Capital expenditures	(112,826)	(117,245)	(360,282)	(314,038)
Free cash flow	114,623	25,507	195,649	517,125

Liquidity and capital resources

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(millions of rubles)					
Net cash provided by operating activities.....	227,449	142,752	59.3	555,931	831,163	(33.1)
including decrease (increase) in working capital ..	26,305	(12,889)	-	58,947	(51,741)	-
Net cash used in investing activities.....	(109,703)	(114,324)	(4.0)	(353,745)	(352,401)	0.4
Net cash (used in) provided by financing activities...	(343,008)	137,621	-	(357,017)	(502,364)	(28.9)

Changes in operating assets and liabilities:

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
	(millions of rubles)					
(Increase) decrease in accounts receivable	(56,609)	80,146	-	95,002	(18,861)	-
Decrease (increase) in inventory	4,509	(82,906)	-	86,266	(79,969)	-
Increase (decrease) in accounts payable	65,549	(27,217)	-	(126,319)	34,632	-
Increase in net taxes other than on income payable...	26,789	6,397	>100	19,839	22,528	(11.9)
Change in other current assets and liabilities.....	(13,933)	10,691	-	(15,841)	(10,071)	57.3
Total decrease (increase) in working capital	26,305	(12,889)	-	58,947	(51,741)	-

Operating activities

Our primary source of cash flow is funds generated from our operations. Our cash generated from operations increased by 59.3% compared to the second quarter of 2020, and decreased by 33.1% compared to the nine months of 2019 as a result of changes in profitability of our core operations. Moreover, our operating cash flow was positively impacted by a decrease in working capital.

Investing activities

Our cash used in investing activities decreased by 4.0% compared to the previous quarter largely as a result of a decrease in capital expenditures, and was flat compared to the nine months of 2019 as an increase in capital expenditures was partially offset by lower spending on acquisitions of subsidiaries.

Our capital expenditures decreased by 3.8% compared to the second quarter of 2020, and increased by 14.7% compared to the nine months of 2019.

PJSC LUKOIL

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(millions of rubles)						
Capital expenditures						
Exploration and production						
West Siberia.....	31,614	40,808	(22.5)	118,246	105,344	12.2
Timan-Pechora.....	19,844	24,018	(17.4)	62,864	50,605	24.2
Ural region.....	9,374	9,661	(3.0)	30,453	26,676	14.2
Volga region.....	16,649	8,941	86.2	35,765	29,256	22.2
Other in Russia.....	2,962	1,317	>100	6,883	7,078	(2.8)
Total in Russia.....	80,443	84,745	(5.1)	254,211	218,959	16.1
Iraq.....	4,620	5,309	(13.0)	19,814	15,732	25.9
Other outside Russia.....	5,166	7,311	(29.3)	23,150	27,687	(16.4)
Total outside Russia.....	9,786	12,620	(22.5)	42,964	43,419	(1.0)
Total exploration and production.....	90,229	97,365	(7.3)	297,175	262,378	13.3
Refining, marketing and distribution						
Russia.....	17,090	13,800	23.8	47,209	36,200	30.4
refining.....	12,563	11,212	12.0	35,414	23,684	49.5
retail.....	562	772	(27.2)	2,645	2,555	3.5
other.....	3,965	1,816	>100	9,150	9,961	(8.1)
International.....	4,882	5,647	(13.5)	14,260	13,044	9.3
refining.....	4,121	4,880	(15.6)	11,753	9,478	24.0
retail.....	695	611	13.7	2,263	2,159	4.8
other.....	66	156	(57.7)	244	1,407	(82.7)
Total refining, marketing and distribution.....	21,972	19,447	13.0	61,469	49,244	24.8
Corporate and other.....	625	433	44.3	1,638	2,416	(32.2)
Total capital expenditures.....	112,826	117,245	(3.8)	360,282	314,038	14.7

Compared to the second quarter of 2020, a decrease in our upstream capital expenditures in Russia mainly related to West Siberia and Timan-Pechora as a result of cost optimization measures.

Compared to the nine months of 2019, an increase in our upstream capital expenditures in Russia was mainly in West Siberia and Timan-Pechora primarily due to an increase in drilling footage in the first half of 2020.

Capital expenditures in Volga region increased compared to the second quarter of 2020 and the nine months of 2019 mainly due to increased investment at the V.I.Grayfer field, as well as spending on geological exploration in the Caspian region.

Compared to the nine months of 2019, our capital expenditures in domestic refining segment increased mainly due to construction of delayed coker complex at our Nizhny Novgorod refinery.

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

	Q3 2020	Q2 2020	Change, %	9 months of 2020	9 months of 2019	Change, %
(millions of rubles)						
West Siberia (Yamal).....	2,112	4,634	(54.4)	13,373	16,273	(17.8)
Caspian region (Projects in Russia).....	15,450	7,937	94.7	31,818	24,636	29.2
Timan-Pechora (Yaregskoye field).....	3,660	3,133	16.8	9,481	6,587	43.9
Iraq (West Qurna-2 project).....	4,163	4,776	(12.8)	18,207	13,757	32.3
Iraq (Block-10).....	457	533	(14.3)	1,607	1,975	(18.6)
Uzbekistan.....	19	1,306	(98.5)	2,764	8,058	(65.7)
Total.....	25,861	22,319	15.9	77,250	71,286	8.4

Financing activities

In the third quarter of 2020, net movements of short-term and long-term debt generated an outflow of 96 billion RUB, compared to an inflow of 153 billion RUB in the second quarter of 2020. In the nine months of 2020, net movements of short-term and long-term debt generated an inflow of 46 billion RUB, compared to an outflow of 48 billion RUB in the nine months of 2019.

PJSC LUKOIL

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

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

In August 2018, we announced the start of an open market buyback programme which was completed on 20 August 2019. In the nine months of 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.

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.