



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 2021
and the nine-month periods ended
30 September 2021 and 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 2021 and the nine-month periods ended 30 September 2021 and 2020

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 30 September 2021 and results of its operations for the three-month periods ended 30 September and 30 June 2021, and the nine-month periods ended 30 September 2021 and 2020, 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.....	33
Depreciation, depletion and amortization	34
Equity share in income of associates and joint ventures	34
Taxes other than income taxes	34
Excise and export tariffs.....	35
Foreign exchange loss	36
Other expenses	36
Income taxes	36
Non-GAAP items reconciliation	37
EBITDA reconciliation	37
Free cash flow reconciliation	37
Liquidity and capital resources	38
Operating activities	38
Investing activities	38
Financing activities	39
Other information.....	40
Sectoral sanctions against the Russian companies	40
Operations in Iraq.....	40

Business overview

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

LUKOIL is one of the world's largest publicly traded vertically integrated energy companies. Our proved reserves under SEC standards amounted to 15.4 billion BOE at 1 January 2021 and comprised of 11.7 billion barrels of crude oil and 22.2 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and gas in Russia and internationally. In Russia, our major oil producing regions are West Siberia, Timan-Pechora, Ural and Volga region. Our international upstream segment includes stakes in PSAs and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria, Mexico, the Republic of Congo and the UAE. Our daily hydrocarbon production in the nine months of 2021 amounted to 2.1 million BOE, with liquid hydrocarbons representing approximately 76% of our overall production volumes.

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

We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. We also own two petrochemical plants in Russia and have petrochemical facilities at our refineries in Bulgaria and Italy. Along with our own production of refined products, we refine crude oil at third party refineries depending on market conditions and other factors. Throughput at our refineries in the nine months of 2021 amounted to 1.3 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 purchased crude oil and refined products through our sales channels in Russia, Europe, South-East Asia, Central and North America and other regions. We own petrol stations in 19 countries. Most of our retail networks are located close to our refineries. Our retail sales in the nine months of 2021 amounted to 10.2 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 2021, our total output of commercial electrical energy was 11.2 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 2020 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 2020. 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. Acceleration of COVID-19 spread in October 2020 resulted in a renewal of lockdown measures in different countries, which put some pressure on oil prices at the end of 2020. Meanwhile, continued recovery in demand for crude oil along with further coordination of production volumes by OPEC+ countries in 2021 resulted in crude oil price growth, with the price of Brent reaching its peak of \$79 per barrel at the end of September 2021.

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 2021 and the nine-month periods ended 30 September 2021 and 2020

From February through August 2020, we reduced production of gas at our projects in Uzbekistan to approximately 20% of the projects capacity due to lower demand for Uzbek gas from China. At the same time, since September 2020, we have recovered our gas production in Uzbekistan on the back of growing demand for gas from China. As of December 2020, production was back to the project levels.

Due to the new OPEC+ agreement, we cut our crude oil production in Russia in May 2020 by approximately 310 thousand barrels per day, or by 19%, as compared to our daily crude oil production in Russia in the first quarter of 2020. To minimize the negative impact of this production cut on our financial performance the cut was implemented at the least profitable fields. Since May 2020, our crude oil production in Russia stepped up sequentially and in the third quarter of 2021 was on average approximately 210 thousand barrels per day higher as compared to the May 2020 level. As a result, our domestic average daily crude oil production in the nine months of 2021 exceeded the levels of the respective period of 2020. Due to the agreement, crude oil production was also cut at some of our international projects. For example, average daily production at the West Qurna-2 project in Iraq was approximately 50 thousand barrels per day below its capacity in the third quarter of 2021.

Our refining and marketing segment was also affected as demand for jet fuel and motor fuels declined substantially, which had a negative impact on the benchmark refining margins and sales volumes. We adjusted the product slate and optimized utilization rates at our refineries starting from the second quarter of 2020 in order to efficiently react to the adverse macro changes. As a result, in the second quarter of 2020, our average daily refinery throughput volumes were 21% lower than in 2019. Gradual improvement of macro conditions resulted in the recovery of utilization rates at our refineries with the average daily refinery throughput volumes in the third quarter of 2021 27% higher as compared to the second quarter of 2020.

We also faced a steep decline in the retail sales volumes of motor fuels at our filling stations in Russia and other countries in April 2020, when volumes were 40% lower compared to April 2019 level. However, from May 2020, retail sales volumes started recovering and in the third quarter of 2021 were approximately 6% higher compared to the third quarter of 2020.

The impact of the pandemic on the Group's financial performance in the nine months of 2021 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 the net financial debt position (excluding lease obligations) of minus 174 billion RUB at the end of the third quarter of 2021. 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 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
(millions of rubles)						
Sales revenue	2,588,745	2,201,884	17.6	6,667,112	4,109,062	62.3
EBITDA ¹ , including	355,176	339,842	4.5	1,009,398	497,482	>100
Exploration and production segment	245,036	220,904	10.9	689,733	333,514	>100
Refining, marketing and distribution segment	125,757	126,947	(0.9)	372,914	196,673	89.6
EBITDA ¹ net of West Qurna-2 project	347,438	333,896	4.1	983,640	472,602	>100
Profit (loss) for the period attributable to LUKOIL shareholders	192,475	189,750	1.4	539,652	(14,260)	-
Capital expenditures	94,328	104,213	(9.5)	305,761	360,282	(15.1)
Free cash flow ²	227,670	112,203	>100	503,498	195,649	>100
Free cash flow before changes in working capital	233,522	212,004	10.1	633,232	131,077	>100
(thousand BOE per day)						
Production of hydrocarbons, including our share in associates and joint ventures	2,152	2,100	2.5	2,150	2,124	1.2
crude oil and natural gas liquids	1,662	1,643	1.2	1,643	1,678	(2.1)
gas	490	457	7.2	507	446	13.7
Refinery throughput at the Group refineries	1,378	1,268	8.7	1,275	1,216	4.9

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

² Cash flow from operating activities less capital expenditures.

In the third quarter of 2021, compared to the previous quarter, our financial results were positively impacted by an increase in international hydrocarbon prices and refining margins, higher domestic crude oil production and international gas production volumes, as well as higher refinery throughput volumes. At the same time, these positive factors were partially offset by weaker results of our international trading business and lower positive inventory effect at our refineries.

Compared to the nine months of 2020, our financial results were driven up by higher hydrocarbon prices, ruble depreciation, positive inventory effect at our refineries, higher refining margins in Russia, positive export duty lag effect, as well as higher international gas production volumes. Elimination of tax incentives for high-viscous crude oil and weaker results of retail business in Russia were the main restraining factors.

As a result, our EBITDA increased by 4.5% and by 102.9% compared to the second quarter of 2021 and the nine months of 2020, respectively.

Foreign exchange losses in the third and the second quarters of 2021 were relatively insignificant and amounted to approximately 1 billion RUB, while the ruble depreciation during the nine months of 2020 resulted in a foreign exchange loss of 39 billion RUB.

Compared to the second quarter of 2021 and the nine months of 2020, our depreciation, depletion and amortization expenses increased by 0.8% and by 4.0%, respectively.

Due to a significant deterioration in the macroeconomic environment in 2020, the Group recognized impairment loss of property, plant and equipment and other non-current assets in the total amount of 83 billion RUB in the nine months of 2020. No impairment losses were recognized in the nine months of 2021.

In the third quarter and the nine months of 2021, profit attributable to LUKOIL shareholders amounted to 192 billion RUB and 540 billion RUB, compared to profit in the amount of 190 billion RUB in the second quarter of 2021 and loss in the amount of 14 billion RUB in the nine months of 2020.

Our capital expenditures decreased by 10 billion RUB, or by 9.5%, compared to the second quarter of 2021, and by 55 billion RUB, or by 15.1%, compared to the nine months of 2020.

In the third quarter of 2021, our free cash flow amounted to 228 billion RUB, an increase of 102.9% compared to the second quarter of 2021, and in the nine months of 2021, it amounted to 503 billion RUB, an increase of 157.3% compared to the nine months of 2020. The quarter-on-quarter increase in our free cash flow was mainly due to the dynamics of working capital, while the year-on-year increase was mainly a result of improved profitability of our core operations and lower capital expenditures.

Compared to the second quarter of 2021 and the nine months of 2020, the Group's average daily hydrocarbon production increased by 2.5% and by 1.2%, respectively, mainly due to further partial lifting of the external limitations on oil production in accordance with the OPEC+ agreement, as well as an increase in international gas production.

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 2021 and the nine-month periods ended 30 September 2021 and 2020**

Average daily throughput volumes at our refineries increased by 8.7% and by 4.9% compared to the previous quarter and the nine months of 2020, respectively. The growth of refinery throughput volumes both in and outside Russia was attributable to the recovery of refineries utilization after scheduled maintenance works and throughput optimization driven by the changes in macro environment.

Changes in the Group structure

In October 2021, a Group company signed an agreement to purchase a 15.5% interest in the Shah Deniz natural gas project in Azerbaijan from PETRONAS for \$2.25 billion. The transaction is subject to fulfilment of conditions precedent, including approval by SOCAR, the State Oil Company of the Azerbaijan Republic. Following the completion of the transaction, the Group's interest in the Shah Deniz project will increase from 10% to 25.5%.

In July 2021, a Group company entered into a contract to purchase the 50% operator interest in the Area 4 project in Mexico by acquiring the operator's holding company for approximately \$435 million plus expenditures incurred in 2021 as of the transaction completion date. The transaction will be closed after all the customary conditions, including approval by the Mexican authorities, are fulfilled.

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 2021 and the nine-month periods ended 30 September 2021 and 2020

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

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(rubles per tonne)					
Diesel fuel	45,007	39,368	14.3	41,833	36,648	14.1
Regular gasoline.....	48,681	45,889	6.1	46,546	39,924	16.6
Premium gasoline.....	50,556	47,847	5.7	49,416	42,888	15.2
Fuel oil	23,139	21,097	9.7	21,477	10,023	>100

Source: InfoTEK (excluding VAT).

Changes in ruble exchange rate and inflation

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

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

	Q3 2021	Q2 2021	9 months of	
			2021	2020
Ruble inflation (CPI), %	1.1	2.0	5.3	2.9
Ruble to US dollar exchange rate				
Average for the period	73.47	74.22	74.01	70.78
At the beginning of the period	72.37	75.70	73.88	61.91
At the end of the period	72.76	72.37	72.76	79.68
Ruble to euro exchange rate				
Average for the period	86.66	89.39	88.57	79.64
At the beginning of the period	86.20	88.88	90.68	69.34
At the end of the period	84.88	86.20	84.88	93.02

Source: Bank of Russia, Federal State Statistics Service.

Taxation

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

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(US dollars per tonne)					
Mineral extraction tax ¹	276.00	251.52	9.7	246.34	117.08	>100
Export duty on crude oil	64.63	57.08	13.3	55.33	46.77	18.3

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

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(rubles per tonne)					
Mineral extraction tax	20,279	18,667	8.6	18,231	8,287	>100
Export duty on crude oil ¹	4,749	4,236	12.2	4,095	3,310	23.7

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

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

Tax manoeuvre. The Russian Government has been implementing the so-called tax manoeuvre in the oil industry, which involves reduction of export duty rate and increase in the crude oil extraction tax and excise tax rates, as well as an introduction of a negative excise tax on refinery feedstock. From 2019, crude oil export duty rate is being gradually reduced and will be nulled in 2024. Simultaneously, the mineral extraction tax rate for crude oil is being equivalently increased. 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.

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 2021 and the nine-month periods ended 30 September 2021 and 2020

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

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

where *Price* is a Urals blend price in US dollars per barrel and *Exchange Rate* is an average ruble exchange rate to US dollar during the period. The *Incentive Factor* represents incentives discussed further in this section. The *Tax Manoeuvre Factor* is derived as Export duty reduction factor multiplied by the base export duty rate. The two fixed *Damper Factors* are applicable when the corresponding components of a negative excise formula are positive. From 2020, in addition to the fixed factors a new variable Damper Factor, which is linked to the export netbacks for gasoline and diesel fuel, was added to the formula. In 2021, the formula was amended by increasing the variable Damper Factor, which was synchronized with an increase in the damper coefficient in the formula of negative excise tax on refinery feedstock.

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

	2020	2021	2022	2023	2024 and further
Export duty reduction factor.....	0.333	0.500	0.667	0.833	1
			(rubles)		
Damper Factor for gasoline.....	105	105	105	105	105
Damper Factor for diesel fuel.....	92	92	92	92	92

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

- A special reducing coefficient is applied to the standard tax rate depending on location, size and complexity of a particular field. This type of incentive with different coefficients is applied to our Yu. Korchagin field located in the Caspian offshore, as well as to our new small-sized fields (recoverable reserves less than 5 million tonnes) and fields and deposits with low permeability like V. Vinogradov, Sredne-Nazymyskoye and Imilorskoye fields and Tyumen deposits. Before the end of 2020, the incentive was applied to our highly depleted fields (more than 80% depletion), the Permian layers of our Usinskoye field in Timano-Pechora producing high-viscous crude oil, as well as our Yaregskoye field producing extra-viscous crude oil. After the adoption of amendments to the Russian Tax Code in October 2020 these tax incentives have been cancelled as of 1 January 2021. The cancellation of mineral extraction tax incentives for our highly depleted fields was followed by allowance of inclusion of the respective licence areas into Group 3 of tax on additional income regime (see below) as of beginning of 2021;
- A fixed tax rate of 15% of the Urals price is applied to our V. Filanovsky offshore field and other greenfields, located in the Caspian Sea;
- A fixed tax rate of 30% of the Urals price is applied to our offshore greenfields, located in the Baltic Sea;
- A special tax rate is applied to crude oil produced at licence areas with TAI regime. For Groups 1 and 4 of TAI a discount to the special tax rate is applied depending on the duration of commercial production at the particular licence area. For highly depleted licence areas in Group 3 of TAI a 20% discount will be applied to the special tax rate starting from 1 January 2024.

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

Tax on additional income. Starting from 2019, a tax on additional income (hereinafter TAI) from the crude oil and gas condensate production has been implemented for certain licence 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 licence area. For crude oil production subject to TAI, a special mineral extraction tax rate (in US dollars per barrel) is applied which equals to 50% of the difference between Urals oil price and \$15 less the enacted export duty rate. From September 2021, Damper Factor is added to this special mineral extraction tax rate.

TAI is implemented for five groups of licence areas. In Group 1, LUKOIL has nineteen licence areas with greenfields in the Yamal-Nenets Autonomous District, including Pyakyakhinskoye field, and a number of fields in Timan-Pechora. In Group 3, LUKOIL has eight licence areas with brownfields in West Siberia that adopted TAI regime as of 1 January 2019, as well as 105 licence areas with depleted reserves in different regions transferred to TAI regime in 2021. In Group 4, LUKOIL has two licence areas with greenfields in West Siberia and five licence areas in Timan-Pechora added in 2021. LUKOIL has licence areas neither in Group 2 nor in Group 5 of the TAI regime.

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 2021 and the nine-month periods ended 30 September 2021 and 2020

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-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 2021 tax formulas				
Standard	23.5	5.7	29.2	58.3
Yu. Korchagin field	13.2	5.7	18.9	37.8
V. Filanovsky field	7.5	0.0	7.5	15.0
D41 field	15.0	0.0	15.0	30.0
V. Vinogradov and Imilorskoye fields	15.2	5.7	20.9	41.9
New fields with reserves below 5 million tonnes	17.0–23.5	5.7	22.7–29.2	45.5–58.3
Tyumen deposits	21.4	5.7	27.1	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 licence 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 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
	(US dollars per thousand cubic meters) ¹					
Nakhodkinskoye field	6.42	6.17	4.1	6.26	5.71	9.6
Pyakyakhinskoye field	5.23	7.90	(33.8)	6.95	6.95	-

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

	Q3 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
	(rubles per thousand cubic meters)					
Nakhodkinskoye field	472	458	3.1	463	404	14.6
Pyakyakhinskoye field	384	586	(34.5)	514	492	4.5

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.

	2020 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 2021 and the nine-month periods ended 30 September 2021 and 2020

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

	2020	January - April 2021	May - December 2021	2022	2023	2024
	(rubles per tonne)					
Fixed benchmark for gasoline.....	53,600	56,300	52,300	55,200	56,900	58,650
Fixed benchmark for diesel fuel	48,300	50,700	50,700	52,250	53,850	55,500
	2020 and further					
Compensation coefficient for gasoline						0.68
Compensation coefficient for diesel fuel						0.65

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

	Q3 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
	(US dollars per tonne) ¹					
Gasoline	214.26	159.21	34.6	141.13	(105.47)	-
Diesel fuel	94.10	63.87	47.3	58.09	(86.45)	-

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

	Q3 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
	(rubles per tonne)					
Gasoline	15,743	11,816	33.2	10,445	(7,465)	-
Diesel fuel	6,914	4,740	45.9	4,299	(6,119)	-

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 2021 to Q2 2021	9 months of 2021 to 9 months of 2020
Transneft (crude oil)	0.0%	3.6%
Russian Railways (crude oil and refined products).....	0.0%	3.7%

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 28 “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 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(millions of rubles)					
EBITDA	245,036	220,904	10.9	689,733	333,514	>100
in Russia.....	206,932	193,379	7.0	587,281	273,609	>100
outside Russia and Iraq	30,366	21,579	40.7	76,694	35,025	>100
in Iraq.....	7,738	5,946	30.1	25,758	24,880	3.5
Hydrocarbon extraction expenses.....	51,235	50,710	1.0	150,484	147,874	1.8
in Russia.....	40,817	40,236	1.4	118,996	118,796	0.2
outside Russia and Iraq	6,231	6,555	(4.9)	19,178	16,804	14.1
in Iraq.....	4,187	3,919	6.8	12,310	12,274	0.3
	(rubles per BOE)					
Hydrocarbon unit extraction expenses (excluding Iraq).....	245	256	(4.3)	245	246	(0.6)
in Russia.....	244	249	(1.9)	244	240	1.8
outside Russia and Iraq	248	305	(18.8)	248	302	(18.1)
	(US dollars per BOE)					
Hydrocarbon unit extraction expenses (excluding Iraq).....	3.33	3.44	(3.3)	3.31	3.48	(4.9)
in Russia.....	3.32	3.36	(1.0)	3.30	3.39	(2.6)
outside Russia and Iraq	3.37	4.11	(18.0)	3.35	4.27	(21.6)

Our upstream EBITDA increased by 10.9% compared to the second quarter of 2021. In Russia, EBITDA increased by 7.0% quarter-on-quarter mainly as a result of higher crude oil prices and production volumes, while lower positive export duty lag effect was a restraining factor. Outside Russia and Iraq, our EBITDA increased by 40.7% mainly as a result of an increase in gas realized prices and higher gas production volumes in Uzbekistan.

Compared to the nine months of 2020, our upstream EBITDA increased more than two-fold. In Russia, the increase was mainly a result of higher crude oil prices, the ruble depreciation and positive export duty lag effect, although these factors were partially offset by elimination of tax incentives for high-viscous crude oil. Outside Russia and Iraq, our upstream EBITDA increased mainly due to higher crude oil prices, higher gas production volumes in Uzbekistan and the ruble depreciation.

The dynamics of EBITDA of the West Qurna-2 project was mainly a result of changes in incurred costs and their 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 2021 and the nine-month periods ended 30 September 2021 and 2020

The following table summarizes our hydrocarbon production by major regions.

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(thousand BOE per day)					
Crude oil and natural gas liquids						
Consolidated subsidiaries						
West Siberia	710	687	3.3	685	679	0.9
Timan-Pechora	284	275	3.3	275	282	(2.5)
Ural region	325	309	5.2	315	313	0.6
Volga region	223	221	0.9	221	220	0.5
Other in Russia	28	28	-	28	29	(3.4)
Total in Russia	1,570	1,520	3.3	1,524	1,523	0.1
Iraq ¹	20	35	(42.9)	34	59	(42.4)
Other outside Russia	40	46	(13.0)	47	52	(9.6)
Total outside Russia	60	81	(25.9)	81	111	(27.0)
Total consolidated subsidiaries	1,630	1,601	1.8	1,605	1,634	(1.8)
Our share in associates and joint ventures						
in Russia	9	12	(25.0)	10	11	(9.1)
outside Russia	23	30	(23.3)	28	33	(15.2)
Total share in production of associates and joint ventures	32	42	(23.8)	38	44	(13.6)
Total crude oil and natural gas liquids	1,662	1,643	1.2	1,643	1,678	(2.1)
Natural and petroleum gas²						
Consolidated subsidiaries						
West Siberia	170	180	(5.6)	181	205	(11.7)
Timan-Pechora	30	29	3.4	29	30	(3.3)
Ural region	21	23	(8.7)	24	22	9.1
Volga region	26	24	8.3	25	26	(3.8)
Other in Russia	0	0	-	0	0	-
Total in Russia	247	256	(3.5)	259	283	(8.5)
Uzbekistan	188	143	31.5	189	107	76.6
Other outside Russia	46	46	-	47	45	4.4
Total outside Russia	234	189	23.8	236	152	55.3
Total consolidated subsidiaries	481	445	8.1	495	435	13.8
Share in associates and joint ventures						
in Russia	1	2	(22.7)	2	1	42.0
outside Russia	8	10	(20.4)	10	10	(8.7)
Total share in production of associates and joint ventures	9	12	(25.0)	12	11	(1.6)
Total natural and petroleum gas	490	457	7.2	507	446	13.7
Total daily hydrocarbon production (excluding the West Qurna-2 project)	2,132	2,065	3.2	2,116	2,065	2.5
Total daily hydrocarbon production	2,152	2,100	2.5	2,150	2,124	1.2
Including natural gas liquids produced at the gas processing plants	37	28	31.1	33	39	(14.6)

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 2021 and the nine-month periods ended 30 September 2021 and 2020**

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

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(thousands of tonnes)					
West Siberia	8,658	8,333	3.9	24,857	24,646	0.9
Timan-Pechora	3,673	3,530	4.1	10,555	10,767	(2.0)
Ural region	3,825	3,653	4.7	11,056	10,901	1.4
Volga region.....	2,686	2,610	2.9	7,889	7,830	0.8
Other in Russia.....	358	358	-	1,073	1,133	(5.3)
Crude oil produced in Russia	19,200	18,484	3.9	55,430	55,277	0.3
Iraq ¹	271	460	(41.1)	1,340	2,380	(43.7)
Other outside Russia.....	430	501	(14.2)	1,492	1,651	(9.6)
Crude oil produced outside Russia	701	961	(27.1)	2,832	4,031	(29.7)
Total crude oil produced by consolidated subsidiaries.....	19,901	19,445	2.3	58,262	59,308	(1.8)
Our share in crude oil produced by associates and joint ventures:						
in Russia.....	104	138	(24.6)	383	381	0.5
outside Russia.....	269	345	(22.0)	946	1,142	(17.2)
Total crude oil produced.....	20,274	19,928	1.7	59,591	60,831	(2.0)

¹ Compensation crude oil related to the Group.

Our main oil producing region is West Siberia where we produced 43.5% and 42.7% of our crude oil in the third quarter and the nine months of 2021 (42.9% in the second quarter of 2021 and 41.6% in the nine months of 2020). Our crude oil production increased by 1.7% compared to the second quarter of 2021, and decreased by 2.0% compared to the nine months of 2020.

The dynamics of our crude oil production volumes in Russia since the beginning of 2017 has been driven by external limitations due to agreements 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. Following these agreements, the Group limited production in its traditional regions (West Siberia, Timan-Pechora, and Ural) at the least-productive fields and fields with high water-cuts.

In April 2020, OPEC+ countries entered into a new agreement to reduce their collective output by 9.7 million barrels per day starting from 1 May 2020 as a response to a dramatic contraction in demand for crude oil due to the COVID-19 pandemic. The agreement expires at the end of 2022 and its parameters are adjusted depending on the market situation. Due to the agreement, in 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. Subsequently, our crude oil production in Russia has been gradually recovering. As a result, in the third quarter of 2021, crude oil production by the Group in Russia was approximately 210 thousand barrels per day higher than the May 2020 level and in the nine months of 2021 it exceeded the levels of the respective period of 2020.

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

Despite external limitations on production volumes, development of the priority projects continued. In particular, in West Siberia total crude oil and gas condensate production at the V. Vinogradov, Imilorskoye, Sredne-Nazymkoye and Pyakyakhinskoye fields increased in the nine months of 2021 by 6.8% year-on-year, to 3.3 million tonnes.

Implementation of drilling programmes at the V. Filanovsky and Yu. Korchagin fields in the Caspian Sea allowed to increase total crude oil and gas condensate production in the nine months of 2021 by 0.6% year-on-year, to 5.6 million tonnes. The V. Grayfer field development continues: cable lines construction is completed, subsea pipelines are being laid, shipyards are finishing construction of topsides of the platforms.

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 2021 and the nine-month periods ended 30 September 2021 and 2020**

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 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
	(millions of cubic meters)					
West Siberia, including:	2,659	2,774	(4.1)	8,391	9,554	(12.2)
Nakhodkinskoye field	1,026	1,107	(7.3)	3,309	4,080	(18.9)
Pyakyakhinskoye field	750	776	(3.4)	2,373	2,719	(12.7)
Other fields.....	883	891	(0.9)	2,709	2,755	(1.7)
Timan-Pechora	463	446	3.8	1,349	1,376	(2.0)
Ural region	331	356	(7.0)	1,102	1,044	5.6
Volga region.....	402	366	9.8	1,174	1,205	(2.6)
Other in Russia.....	3	2	50.0	8	15	(46.7)
Gas produced in Russia.....	3,858	3,944	(2.2)	12,024	13,194	(8.9)
Uzbekistan.....	2,944	2,209	33.3	8,765	4,953	77.0
Other outside Russia.....	713	720	(1.0)	2,202	2,096	5.1
Gas produced outside Russia.....	3,657	2,929	24.9	10,967	7,049	55.6
Total gas produced by consolidated subsidiaries..	7,515	6,873	9.3	22,991	20,243	13.6
Our share in gas produced by associates and joint ventures:						
in Russia.....	28	36	(22.2)	105	75	40.0
outside Russia.....	123	153	(19.6)	421	462	(8.9)
Total gas produced.....	7,666	7,062	8.6	23,517	20,780	13.2

In the third quarter and the nine months of 2021, LUKOIL Group's gas production was 7.7 billion cubic meters and 23.5 billion cubic meters, which was 8.6% higher quarter-on-quarter, and 13.2% higher year-on-year.

In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where gas is produced mainly from the Nakhodkinskoye and Pyakyakhinskoye fields. Our gas production in Russia decreased by 2.2% compared to the second quarter of 2021, and by 8.9% compared to the nine months of 2020 mainly as a result of natural production decline at our Nakhodkinskoye field. Outside Russia, the main gas production region is Uzbekistan where we have shares in two PSAs. Quarter-on-quarter, our international gas production (including our share in associates' production) increased by 22.6% due to planned maintenance works at the projects in Uzbekistan in the second quarter of 2021. Our international gas production increased by 51.6% year-on-year mainly as a result of gas production recovery in Uzbekistan after temporary decline in 2020 due to lower demand from China for gas produced in Uzbekistan amid the COVID-19 pandemic.

West Qurna-2 project

The West Qurna-2 field in Iraq is developed under the service contract, signed in January 2010. In May 2018, a Group company and Iraqi party signed a new field development plan, according to which, crude oil production is planned to increase to 800 thousand barrels per day. Starting from 1 May 2020, crude oil production at the field is limited due to the OPEC+ agreement. In the third quarter of 2021, average daily production at the field was approximately 50 thousand barrels per day below its capacity.

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

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

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.

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 2021 and the nine-month periods ended 30 September 2021 and 2020

- Based on the approved invoices, the Iraqi party arranges schedule of crude oil shipments against its liability for cost compensation and remuneration. As this crude oil is actually shipped, its cost is recognized at current market price in Cost of purchased crude oil, gas and products. Further, revenue from sales of this crude oil, or products from its refining, is recognized in *Sales*. Unsold crude oil and refined products are recognized in *Inventories*.

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

(millions of US dollars)	Costs incurred ¹	Remuneration fee	Crude oil received	Crude oil to be received
Cumulative at 31 December 2020	9,778	675	9,868	585
Change in the nine months of 2021	459	94	781	(228)
Cumulative at 30 September 2021	10,237	769	10,649	357

¹ Including prepayments.

The West Qurna-2 project summary is presented below:

	Q3 2021		Q2 2021		Change, %	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production	31,899	4,663	32,221	4,711	(1.0)	(1.0)
Production related to cost compensation and remuneration	1,853	271	3,144	460	(41.1)	(41.1)
Shipment of compensation crude oil ¹	3,709	542	4,500	658	(17.6)	(17.6)
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation	9,561	130	7,617	103	25.5	26.2
Remuneration fee	2,002	27	2,065	28	(3.1)	(3.6)
	11,563	157	9,682	131	19.4	19.8
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) ¹	20,314	276	23,506	317	(13.6)	(12.9)
Extraction expenses	4,187	57	3,919	52	6.8	9.6
Depreciation, depletion and amortization	5,415	73	3,712	50	45.9	46.0
EBITDA	7,738	105	5,946	81	30.1	29.6

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.

	9 months of				Change, %	
	2021		2020			
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production	91,795	13,420	95,512	13,964	(3.9)	(3.9)
Production related to cost compensation and remuneration	9,163	1,340	16,279	2,380	(43.7)	(43.7)
Shipment of compensation crude oil ¹	11,451	1,674	15,270	2,232	(25.0)	(25.0)
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation	31,983	432	31,816	455	0.5	(5.1)
Remuneration fee	5,832	79	5,800	82	0.6	(3.7)
	37,815	511	37,616	537	0.5	(4.8)
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) ¹	57,815	781	33,434	469	72.9	66.5
Extraction expenses	12,310	166	12,274	174	0.3	(4.6)
Depreciation, depletion and amortization	19,728	266	19,690	283	0.2	(6.0)
EBITDA	25,758	348	24,880	357	3.5	(2.5)

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 2021 and the nine-month periods ended 30 September 2021 and 2020

Refining and petrochemicals

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

	Q3 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
	(thousands of tonnes)					
Refinery throughput at the Group refineries	17,299	15,738	9.9	47,481	45,463	4.4
in Russia	11,270	10,400	8.4	31,696	30,427	4.2
outside Russia, including	6,029	5,338	12.9	15,785	15,036	5.0
crude oil	5,396	4,924	9.6	14,108	13,803	2.2
refined products.....	633	414	52.9	1,677	1,233	36.0
Refinery throughput at third party refineries	2	1	100.0	3	118	(97.5)
Total refinery throughput.....	17,301	15,739	9.9	47,484	45,581	4.2
Production of the Group refineries in Russia¹	10,718	9,892	8.4	30,078	28,856	4.2
diesel fuel.....	4,379	3,987	9.8	12,229	12,324	(0.8)
motor gasoline	2,265	1,988	13.9	5,938	5,597	6.1
fuel oil.....	1,213	1,114	8.9	3,217	2,177	47.8
jet fuel.....	822	669	22.9	2,041	1,695	20.4
lubricants and components.....	216	200	8.0	645	668	(3.4)
straight-run gasoline	561	623	(10.0)	1,819	1,822	(0.2)
vacuum gas oil	-	81	(100.0)	633	151	>100
bitumen	271	263	3.0	652	759	(14.1)
coke	264	235	12.3	805	851	(5.4)
bunker fuel.....	370	378	(2.1)	1,081	1,446	(25.2)
gas products.....	88	88	-	247	239	3.3
petrochemicals	99	90	10.0	266	245	8.6
other products	170	176	(3.4)	505	882	(42.7)
Production of the Group refineries outside Russia	5,739	5,242	9.5	15,126	13,711	10.3
diesel fuel.....	2,780	2,526	10.1	7,223	6,835	5.7
motor gasoline	1,182	1,141	3.6	2,969	3,170	(6.3)
fuel oil.....	42	28	50.0	175	583	(70.0)
jet fuel.....	174	109	59.6	400	412	(2.9)
straight-run gasoline	568	464	22.4	1,680	1,167	44.0
coke	28	32	(12.5)	83	52	59.6
bunker fuel.....	619	619	-	1,680	322	>100
gas products.....	147	133	10.5	385	374	2.9
petrochemicals	12	10	20.0	33	34	(2.9)
other products	187	180	3.9	498	762	(34.6)
Refined products produced by the Group.....	16,457	15,134	8.7	45,204	42,567	6.2
Refined products produced at third party refineries ..	2	4	(50.0)	6	113	(94.7)
Total refined products produced.....	16,459	15,138	8.7	45,210	42,680	5.9
Reference: Net of cross-supplies of refined products between the Group refineries.....	456	408	11.8	1,201	1,239	(3.1)
Products produced at petrochemical plants and facilities	293	295	(0.7)	898	896	0.2
in Russia	214	210	1.9	657	645	1.9
outside Russia.....	79	85	(7.1)	241	251	(4.0)

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

In the third quarter and the nine months of 2021, refinery throughput at the Group refineries was 17.3 million tonnes and 47.5 million tonnes, respectively, which is 9.9% higher compared to the second quarter of 2021 and 4.4% higher compared to the nine months of 2020.

Compared to the previous quarter, refinery throughput volumes increased by 8.4% in Russia and by 12.9% outside Russia. Compared to the nine months of 2020, refinery throughput volumes increased by 4.2% in Russia and by 5.0% outside Russia. The dynamics of refinery throughput volumes were attributable to scheduled maintenance works and throughput optimization driven by the changes in macro environment.

In the nine months of 2020, we processed our crude oil at third party refineries in Belarus and Kazakhstan.

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 2021 and the nine-month periods ended 30 September 2021 and 2020****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 purchased outside Russia are either traded or supplied to our international refineries and our retail chains.

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

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

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(thousands of tonnes)					
Crude oil purchases						
In Russia.....	318	310	2.6	902	459	96.5
For trading internationally.....	17,964	13,114	37.0	42,214	40,871	3.3
For refining internationally	4,489	4,646	(3.4)	12,737	10,361	22.9
Shipment of the West Qurna-2 compensation crude oil.....	542	658	(17.6)	1,674	2,232	(25.0)
Total crude oil purchased	23,313	18,728	24.5	57,527	53,923	6.7

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

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(thousands of tonnes)					
Refined products purchases						
In Russia.....	305	223	36.8	805	503	60.0
For trading internationally.....	11,526	10,814	6.6	34,038	34,635	(1.7)
For refining internationally	542	336	61.3	1,410	1,292	9.1
Total refined products purchased	12,373	11,373	8.8	36,253	36,430	(0.5)
Petrochemical products purchases						
In Russia.....	29	29	-	99	101	(2.0)
For trading internationally.....	196	153	28.1	528	476	10.9
For refining internationally	45	45	-	130	129	0.9
Total petrochemical products purchased	270	227	18.9	757	706	7.2

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 2021 and the nine-month periods ended 30 September 2021 and 2020

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 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
	(millions of rubles)					
Exports of crude oil to Customs Union	18,032	14,815	21.7	48,716	18,238	>100
Exports of crude oil beyond Customs Union.....	263,044	258,156	1.9	741,085	414,259	78.9
Total crude oil exports	281,076	272,971	3.0	789,801	432,497	82.6
	(thousands of tonnes)					
Exports of crude oil to Customs Union	559	486	15.0	1,613	1,115	44.7
Exports of crude oil beyond Customs Union.....	6,926	7,220	(4.1)	20,931	22,959	(8.8)
Total crude oil exports	7,485	7,706	(2.9)	22,544	24,074	(6.4)
Exports of crude oil through Transneft, excluding ESPO pipeline.....	3,998	4,016	(0.4)	11,808	13,765	(14.2)
ESPO pipeline	600	878	(31.7)	2,158	1,139	89.5
CPC pipeline	1,537	1,497	2.7	4,428	3,915	13.1
Exports of crude oil through the Group's transportation infrastructure	1,350	1,315	2.7	4,150	5,255	(21.0)
Total crude oil exports	7,485	7,706	(2.9)	22,544	24,074	(6.4)
Supply of exported crude oil to refineries	711	439	62.0	1,502	2,892	(48.1)
	(millions of rubles)					
Refined and petrochemical products exports	176,388	188,427	(6.4)	531,620	299,836	77.3
	(thousands of tonnes)					
Refined products exports						
diesel fuel.....	2,274	2,356	(3.5)	7,027	7,666	(8.3)
gasoline	3	26	(88.5)	101	652	(84.5)
fuel oil.....	962	819	17.5	2,443	1,172	>100
jet fuel	2	4	(50.0)	12	9	33.3
lubricants and components.....	135	127	6.3	411	440	(6.6)
gas refinery products.....	151	128	18.0	421	549	(23.3)
other products	565	1,126	(49.8)	2,920	2,937	(0.6)
Total refined products exports	4,092	4,586	(10.8)	13,335	13,425	(0.7)
Total petrochemicals exports.....	113	125	(9.6)	348	286	21.7

The volume of our crude oil exports from Russia decreased by 2.9% compared to the second quarter of 2021 and by 6.4% compared to the nine months of 2020 as a result of an increase in domestic refinery throughput volumes. In the third quarter and the nine months of 2021, we exported 39.0% and 40.7% of our domestic crude oil production, respectively (41.7% in the second quarter of 2021 and 43.6% in the nine months of 2020).

The volume of our refined products exports decreased by 10.8% compared to the second quarter of 2021, and by 0.7% compared to the nine months of 2020. The quarter-on-quarter decrease was a result of higher domestic sales volumes owing to an increase in domestic demand.

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

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

Priority sales channels. We develop our priority sales channels aiming at increasing our margin on sale of refined products produced by the Group. 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 2021 and the nine-month periods ended 30 September 2021 and 2020

In the third quarter and the nine months of 2021, we sold 2.7 million tonnes and 7.2 million tonnes of motor fuels, respectively, via our domestic retail network, which was 12.6% higher compared to the second quarter of 2021, and 8.1% higher compared to the nine months of 2020. Outside Russia, retail sales increased by 11.6% compared to the second quarter of 2021 and by 9.2% compared to the nine months of 2020. The increase in sales volumes compared to the second quarter of 2021 was due to seasonality factor, while the increase compared to the nine months of 2020 was due to lower demand in 2020 because of the consequences of the COVID-19 pandemic.

In the third quarter and the nine months of 2021, our jet fuel deliveries volume net of trading operations amounted to 0.9 million tonnes and 2.1 million tonnes, respectively, compared to 0.7 million tonnes in the second quarter of 2021 and 2.2 million tonnes in the nine months of 2020.

In the third quarter and the nine months of 2021, our bunkering volume net of trading operations amounted to 0.6 million tonnes and 1.6 million tonnes, respectively, compared to 0.5 million tonnes in the second quarter of 2021 and 1.9 million tonnes in the nine months of 2020.

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 2021, our total output of commercial electrical energy was 3.4 billion kWh and 11.2 billion kWh, respectively (2.6 billion kWh in the second quarter of 2021 and 12.7 billion kWh in the nine months of 2020), and our total output of commercial heat energy was approximately 0.8 million Gcal and 6.7 million Gcal (1.3 million Gcal in the second quarter of 2021 and 6.4 million Gcal in the nine months 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 2021 and the nine-month periods ended 30 September 2021 and 2020

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 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(millions of rubles)					
Revenues						
Sales (including excise and export tariffs).....	2,588,745	2,201,884	17.6	6,667,112	4,109,062	62.3
Costs and other deductions						
Operating expenses	(128,314)	(124,925)	2.7	(369,277)	(325,986)	13.3
Cost of purchased crude oil, gas and products.....	(1,574,170)	(1,214,383)	29.6	(3,817,678)	(2,157,305)	77.0
Transportation expenses	(70,906)	(75,112)	(5.6)	(214,036)	(221,006)	(3.2)
Selling, general and administrative expenses	(55,466)	(54,369)	2.0	(155,867)	(143,009)	9.0
Depreciation, depletion and amortization.....	(107,403)	(106,514)	0.8	(327,631)	(314,882)	4.0
Taxes other than income taxes	(351,395)	(328,549)	7.0	(916,556)	(420,599)	>100
Excise and export tariffs	(52,142)	(63,231)	(17.5)	(181,238)	(340,140)	(46.7)
Exploration expenses.....	(1,176)	(1,473)	(20.2)	(3,062)	(3,535)	(13.4)
Profit from operating activities	247,773	233,328	6.2	681,767	182,600	>100
Finance income	4,641	2,701	71.8	9,506	11,121	(14.5)
Finance costs	(9,246)	(9,289)	(0.5)	(27,886)	(33,269)	(16.2)
Equity share in income of associates and joint ventures	6,722	6,624	1.5	19,834	8,457	>100
Foreign exchange loss	(661)	(1,275)	(48.2)	(3,081)	(38,570)	(92.0)
Other expenses	(7,061)	(2,099)	-	(9,003)	(92,370)	(90.3)
Profit before income taxes	242,168	229,990	5.3	671,137	37,969	>100
Current income taxes.....	(48,928)	(36,530)	33.9	(121,827)	(42,041)	>100
Deferred income taxes.....	(121)	(3,064)	(96.1)	(7,828)	(9,257)	(15.4)
Total income tax expense	(49,049)	(39,594)	23.9	(129,655)	(51,298)	>100
Profit (loss) for the period.....	193,119	190,396	1.4	541,482	(13,329)	-
Profit (loss) for the period attributable to:						
PJSC LUKOIL shareholders	192,475	189,750	1.4	539,652	(14,260)	-
Non-controlling interests.....	644	646	(0.3)	1,830	931	96.6
Earnings per share						
Profit (loss) for the period attributable to PJSC LUKOIL shareholders per share of common stock (in Russian rubles):						
Basic	294.98	290.81	1.4	827.05	(21.92)	-
Diluted	280.63	277.31	1.2	788.67	(21.92)	-

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 2021 and the nine-month periods ended 30 September 2021 and 2020
Sales revenues

Sales breakdown	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(millions of rubles)					
Crude oil						
Export and sales on international markets other than Customs Union	960,495	786,818	22.1	2,380,674	1,383,059	72.1
Export and sales to Customs Union	18,083	15,003	20.5	48,950	18,527	>100
Domestic sales	25,735	21,620	19.0	61,249	19,491	>100
	1,004,313	823,441	22.0	2,490,873	1,421,077	75.3
Cost compensation and remuneration at the West Qurna-2 project	11,563	9,682	19.4	37,815	37,616	0.5
	1,015,876	833,123	21.9	2,528,688	1,458,693	73.4
Refined products						
Export and sales on international markets						
Wholesales	1,018,830	902,291	12.9	2,716,491	1,584,853	71.4
Retail	114,436	100,028	14.4	301,575	220,208	37.0
Domestic sales						
Wholesales	162,489	123,064	32.0	372,865	259,235	43.8
Retail	141,528	122,092	15.9	369,967	329,770	12.2
	1,437,283	1,247,475	15.2	3,760,898	2,394,066	57.1
Petrochemicals						
Export and sales on international markets	28,127	29,938	(6.0)	82,494	42,115	95.9
Domestic sales	15,235	16,303	(6.6)	44,227	25,912	70.7
	43,362	46,241	(6.2)	126,721	68,027	86.3
Gas						
Sales on international markets	40,755	27,738	46.9	96,651	37,920	>100
Domestic sales	7,515	7,096	5.9	22,237	24,459	(9.1)
	48,270	34,834	38.6	118,888	62,379	90.6
Sales of energy and related services						
Sales on international markets	4,353	1,702	>100	8,116	8,528	(4.8)
Domestic sales	10,852	10,440	3.9	41,132	37,704	9.1
	15,205	12,142	25.2	49,248	46,232	6.5
Other						
Export and sales on international markets	14,292	16,226	(11.9)	46,059	49,890	(7.7)
Domestic sales	14,457	11,843	22.1	36,610	29,775	23.0
	28,749	28,069	2.4	82,669	79,665	3.8
Total sales	2,588,745	2,201,884	17.6	6,667,112	4,109,062	62.3

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 2021 and the nine-month periods ended 30 September 2021 and 2020

Sales volumes	Q3 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
(thousands of tonnes)						
Crude oil						
Export and sales on international markets other than Customs Union	24,480	21,496	13.9	65,613	62,704	4.6
Export and sales to Customs Union.....	559	490	14.1	1,617	1,130	43.1
Domestic sales.....	798	707	12.9	1,994	1,225	62.8
	25,837	22,693	13.9	69,224	65,059	6.4
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project	358	207	72.9	1,174	2,380	(50.7)
	26,195	22,900	14.4	70,398	67,439	4.4
Refined products						
Export and sales on international markets						
Wholesales	21,020	20,481	2.6	61,793	58,392	5.8
Retail	1,101	987	11.6	2,986	2,734	9.2
Domestic sales						
Wholesales	3,990	3,253	22.7	9,899	9,285	6.6
Retail	2,717	2,412	12.6	7,245	6,705	8.1
	28,828	27,133	6.2	81,923	77,116	6.2
Petrochemicals						
Export and sales on international markets	335	341	(1.8)	1,011	985	2.6
Domestic sales.....	183	180	1.7	551	581	(5.2)
	518	521	(0.6)	1,562	1,566	(0.3)
(millions of cubic meters)						
Gas						
Sales on international markets	3,928	3,320	18.3	11,909	7,065	68.6
Domestic sales.....	2,758	2,726	1.2	8,388	9,670	(13.3)
	6,686	6,046	10.6	20,297	16,735	21.3

Realized average sales prices		Q3 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
Average realized price on international markets							
Crude oil (beyond Customs Union) ¹ ..	(RUB/barrel)	5,353	4,994	7.2	4,950	3,009	64.5
Crude oil (Customs Union)	(RUB/barrel)	4,413	4,177	5.7	4,130	2,237	84.6
Refined products							
Wholesales.....	(RUB/tonne)	48,470	44,055	10.0	43,961	27,142	62.0
Retail.....	(RUB/tonne)	103,938	101,345	2.6	100,996	80,544	25.4
Petrochemicals	(RUB/tonne)	83,961	87,795	(4.4)	81,596	42,756	90.8
Gas (excluding royalty).....	(RUB/1,000 m ³)	10,376	8,355	24.2	8,116	5,367	51.2
Crude oil (beyond Customs Union) ¹ ..	(\$/barrel)	72.85	67.28	8.3	66.89	42.52	57.3
Crude oil (Customs Union)	(\$/barrel)	60.06	56.28	6.7	55.80	31.60	76.6
Refined products							
Wholesales.....	(\$/tonne)	660	594	11.1	594	383	54.9
Retail.....	(\$/tonne)	1,415	1,366	3.6	1,365	1,138	19.9
Petrochemicals	(\$/tonne)	1,143	1,183	(3.4)	1,103	604	82.5
Gas (excluding royalty).....	(\$/1,000 m ³)	141	113	25.4	110	76	44.6
Average realized price within Russia							
Crude oil.....	(RUB/barrel)	4,400	4,172	5.5	4,191	2,171	93.1
Refined products							
Wholesales.....	(RUB/tonne)	40,724	37,831	7.6	37,667	27,920	34.9
Retail.....	(RUB/tonne)	52,090	50,619	2.9	51,065	49,183	3.8
Petrochemicals	(RUB/tonne)	83,251	90,572	(8.1)	80,267	44,599	80.0
Gas ²	(RUB/1,000 m ³)	2,725	2,603	4.7	2,651	2,529	4.8

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 2021 and the nine-month periods ended 30 September 2021 and 2020

Compared to the second quarter of 2021, our revenues were positively impacted by higher international hydrocarbon prices, an increase in domestic crude oil production volumes as a result of further partial lifting of the external limitations under the OPEC+ agreement, an increase in refinery throughput volumes, crude oil and refined products trading volumes, retail sales volumes, as well as international gas sales volumes.

Compared to the nine months of 2020, our revenues were positively impacted by an increase in international hydrocarbon prices, the ruble depreciation, higher gas production, refinery throughput and hydrocarbons trading volumes, as well as higher retail sales volumes, that was partially offset by lower crude oil production volumes.

Sales of crude oil

Compared to the second quarter of 2021, our crude oil sales revenue in and outside Russia increased by 19.0% and by 22.1%, respectively, largely as a result of an increase in production volumes in Russia and international trading volumes, as well as higher crude oil prices.

Compared to the nine months of 2020, our international crude oil sales revenue increased by 72.1%, mainly as a result of an increase in realized crude oil prices by 64.5%. Our domestic crude oil sales revenue increased more than three-fold owing to an increase in realized crude oil prices by 93.1% and sales volumes by 62.8%.

Sales of refined products

Sales breakdown	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(millions of rubles)					
Wholesales outside Russia.....	1,018,830	902,291	12.9	2,716,491	1,584,853	71.4
diesel fuel.....	373,786	361,230	3.5	1,021,244	676,716	50.9
motor gasoline.....	223,935	190,750	17.4	560,148	317,752	76.3
fuel oil.....	87,536	104,236	(16.0)	312,336	286,490	9.0
jet fuel.....	32,814	14,364	>100	61,940	15,849	>100
lubricants and components.....	21,754	22,641	(3.9)	63,752	48,954	30.2
gas products.....	63,390	22,687	>100	107,356	55,367	93.9
others.....	215,615	186,383	15.7	589,715	183,725	>100
Retail outside Russia	114,436	100,028	14.4	301,575	220,208	37.0
Wholesales in Russia	162,489	123,064	32.0	372,865	259,235	43.8
diesel fuel.....	48,242	33,270	45.0	108,629	84,291	28.9
motor gasoline.....	25,297	21,981	15.1	58,967	33,632	75.3
fuel oil.....	4,966	4,067	22.1	13,300	6,275	>100
jet fuel.....	36,410	26,843	35.6	80,665	60,359	33.6
lubricants and components.....	11,619	10,604	9.6	29,434	19,353	52.1
gas products.....	5,639	3,540	59.3	12,569	7,767	61.8
others.....	30,316	22,759	33.2	69,301	47,558	45.7
Retail in Russia	141,528	122,092	15.9	369,967	329,770	12.2
Total refined products sales	1,437,283	1,247,475	15.2	3,760,898	2,394,066	57.1

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 2021 and the nine-month periods ended 30 September 2021 and 2020

Sales volumes	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(thousands of tonnes)					
Wholesales outside Russia	21,020	20,481	2.6	61,793	58,392	5.8
diesel fuel	7,461	7,743	(3.6)	21,990	21,949	0.2
motor gasoline	3,949	3,643	8.4	10,860	10,278	5.7
fuel oil	2,724	3,428	(20.5)	10,287	15,015	(31.5)
jet fuel.....	679	310	>100	1,362	511	>100
lubricants and components	168	180	(6.7)	562	786	(28.5)
gas products.....	1,259	583	>100	2,379	2,214	7.5
others	4,780	4,594	4.0	14,353	7,639	87.9
Retail outside Russia	1,101	987	11.6	2,986	2,734	9.2
diesel fuel	745	671	11.0	2,044	1,863	9.7
motor gasoline	311	280	11.1	829	761	8.9
gas products.....	45	36	25.0	113	110	2.7
Wholesales in Russia	3,990	3,253	22.7	9,899	9,285	6.6
diesel fuel	1,076	767	40.3	2,502	2,070	20.9
motor gasoline	521	476	9.5	1,263	835	51.3
fuel oil	220	192	14.6	638	709	(10.0)
jet fuel.....	825	692	19.2	2,052	1,845	11.2
lubricants and components	93	85	9.4	261	285	(8.4)
gas products.....	163	129	26.4	414	435	(4.8)
others	1,092	912	19.7	2,769	3,106	(10.8)
Retail in Russia.....	2,717	2,412	12.6	7,245	6,705	8.1
diesel fuel	937	853	9.8	2,607	2,545	2.4
motor gasoline	1,761	1,544	14.1	4,591	4,119	11.5
gas products.....	19	15	26.7	47	41	14.6
Total refined products volumes.....	28,828	27,133	6.2	81,923	77,116	6.2

Compared to the second quarter of 2021 and the nine months of 2020, our refined products sales revenue was positively impacted by higher sales prices. Moreover, the dynamics of our revenues compared to the nine months of 2020 were positively impacted by the ruble depreciation.

The third quarter of 2021 vs. the second quarter of 2021

- Our revenue from the wholesales of refined products outside Russia increased by 12.9% largely due to an increase in average realized prices by 10.0% and sales volumes by 2.6%.
- International retail revenue increased by 14.4% primarily due to a seasonal increase in sales volumes by 11.6% and an increase in average realized prices by 2.6%.
- Revenue from the wholesales of refined products on the domestic market increased by 32.0% that was both price- and volume-driven.
- Revenue from the retail sales of refined products on the domestic market increased by 15.9%, mainly as a result of a seasonal increase in sales volumes by 12.6%.

The nine months of 2021 vs. the nine months of 2020

- Our revenue from the wholesales of refined products outside Russia increased by 71.4% mostly as a result of an increase in average realized prices by 62.0% and volumes by 5.8%.
- Our international retail revenue increased by 37.0% as a result of an increase in realized prices and sales volumes.
- Our revenue from the wholesales of refined products on the domestic market increased by 43.8% primarily as a result of higher average realized prices.
- Our revenue from refined products retail sales in Russia increased by 12.2% as an increase in sales volumes was amplified by an increase in average 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 2021 and the nine-month periods ended 30 September 2021 and 2020***Hydrocarbon extraction expenses*

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

	Q3 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
				(millions of rubles)		
Hydrocarbon extraction expenses.....	47,048	46,791	0.5	138,174	135,600	1.9
in Russia	40,817	40,236	1.4	118,996	118,796	0.2
outside Russia ¹	6,231	6,555	(4.9)	19,178	16,804	14.1
				(rubles per BOE)		
Hydrocarbon unit extraction expenses.....	245	256	(4.3)	245	246	(0.6)
in Russia	244	249	(1.9)	244	240	1.8
outside Russia ¹	248	305	(18.8)	248	302	(18.1)

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

Compared to the second quarter of 2021, our extraction expenses in Russia increased by 1.4% due to crude oil production growth. At the same time, unit extraction expenses decreased by 1.9% due to a decrease in fixed costs share on the back of growing crude oil production. Outside Russia, our extraction expenses decreased by 4.9% mainly as a result of a decrease in maintenance costs at our projects in Uzbekistan, that was partly offset by higher maintenance costs in Kazakhstan. Moreover, hydrocarbon unit extraction expenses outside Russia decreased by 18.8% mainly due to higher gas production volumes in Uzbekistan.

Compared to the nine months of 2020, our extraction expenses in Russia increased by 0.2%. An increase in energy cost due to tariffs dynamics was offset by a decrease in other production costs including the effect of our cost reduction programme. Our hydrocarbon unit extraction expenses increased by 1.8% due to lower share of gas in the production volumes. Outside Russia, our hydrocarbon extraction expenses increased by 14.1% largely as a result of higher gas production in Uzbekistan and Azerbaijan, as well as the ruble depreciation. At the same time, our hydrocarbon unit extraction expenses outside Russia decreased by 18.1% due to higher share of gas in the production volumes as gas has lower unit extraction expenses compared to crude oil.

Own refining expenses

	Q3 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
				(millions of rubles)		
Refining expenses at the Group refineries.....	32,171	29,722	8.2	89,268	67,050	33.1
in Russia	13,383	12,195	9.7	37,915	30,075	26.1
outside Russia.....	18,788	17,527	7.2	51,353	36,975	38.9
				(rubles per tonne)		
Unit refining expenses at the Group refineries.....	1,860	1,889	(1.6)	1,880	1,475	27.5
in Russia	1,188	1,173	1.2	1,196	988	21.0
outside Russia.....	3,116	3,284	(5.1)	3,253	2,459	32.3

Compared to the second quarter of 2021, refining expenses at the Group refineries increased by 8.2%. Our refining expenses in Russia increased by 9.7% due to increased throughput and higher consumption and cost of purchased additives, resulting from an increase in share of gasoline in our product slate. Outside Russia, refining expenses increased by 7.2% as a result of higher throughput volumes and an increase in fuel and energy costs.

Compared to the nine months of 2020, expenses at our refineries increased by 33.1%. In Russia, refining expenses increased by 26.1%, mainly as a result of an increase in consumption of purchased additives to substitute lower own production, as well as an increase in fuel and energy costs and higher throughput volumes. Outside Russia, expenses at our refineries increased by 38.9% mainly due to the ruble depreciation to euro, an increase in fuel costs, and an increase in throughput.

Expenses for feedstock transportation to refineries

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

Our expenses for feedstock transportation to refineries increased by 8.0% compared to the second quarter of 2021 and decreased by 7.1% compared to the nine months of 2020 largely following the dynamics of refinery throughput volumes and changes in feedstock supply structure.

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 2021 and the nine-month periods ended 30 September 2021 and 2020

	Q3 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
(millions of rubles)						
Own feedstock transportation to our domestic refineries	11,569	10,707	8.1	31,946	31,561	1.2
Own feedstock transportation from Russia to our international refineries	587	945	(37.9)	1,785	4,715	(62.1)
Other feedstock transportation costs outside Russia ..	1,815	1,279	41.9	4,318	4,702	(8.2)
Feedstock transportation to refineries	13,971	12,931	8.0	38,049	40,978	(7.1)

Power generation and distribution expenses

Power generation and distribution expenses increased by 4.1% compared to the second quarter of 2021 due to seasonality, and by 6.1% compared to the nine months of 2020 due to an increase in volumes of energy trading in Russia that was partly offset by a decrease in electricity output in Italy.

Petrochemical expenses

In the third quarter and the nine months of 2021, our petrochemical expenses increased by 21.7%, compared to the previous quarter, and by 25.6% compared to the nine months of 2020 as a result of higher costs of purchased raw materials.

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 2021 and the nine months of 2020, our other operating expenses decreased by 8.2% and increased by 45.2%, respectively. Quarter-on-quarter decrease was largely a result of lower volumes of transportation services provided, that was partially offset by higher cost of non-petrol goods sold via our retail network. The increase to the nine months of 2020 was mainly driven by higher cost of non-petrol goods sold via our retail network, as well as higher operating costs of transportation services rendered outside Russia.

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 our trading activities.

	Q3 2021	Q2 2021	Change, %	9 months of 2021	9 months of 2020	Change, %
(millions of rubles)						
Cost of purchased crude oil in Russia	11,460	10,673	7.4	30,489	8,434	>100
Cost of purchased crude oil outside Russia	877,074	649,571	35.0	1,981,483	1,130,378	75.3
Compensation crude oil related to West Qurna-2 project.....	20,314	23,506	(13.6)	57,815	33,434	72.9
Cost of purchased crude oil	908,848	683,750	32.9	2,069,787	1,172,246	76.6
Cost of purchased refined products in Russia.....	14,205	10,748	32.2	35,422	21,197	67.1
Cost of purchased refined products outside Russia ...	605,444	507,787	19.2	1,604,510	963,069	66.6
Cost of purchased refined products	619,649	518,535	19.5	1,639,932	984,266	66.6
Other purchases	37,785	28,542	32.4	96,475	39,759	>100
Net loss/(gain) from hedging of trading operations...	21,238	9,437	>100	77,978	(117,838)	-
Change in crude oil and petroleum products inventory	(13,350)	(25,881)	(48.4)	(66,494)	78,872	-
Total cost of purchased crude oil, gas and products.....	1,574,170	1,214,383	29.6	3,817,678	2,157,305	77.0

In the third quarter and the nine months of 2021, cost of purchased crude oil, gas and products increased by 29.6% and by 77.0%, respectively.

An increase in crude oil and refined products purchases compared to the previous quarter was mostly due to higher hydrocarbon prices and trading volumes. A quarter-on-quarter increase in other purchases was mostly due to higher volume of gas purchases for our power generation entities and an increase in gas prices in Europe.

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 2021 and the nine-month periods ended 30 September 2021 and 2020**

Compared to the nine months of 2020, cost of purchased crude oil and refined products increased mostly due to higher prices. An increase in other purchases compared to the nine months of 2020 was mostly related to growth in gas trading activities in Europe. Moreover, dynamics of cost of purchased crude oil, gas and products were impacted by the ruble depreciation.

Transportation expenses

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
(millions of rubles)						
Crude oil transportation expenses.....	21,147	22,947	(7.8)	66,033	83,887	(21.3)
in Russia	12,640	13,309	(5.0)	36,688	34,723	5.7
outside Russia	8,507	9,638	(11.7)	29,345	49,164	(40.3)
Refined products transportation expenses	41,054	44,249	(7.2)	124,836	128,321	(2.7)
in Russia	22,205	21,985	1.0	62,733	65,338	(4.0)
outside Russia	18,849	22,264	(15.3)	62,103	62,983	(1.4)
Other transportation expenses	8,705	7,916	10.0	23,167	8,798	>100
in Russia	1,110	1,279	(13.2)	3,096	2,433	27.3
outside Russia	7,595	6,637	14.4	20,071	6,365	>100
Total transportation expenses	70,906	75,112	(5.6)	214,036	221,006	(3.2)

Compared to the second quarter of 2021, our expenses for transportation of crude oil and refined products decreased by 7.8% and 7.2%, respectively. In Russia, our expenses for transportation of crude oil decreased mainly as a result of lower export sales volumes and an inventory effect. An increase in domestic refined products transportation expenses mainly resulted from increased sales in Russia, that was partly offset by a decrease in export sales. Outside Russia, a decrease in crude oil transportation expenses was due to a decrease in freight rates and inventory effect, despite an increase in sales volumes. A decrease in refined products transportation expenses was generally in line with dynamics of freight rates.

Compared to the nine months of 2020, our expenses for transportation of crude oil and refined products decreased by 21.3% and 2.7%, respectively. In Russia, our expenses for transportation of crude oil increased as a result of tariffs indexation, an increase in domestic sale volumes and changes in export routes from Russia, that was partly offset by inventory effect and a decrease in export volumes. Our expenses for transportation of refined products in Russia decreased, despite tariffs indexation and an increase in domestic sales volumes, as a result of change in sales structure and inventory effect. Outside Russia, our expenses for transportation of crude oil and refined products decreased mainly as a result of a decrease in freight rates, despite an increase in sales volumes and the ruble depreciation.

An increase in other transportation expenses compared to the nine months of 2020 was due to commencement of gas supplies from our project in Azerbaijan to Europe.

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 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
(millions of rubles)						
Payroll costs included in selling, general and administrative expenses.....	19,689	24,724	(20.4)	60,367	56,694	6.5
Other selling, general and administrative expenses...	22,016	21,128	4.2	64,656	63,602	1.7
Share-based compensation	7,841	7,842	-	23,525	23,525	-
Expenses on allowance for expected credit losses.....	5,920	675	>100	7,319	(812)	-
Total selling, general and administrative expenses.....	55,466	54,369	2.0	155,867	143,009	9.0

Our selling, general and administrative expenses increased by 2.0% compared to the second quarter of 2021 mainly as a result of an increase in expenses on allowance for expected credit losses, that was partially offset by a decrease in payroll cost on the back of bonus accruals in the second quarter of 2021 outside Russia.

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 2021 and the nine-month periods ended 30 September 2021 and 2020**

Compared to the nine months of 2020, our selling, general and administrative expenses increased by 9.0% mainly as a result of an increase in payroll costs due to salary indexation and the ruble depreciation, as well as a result of changes in expenses on allowance for expected credit losses.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization expenses didn't change significantly compared to the second quarter of 2021, and increased by 4.0%, compared to the nine months of 2020, mainly as a result of higher gas production in Uzbekistan.

Equity share in income of associates and joint ventures

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.

Our share in income of associates and joint ventures did not change significantly compared to the second quarter of 2021, but increased two-fold as compared to the nine months of 2020 mainly due to an increase in profits of our upstream associates in Kazakhstan and Russia.

Taxes other than income taxes

	Q3 2021	Q2 2021	Change, %	9 months of 2021	2020	Change, %
	(millions of rubles)					
In Russia						
Mineral extraction taxes.....	291,773	273,958	6.5	757,172	366,759	>100
Tax on additional income	41,899	36,174	15.8	105,788	3,660	>100
Statutory insurance contributions and social taxes...	7,728	7,815	(1.1)	23,024	21,966	4.8
Property tax	6,606	6,472	2.1	19,590	18,611	5.3
Other taxes.....	479	564	(15.1)	1,633	1,621	0.7
Total in Russia	348,485	324,983	7.2	907,207	412,617	>100
International						
Mineral extraction taxes.....	7	7	-	20	19	5.3
Statutory insurance contributions and social taxes...	1,585	2,340	(32.3)	5,667	4,777	18.6
Property tax	285	206	38.3	786	674	16.6
Other taxes.....	1,033	1,013	2.0	2,876	2,512	14.5
Total internationally	2,910	3,566	(18.4)	9,349	7,982	17.1
Total taxes other than income taxes.....	351,395	328,549	7.0	916,556	420,599	>100

Our taxes other than income taxes increased by 7.0% compared to the second quarter of 2021, mainly as a result of an increase in mineral extraction tax expense on the back of an increase in the tax rate by 8.6% due to higher crude oil prices, as well as an increase in crude oil extraction volumes and a change in mineral extraction tax rate for TAI licences from September 2021 which was partially compensated by inventory effect. TAI expenses increased as a result of higher crude oil prices and crude oil extraction volumes at licence areas subject to TAI.

Compared to the nine months of 2020, our taxes other than income taxes increased by 117.9% mainly as a result of an increase in mineral extraction tax expense on the back of an increase in the tax rate by 120.0% due to higher crude oil prices and ongoing tax manoeuvre and also as a result of elimination of tax incentives for high-viscous crude oil. This was partially compensated by inventory effect and time lag effect. TAI expenses increased due to transfer of licence areas with depleted reserves to TAI regime since 1 January 2021 and higher crude oil 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 2021 and the nine-month periods ended 30 September 2021 and 2020

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 2021	Q2 2021	Change, %	9 months of 2021	2020	Change, %
	(millions of rubles)					
Decrease in extraction taxes from application of reduced rates for crude oil production	11,256	9,437	19.3	28,637	55,911	(48.8)
	(thousands of tonnes)					
Volume of crude oil production subject to:						
reduced rates (ultra-high viscosity).....	-	-	-	-	1,828	(100.0)
reduced rates (tax holidays for specific regions).....	273	279	(2.2)	854	3,143	(72.8)
reduced rates (low permeability deposits).....	548	518	5.8	1,578	1,194	32.2
reduced rates (Tyumen deposits)	136	133	2.3	401	562	(28.6)
reduced rates (depleted fields)	-	-	-	-	14,098	(100.0)
reduced rates (other)	789	718	9.9	2,202	1,621	35.8
Total volume of production subject to reduced rates	1,746	1,648	5.9	5,035	22,446	(77.6)

Also, 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 2021, volumes of production subject to such regimes amounted to 1,610 thousand tonnes and 4,806 thousand tonnes, respectively (compared to 1,598 thousand tonnes in the second quarter of 2021 and 4,856 thousand tonnes in the nine months of 2020).

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

	Q3 2021	Q2 2021	Change, %	9 months of 2021	2020	Change, %
	(millions of rubles)					
Mineral extraction tax for crude oil and gas condensate on licence areas under TAI	51,684	49,006	5.5	145,175	13,038	>100
	(thousands of tonnes)					
Group 1.....	540	495	9.1	1,595	1,575	1.3
Group 3.....	4,752	4,629	2.7	13,749	2,282	>100
Group 4.....	47	35	34.3	106	72	47.2
Total volume of crude oil and gas condensate production at licence areas subject to TAI	5,339	5,159	3.5	15,450	3,929	>100

Excise and export tariffs

	Q3 2021	Q2 2021	Change, %	9 months of 2021	2020	Change, %
	(millions of rubles)					
In Russia						
Excise tax on refined products	47,425	40,358	17.5	120,127	100,865	19.1
Excise tax on oil feedstock (excluding damper)	(33,352)	(28,504)	17.0	(85,518)	(28,100)	>100
Damper	(49,203)	(31,733)	55.1	(88,912)	61,279	-
Crude oil export tariffs.....	21,755	22,190	(2.0)	56,343	55,990	0.6
Refined products export tariffs	9,814	10,028	(2.1)	26,289	18,679	40.7
Total in Russia	(3,561)	12,339	-	28,329	208,713	(86.4)
International						
Excise tax and sales taxes on refined products	55,389	50,826	9.0	152,517	131,304	16.2
Crude oil export tariffs.....	13	13	-	46	33	39.4
Refined products export and import tariffs, net	301	53	>100	346	90	>100
Total internationally	55,703	50,892	9.5	152,909	131,427	16.3
Total excise and export tariffs	52,142	63,231	(17.5)	181,238	340,140	(46.7)

Compared to the second quarter of 2021, crude oil and refined products export tariffs declined mainly due to crude oil inventory effect, a decrease in crude oil and refined products export volumes beyond Customs Union and a decrease in the share of export of heavy refined products with a higher export duty rate, which was almost entirely offset by an increase in crude oil prices and lower positive export duty lag effect.

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 2021 and the nine-month periods ended 30 September 2021 and 2020

In the third quarter of 2021, excise tax on refined products in Russia and internationally increased compared to the previous quarter mainly due to higher sales volumes.

Compared to the nine months of 2020, crude oil export tariffs did not change significantly because price-driven increase in export duty rates was almost entirely compensated by inventory effect and a decrease in crude oil export volumes beyond Customs Union, as well as the effect of the ongoing tax manoeuvre. Refined products export tariffs increased due to an increase in the share of export of heavy refined products with a higher export duty rate.

Compared to the nine months of 2020, excise tax in Russia increased due to higher sales volumes and excise taxes rates. Internationally, an increase in excise tax expenses was due to the ruble depreciation, higher sales volumes and an increase in excise taxes rates in some jurisdictions.

Proceeds from excise tax on feedstock, excluding damper, increased by 17.0% compared to the second quarter of 2021 as a result of higher crude oil prices and higher refinery throughput volumes. Compared to the nine months of 2020, the excise tax on feedstock increased three-fold as a result of excise tax rates increase due to ongoing tax manoeuvre, higher crude oil prices, the ruble depreciation and also as a result of higher refinery throughput volumes. Starting from April 2021, excise tax on feedstock was increased by the investment factor in relation to Nizhny Novgorod refinery.

In the nine months of 2021, damper was positive as export netbacks for gasoline and diesel fuel stayed above respective fixed benchmarks. In the third quarter of 2021, damper increased compared to the previous quarter levels due to ongoing increase in export netbacks for gasoline and diesel fuel and higher sales volumes of motor fuels on the domestic market.

Foreign exchange loss

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

During 2021, the Group's net monetary position in other currencies was rather balanced and ruble exchange rate was quite stable, that resulted in relatively insignificant currency exchange losses. A sharp ruble depreciation in 2020 resulted in a foreign exchange loss in the amount of 39 billion RUB in the nine months of 2020.

Other expenses

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

In the 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 for its refining, marketing and distribution fixed assets and other non-current 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.

Our total income tax expense increased by 9 billion RUB, or by 23.9%, compared to the second quarter of 2021, and by 78 billion RUB, or by 152.7%, compared to the nine months of 2020.

High effective income tax rate in 2020 resulted from write-offs of deferred tax assets related to tax loss carry forwards in certain international downstream subsidiaries as it is not probable that taxable profit will be available against which these temporary differences can be utilized, and changes in tax rates of certain regional income tax incentives.

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 2021 and the nine-month periods ended 30 September 2021 and 2020

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 2021	Q2 2021	9 months of 2021 2020	
	(millions of rubles)			
Profit (loss) for the period attributable to PJSC LUKOIL shareholders	192,475	189,750	539,652	(14,260)
Add back				
Profit for the period attributable to non-controlling interests	644	646	1,830	931
Income tax expense	49,049	39,594	129,655	51,298
Finance income	(4,641)	(2,701)	(9,506)	(11,121)
Finance costs	9,246	9,289	27,886	33,269
Foreign exchange loss	661	1,275	3,081	38,570
Equity share in income of associates and joint ventures	(6,722)	(6,624)	(19,834)	(8,457)
Other expenses	7,061	2,099	9,003	92,370
Depreciation, depletion and amortization	107,403	106,514	327,631	314,882
EBITDA.....	355,176	339,842	1,009,398	497,482

EBITDA by operating segments

Exploration and production segment

Revenues and other operating income.....	744,799	677,140	2,020,888	1,093,388
Operating expenses	(70,922)	(69,510)	(205,773)	(196,409)
Cost of purchased crude oil, gas and products	(33,381)	(15,514)	(84,846)	(40,238)
Transportation expenses.....	(21,620)	(20,722)	(61,165)	(43,471)
Selling, general and administrative expenses	(9,137)	(9,174)	(29,830)	(32,373)
Taxes other than income taxes	(342,991)	(319,828)	(891,489)	(391,081)
Excise and export tariffs	(20,536)	(20,015)	(54,990)	(52,780)
Exploration expenses	(1,176)	(1,473)	(3,062)	(3,522)
EBITDA of Exploration and production segment	245,036	220,904	689,733	333,514

Refining, marketing and distribution segment

Revenues and other operating income.....	2,541,730	2,166,692	6,532,641	4,034,161
Operating expenses	(70,797)	(67,126)	(195,938)	(140,495)
Cost of purchased crude oil, gas and products	(2,214,631)	(1,830,805)	(5,542,951)	(3,099,523)
Transportation expenses.....	(54,523)	(60,162)	(172,706)	(209,434)
Selling, general and administrative expenses	(36,403)	(31,776)	(98,021)	(89,014)
Taxes other than income taxes	(7,098)	(7,476)	(21,218)	(19,400)
Excise and export tariffs	(32,521)	(42,400)	(128,893)	(279,622)
EBITDA of Refining, marketing and distribution segment	125,757	126,947	372,914	196,673
EBITDA of Corporate and other segment.....	(12,709)	(14,323)	(38,041)	(28,749)
Elimination.....	(2,908)	6,314	(15,208)	(3,956)
EBITDA.....	355,176	339,842	1,009,398	497,482

Free cash flow reconciliation

	Q3 2021	Q2 2021	9 months of 2021 2020	
	(millions of rubles)			
Net cash provided by operating activities.....	321,998	216,416	809,259	555,931
Capital expenditures.....	(94,328)	(104,213)	(305,761)	(360,282)
Free cash flow	227,670	112,203	503,498	195,649

Liquidity and capital resources

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(millions of rubles)					
Net cash provided by operating activities.....	321,998	216,416	48.8	809,259	555,931	45.6
including (increase) decrease in working capital ..	(5,852)	(99,801)	(94.1)	(129,734)	64,572	-
Net cash used in investing activities.....	(97,286)	(102,882)	(5.4)	(304,860)	(353,745)	(13.8)
Net cash used in financing activities.....	(152,131)	(27,129)	>100	(209,150)	(357,017)	(41.4)

Changes in operating assets and liabilities:

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(millions of rubles)					
(Increase) decrease in accounts receivable.....	(48,982)	(161,941)	(69.8)	(277,176)	95,002	-
(Increase) decrease in inventory.....	(21,978)	(12,166)	80.7	(96,158)	86,266	-
Increase (decrease) in accounts payable.....	20,336	34,034	(40.2)	158,961	(126,319)	-
Increase in net other taxes.....	18,262	17,320	5.4	83,183	19,839	>100
Change in other current assets and liabilities.....	26,510	22,952	15.5	1,456	(10,216)	-
Total (increase) decrease in working capital.....	(5,852)	(99,801)	(94.1)	(129,734)	64,572	-

Operating activities

Our primary source of cash flow are funds generated from our operations. Compared to the second quarter of 2021 and the nine months of 2020, our cash generated from operations increased by 48.8% and by 45.6%, respectively. The increase compared to the previous quarter was mainly due to the dynamics of working capital, while the increase compared to the nine months of 2020 was mainly a result of improved profitability of our core operations.

Investing activities

Compared to the second quarter of 2021 and the nine months of 2020, our cash used in investing activities decreased by 5.4% and by 13.8%, respectively, that was largely defined by a decrease in capital expenditures.

Our capital expenditures decreased by 9.5% and by 15.1% compared to the second quarter of 2021 and the nine months of 2020, 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 2021 and the nine-month periods ended 30 September 2021 and 2020

	Q3 2021	Q2 2021	Change, %	9 months of		Change, %
				2021	2020	
	(millions of rubles)					
Capital expenditures						
Exploration and production						
West Siberia.....	33,553	35,347	(5.1)	94,740	118,246	(19.9)
Timan-Pechora.....	9,439	12,988	(27.3)	38,247	62,864	(39.2)
Ural region.....	7,600	8,063	(5.7)	23,134	30,453	(24.0)
Volga region.....	8,446	8,365	1.0	25,963	35,765	(27.4)
Other in Russia.....	2,109	1,148	83.7	5,637	6,883	(18.1)
Total in Russia.....	61,147	65,911	(7.2)	187,721	254,211	(26.2)
Iraq.....	3,844	7,056	(45.5)	23,736	19,814	19.8
West Qurna-2 project.....	3,667	6,874	(46.7)	23,148	18,207	27.1
Block-10.....	177	182	(2.7)	588	1,607	(63.4)
Other outside Russia.....	5,796	6,671	(13.1)	17,260	23,150	(25.4)
Total outside Russia.....	9,640	13,727	(29.8)	40,996	42,964	(4.6)
Total exploration and production.....	70,787	79,638	(11.1)	228,717	297,175	(23.0)
Refining, marketing and distribution						
Russia.....	16,796	15,921	5.5	49,751	47,209	5.4
refining.....	10,296	12,447	(17.3)	33,030	35,414	(6.7)
retail.....	860	403	>100	3,231	2,645	22.2
other.....	5,640	3,071	83.7	13,490	9,150	47.4
International.....	5,787	8,090	(28.5)	25,030	14,260	75.5
refining.....	4,441	7,293	(39.1)	21,610	11,753	83.9
retail.....	791	740	6.9	2,710	2,263	19.8
other.....	555	57	>100	710	244	>100
Total refining, marketing and distribution.....	22,583	24,011	(5.9)	74,781	61,469	21.7
Corporate and other.....	958	564	69.9	2,263	1,638	38.2
Total capital expenditures.....	94,328	104,213	(9.5)	305,761	360,282	(15.1)

Compared to the second quarter of 2021, a decrease in our upstream capital expenditures in Russia was mainly due to lower expenditures at our high- and extra-viscous crude oil fields in Timan-Pechora, as well as uneven payment schedule. Quarter-on-quarter dynamics of capital expenditures of our refining and marketing segment was mainly defined by construction schedule of delayed coker unit at our refinery in Nizhny Novgorod, as well as seasonality and uneven payment schedule.

Year-on-year decrease in exploration and production capital expenditures in Russia was mainly driven by external limitations on crude oil production due to the OPEC+ agreement. Year-on-year dynamics of capital expenditures of our refining and marketing segment were mainly defined by payments made in the first half of 2021 in relation to the planned overhauls at our refinery in Italy performed in the end of 2020. In Russia capital expenditures of our refining and marketing segment was primarily defined by construction schedule of delayed coker unit at our refinery in Nizhny Novgorod.

Financing activities

In the third quarter and the nine months of 2021, net movements of short-term and long-term debt generated an outflow of 1 billion RUB and 40 billion RUB, compared to an outflow of 13 billion RUB in the second quarter of 2021 and an inflow of 46 billion RUB in the nine months of 2020.

On 26 October 2021, a Group company issued two tranches of non-convertible bonds totaling \$2.3 billion. The first tranche of \$1.15 billion was placed with a maturity of 5.5 years and a coupon yield of 2.80% per annum, the second tranche of \$1.15 billion was placed with a maturity of 10 years and a coupon yield of 3.60% per annum. All bonds were placed at face value and have a half year coupon period.

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.