



**PJSC LUKOIL**

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

**for the three month ended 31 March 2020 and 2019  
and 31 December 2019**

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

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

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

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## **Business overview**

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

LUKOIL is one of the world's largest publicly traded vertically integrated energy companies. Our proved reserves under SEC standards amounted to 15.8 billion BOE at 1 January 2020 and comprised of 12.0 billion barrels of crude oil and 22.5 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and gas in Russia and internationally. In Russia, our major oil producing regions are West Siberia, Timan-Pechora, Ural and Volga region. Our international upstream segment includes stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria, Mexico, the Republic of Congo and the UAE. Our daily hydrocarbon production in the first quarter of 2020 amounted to 2.4 million BOE, with liquid hydrocarbons representing approximately 77% of our overall production volumes.

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

We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. We also own two petrochemical plants in Russia and have petrochemical facilities at our refineries in Bulgaria and Italy. Along with our own production of refined products, we refine crude oil at third party refineries depending on market conditions and other factors. Throughput at our refineries in the first quarter of 2020 amounted to 1.4 million barrels per day, and we produced 0.3 million tonnes of petrochemicals.

We market our own and third-party crude oil and refined products through our sales channels in Russia, Europe, South-East Asia, Central and North America and other regions. We own petrol stations in 19 countries. Most of our retail networks are located close to our refineries. Our retail sales in the first quarter of 2020 amounted to 3.1 million tonnes of refined products.

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally. In the first quarter of 2020, our total output of electrical energy was 5.5 billion kWh.

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

## **Impact of COVID-19 on the Group's operations**

In December 2019, the emergence of a new strain of coronavirus (COVID-2019) was reported in China and has subsequently spread globally. On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Mobility restrictions, quarantines and similar lockdown measures implemented in different countries to cope with the pandemic had a significant negative impact on the global economy. Deceleration of economic activity resulted in a substantial decrease in demand for hydrocarbons leading to oversupply on the international oil market and a sharp decline in oil prices. Failure of OPEC+ countries to reach a new agreement on crude oil production quotas in the beginning of March put an incremental pressure on oil prices. As a result, the price for Brent collapsed to a 20-years minimum of \$13 per barrel in April. On 12 April 2020, OPEC+ countries entered into a new agreement to reduce their collective output by 9.7 million barrels per day starting from 1 May 2020. This coordinated production cut together with the negative impact of low oil prices on crude oil production in different countries resulted in lower supply of crude oil and reduction of surplus on the crude oil market and led to a gradual recovery of oil prices. This upward oil price trend was further supported by the start of gradual lifting of lockdowns in different countries, recovery in economic activity and respective growth in demand for hydrocarbons. As a result, the price for Brent exceeded \$34 per barrel by the end of May.

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

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

From February 2020, we reduced production of gas at our projects in Uzbekistan to approximately 40% of the projects capacity due to the lack of demand for gas from China. This had an impact on the Group's overall hydrocarbon production in the first quarter, April and May of 2020.

Due to the new OPEC+ agreement we cut our crude oil production in Russia 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. According to the current terms of the agreement we may increase our crude oil production in Russia by approximately 60 thousand barrels per day from 1 July 2020, additionally by approximately 60 thousand barrels per day from 1 January 2021 and then recover the rest from 1 May 2022. Due to the new OPEC+ agreement crude oil production was also reduced at some of our international projects. For example, in May we cut production at the West Qurna-2 project in Iraq by 70 thousand barrels per day.

Our refining and marketing segment was also affected as demand for jet fuel and motor fuels declined substantially, which had a negative impact on the benchmark refining margins and sales volumes. We adjusted the product slate and optimized utilization rates at our refineries in April and May 2020 in order to efficiently react to the adverse macro changes. As a result of optimization as well as major scheduled maintenance works at several refineries average daily refinery throughput volumes in May were reduced by approximately 40% at our European refineries and by approximately 20% at our Russian refineries compared to the first quarter of 2020.

We also faced a steep decline in the retail sales volumes of motor fuels at our filling stations in Russia and other countries. Average daily retail sales volumes in April declined by approximately 40% as compared to April 2019. However, in May 2020, retail sales volumes started recovering on the back of the recovery in economic activity in different countries.

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

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

## Key financial and operational results

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
(millions of rubles)						
Sales.....	1,665,985	1,912,439	(12.9)	1,665,985	1,850,933	(10.0)
EBITDA <sup>1</sup> , including.....	150,843	278,160	(45.8)	150,843	298,057	(49.4)
Exploration and production segment.....	109,189	211,786	(48.4)	109,189	235,132	(53.6)
Refining, marketing and distribution segment.....	40,291	82,157	(51.0)	40,291	79,938	(49.6)
EBITDA <sup>1</sup> net of West Qurna-2 project.....	139,431	276,055	(49.5)	139,431	292,945	(52.4)
(Loss) profit for the period attributable to LUKOIL shareholders.....	(45,960)	119,310	-	(45,960)	149,236	-
Capital expenditures.....	130,211	135,937	(4.2)	130,211	97,421	33.7
Free cash flow <sup>2</sup> .....	55,519	184,744	(69.9)	55,519	145,903	(61.9)
Free cash flow before changes in working capital.....	9,988	139,784	(92.9)	9,988	183,337	(94.6)
(thousand BOE per day)						
Production of hydrocarbons, including our share in equity affiliates.....	2,382	2,419	(1.5)	2,382	2,407	(1.0)
crude oil and natural gas liquids.....	1,838	1,816	1.2	1,838	1,820	1.0
gas.....	544	603	(9.8)	544	587	(7.3)
Refinery throughput at the Group refineries.....	1,377	1,355	1.6	1,377	1,358	1.4

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

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

In the first quarter of 2020, our results were negatively affected by a sharp decrease in international hydrocarbon prices, negative export duty and mineral extraction tax lag effects, negative inventory effect at our refineries, as well as the impact of the COVID-19 pandemic on our refined products retail and international gas sales volumes. The impact of these negative factors was partially offset by higher crude oil production volumes, increase in benchmark refining margins and the ruble devaluation to US dollar. Compared to the first quarter of 2019, our results were also supported by bigger share of high-margin volumes in our domestic crude oil production.

As a result, our EBITDA decreased to 151 billion RUB in the first quarter of 2020, 45.8% lower than in the fourth quarter of 2019, and 49.4% lower than in the first quarter of 2019.

A sharp devaluation of the ruble in late March resulted in a currency exchange loss of 15 billion RUB in the first quarter of 2020, as opposed to relatively insignificant gains in the first and the fourth quarters of 2019.

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 assets outside Russia in the amount of 36 billion RUB.

As a result, in the first quarter of 2020, loss attributable to LUKOIL shareholders amounted to 46 billion RUB compared to profit in the amounts of 119 billion RUB and 149 billion RUB in the fourth and the first quarters of 2019, respectively.

Our capital expenditures amounted to 130 billion RUB, a decrease of 4.2% compared to the fourth quarter of 2019, and an increase of 33.7% compared to the first quarter of 2019.

Our free cash flow amounted to 56 billion RUB in the first quarter of 2020, a decrease of 69.9% compared to the fourth quarter of 2019 and 61.9% compared to the first quarter of 2019. That was mainly a result of a decrease in profitability of our core operations.

The Group's average daily hydrocarbon production decreased by 1.5% compared to the fourth quarter of 2019 and by 1.0% compared to the first quarter of 2019. Lower production was driven by a decrease in gas supplies from Uzbekistan to China due to lower demand owing to the COVID-19 pandemic. Negative influence of this factor was partially offset by higher share of crude oil production at our PSA projects due to oil price decline.

In the first quarter of 2020, throughput at our refineries increased by 1.6% compared to the previous quarter mainly due to scheduled maintenance works at the refineries both in and outside Russia in the fourth quarter of 2019. Compared to the first quarter of 2019, throughput at our refineries increased by 1.4% mainly due to feedstock supply disruptions through the port of Novorossiysk due to weather conditions in the first quarter of 2019.

## Changes in the Group structure

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

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

### **Subsequent events**

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

## Main macroeconomic factors affecting our results of operations

### International crude oil and refined products prices

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

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

In the first quarter of 2020, the price for Brent crude oil dropped sharply from \$70.0 per barrel in January to \$17.7 per barrel in the end of March as a result of a substantial decrease in global demand for crude oil due to the COVID-19 pandemic as well as the failure of OPEC+ countries to reach a new agreement in the beginning of March. Average price expressed in US dollars decreased by 20.3% compared to the fourth quarter of 2019, and by 20.0% compared to the first quarter of 2019.

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
				(US dollars per barrel)		
Brent FOB dated.....	50.45	63.32	(20.3)	50.45	63.05	(20.0)
Urals crude (average MED and Rotterdam) .....	48.38	62.67	(22.8)	48.38	63.21	(23.5)
				(US dollars per tonne)		
Diesel fuel 10 ppm (FOB Rotterdam).....	470.23	588.62	(20.1)	470.23	587.57	(20.0)
High-octane gasoline (FOB Rotterdam) .....	469.55	604.07	(22.3)	469.55	548.36	(14.4)
Naphtha (FOB Rotterdam) .....	409.89	516.87	(20.7)	409.89	492.07	(16.7)
Jet fuel (FOB Rotterdam) .....	481.71	627.23	(23.2)	481.71	620.51	(22.4)
Vacuum gas oil (FOB Rotterdam) .....	382.08	444.55	(14.1)	382.08	426.06	(10.3)
Fuel oil 3.5% (FOB Rotterdam) .....	227.56	227.10	0.2	227.56	376.25	(39.5)

Source: Platts, Argus.

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
				(rubles per barrel)		
Brent FOB dated.....	3,349	4,035	(17.0)	3,349	4,169	(19.7)
Urals crude (average MED and Rotterdam) .....	3,212	3,993	(19.6)	3,212	4,180	(23.2)
				(rubles per tonne)		
Diesel fuel 10 ppm (FOB Rotterdam).....	31,215	37,506	(16.8)	31,215	38,854	(19.7)
High-octane gasoline (FOB Rotterdam) .....	31,170	38,491	(19.0)	31,170	36,262	(14.0)
Naphtha (FOB Rotterdam) .....	27,209	32,934	(17.4)	27,209	32,539	(16.4)
Jet fuel (FOB Rotterdam) .....	31,977	39,966	(20.0)	31,977	41,032	(22.1)
Vacuum gas oil (FOB Rotterdam) .....	25,363	28,326	(10.5)	25,363	28,174	(10.0)
Fuel oil 3.5% (FOB Rotterdam) .....	15,106	14,471	4.4	15,106	24,880	(39.3)

Translated to rubles using average exchange rate for the period.

### Domestic crude oil and refined products prices

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

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

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
				(rubles per tonne)		
Diesel fuel.....	38,674	42,301	(8.6)	38,674	39,791	(2.8)
High-octane gasoline (Regular).....	38,667	38,486	0.5	38,667	35,965	7.5
High-octane gasoline (Premium) .....	41,431	39,993	3.6	41,431	36,924	12.2
Fuel oil.....	11,958	10,125	18.1	11,958	16,014	(25.3)

Source: InfoTEK (excluding VAT).





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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024 and further</b>
Adjusting factor .....	0.833	0.667	0.500	0.333	0.167	0

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

	<b>Q1 2020</b>	<b>Q4 2019</b>	<b>Change, %</b>	<b>Q1 2020</b>	<b>Q1 2019</b>	<b>Change, %</b>
	(US dollars per barrel)					
Urals price (Argus) .....	48.38	62.67	(22.8)	48.38	63.21	(23.5)
Export duty on crude oil .....	10.15	12.15	(16.5)	10.15	11.94	(15.0)
Mineral extraction tax on crude oil .....	21.81	27.17	(19.7)	21.81	26.83	(18.7)
Net Urals price <sup>1</sup> .....	16.42	23.35	(29.7)	16.42	24.44	(32.8)
Export duty lag effect .....	(2.81)	0.59	-	(2.81)	0.93	-
Mineral extraction tax lag effect .....	(1.40)	0.10	-	(1.40)	0.17	-
Net Urals price <sup>1</sup> assuming no lag .....	20.63	22.66	(8.9)	20.63	23.34	(11.6)
	(rubles per barrel) <sup>2</sup>					
Urals price (Argus) .....	3,212	3,993	(19.6)	3,212	4,180	(23.2)
Export duty on crude oil .....	674	774	(12.9)	674	790	(14.7)
Mineral extraction tax on crude oil .....	1,448	1,731	(16.3)	1,448	1,774	(18.4)
Net Urals price <sup>1</sup> .....	1,090	1,488	(26.7)	1,090	1,616	(32.5)
Export duty lag effect .....	(187)	38	-	(187)	61	-
Mineral extraction tax lag effect .....	(93)	6	-	(93)	11	-
Net Urals price <sup>1</sup> assuming no lag .....	1,370	1,444	(5.1)	1,370	1,544	(11.2)

<sup>1</sup> Urals price net of export duty and mineral extraction tax on crude oil.

<sup>2</sup> Translated to rubles using average exchange rate for the period.

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

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

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

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

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(US dollars per thousand cubic meters) <sup>1</sup>					
Nakhodkinskoye field.....	6.04	5.62	7.5	6.04	5.34	13.2
Pyakyakhinskoye field.....	7.19	8.43	(14.7)	7.19	8.23	(12.6)

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(rubles per thousand cubic meters)					
Nakhodkinskoye field.....	401	358	12.0	401	353	13.6
Pyakyakhinskoye field.....	477	537	(11.2)	477	544	(12.3)

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

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

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

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

Excise tax expense on straight-run gasoline used as a petrochemical feedstock is reimbursed with a coefficient of 1.7, and excise tax expense on middle distillates processed and bunker fuel marketed is reimbursed in double amount. Since 1 April 2020, all heavy oil products, including fuel oil, related to middle distillates and subject to excise taxes.

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

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
(rubles per tonne)						
Gasoline						
Below Euro-5 .....	13,100	13,100	-	13,100	13,100	-
Euro-5 .....	12,752	12,314	3.6	12,752	12,314	3.6
Diesel fuel						
All ecological classes .....	8,835	8,541	3.4	8,835	8,541	3.4
Motor oils .....	5,616	5,400	4.0	5,616	5,400	4.0

Established excise tax rates are listed below.

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

#### Negative excise tax on refinery feedstock

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

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

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

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

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

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(US dollars per tonne) <sup>1</sup>					
Gasoline.....	(72.99)	47.06	-	(72.99)	(8.24)	>100
Diesel fuel.....	(41.23)	64.63	-	(41.23)	77.46	-

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(rubles per tonne)					
Gasoline.....	(4,845)	2,999	-	(4,845)	(545)	>100
Diesel fuel.....	(2,737)	4,118	-	(2,737)	5,122	-

**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 17.0% at the discretion of the individual regional administration. 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 from 2023 application of reduced regional income tax rate will be substantially limited.

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.

	Q1 2020 to Q4 2019	Q1 2020 to Q1 2019
Transneft (crude oil) .....	3.4%	3.4%
Russian Railways (crude oil and refined products).....	3.5%	3.5%

## Segments highlights

Our operations are divided into three main business segments:

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

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

### Exploration and production

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(millions of rubles)					
EBITDA .....	109,189	211,786	(48.4)	109,189	235,132	(53.6)
in Russia .....	73,570	173,108	(57.5)	73,570	192,395	(61.8)
outside Russia and Iraq .....	24,207	36,573	(33.8)	24,207	37,625	(35.7)
in Iraq .....	11,412	2,105	>100	11,412	5,112	>100
Hydrocarbon extraction expenses .....	51,659	54,010	(4.4)	51,659	50,586	2.1
in Russia .....	41,992	43,285	(3.0)	41,992	41,243	1.8
outside Russia and Iraq .....	5,323	6,592	(19.3)	5,323	4,586	16.1
in Iraq .....	4,344	4,133	5.1	4,344	4,757	(8.7)
	(rubles per BOE)					
Hydrocarbon extraction expenses (excluding Iraq) .....	229	233	(1.7)	229	220	4.2
in Russia .....	233	239	(2.5)	233	231	1.0
outside Russia and Iraq .....	203	200	1.2	203	152	33.4
	(US dollars per BOE)					
Hydrocarbon extraction expenses (excluding Iraq) .....	3.45	3.66	(5.6)	3.45	3.32	4.1
in Russia .....	3.51	3.75	(6.4)	3.51	3.50	0.4
outside Russia and Iraq .....	3.05	3.15	(2.9)	3.05	2.29	33.4

Our upstream EBITDA decreased by 48.4% compared to the fourth quarter of 2019 and by 53.6% compared to the first quarter of 2019 mainly as a result of a decrease in international hydrocarbon prices and substantial negative export duty and mineral extraction tax lag effects in Russia, that was partially offset by the effect of the ruble devaluation.

In Russia, the negative impact of the above mentioned factors was partially offset by lower hydrocarbon extraction expenses compared to the fourth quarter of 2019 and bigger share of high-margin volumes in crude oil production compared to the first quarter of 2019.

Outside Russia and Iraq, the negative impact of the above mentioned factors was partially offset by our higher share in crude oil production at the PSA projects. However, a drop in gas production volumes in Uzbekistan due to lower demand in China owing to the COVID-19 pandemic was another negative factor.

An increase of EBITDA of the West Qurna-2 project was mainly a result of an increase in cost compensation, as well as an accrual of a provision for expected credit losses in the fourth quarter of 2019.

The following table summarizes our hydrocarbon production by major regions.

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(thousand BOE per day)					
<b>Crude oil and natural gas liquids</b>						
Consolidated subsidiaries						
West Siberia.....	760	760	-	760	768	(1.0)
Timan-Pechora.....	318	313	1.6	318	319	(0.3)
Ural region.....	338	334	1.2	338	335	0.9
Volga region.....	232	235	(1.3)	232	240	(3.3)
Other in Russia.....	30	31	(3.2)	30	31	(3.2)
<b>Total in Russia.....</b>	<b>1,678</b>	<b>1,673</b>	<b>0.3</b>	<b>1,678</b>	<b>1,693</b>	<b>(0.9)</b>
Iraq <sup>1</sup> .....	54	31	74.2	54	28	92.9
Other outside Russia.....	57	61	(6.6)	57	48	18.8
<b>Total outside Russia.....</b>	<b>111</b>	<b>92</b>	<b>20.7</b>	<b>111</b>	<b>76</b>	<b>46.1</b>
<b>Total consolidated subsidiaries.....</b>	<b>1,789</b>	<b>1,765</b>	<b>1.4</b>	<b>1,789</b>	<b>1,769</b>	<b>1.1</b>
Our share in equity affiliates						
in Russia.....	11	13	(15.4)	11	13	(15.4)
outside Russia.....	38	38	-	38	38	-
<b>Total share in equity affiliates.....</b>	<b>49</b>	<b>51</b>	<b>(3.9)</b>	<b>49</b>	<b>51</b>	<b>(3.9)</b>
<b>Total crude oil and natural gas liquids.....</b>	<b>1,838</b>	<b>1,816</b>	<b>1.2</b>	<b>1,838</b>	<b>1,820</b>	<b>1.0</b>
<b>Natural and petroleum gas<sup>2</sup></b>						
Consolidated subsidiaries						
West Siberia.....	215	205	4.9	215	201	7.0
Timan-Pechora.....	33	33	-	33	34	(2.9)
Ural region.....	25	25	-	25	24	4.2
Volga region.....	27	31	(12.9)	27	28	(3.6)
Other in Russia.....	0	0	-	0	0	-
<b>Total in Russia.....</b>	<b>300</b>	<b>294</b>	<b>2.0</b>	<b>300</b>	<b>287</b>	<b>4.5</b>
Uzbekistan.....	184	248	(25.8)	184	250	(26.4)
Other outside Russia.....	48	49	(2.0)	48	38	26.3
<b>Total outside Russia.....</b>	<b>232</b>	<b>297</b>	<b>(21.9)</b>	<b>232</b>	<b>288</b>	<b>(19.4)</b>
<b>Total consolidated subsidiaries.....</b>	<b>532</b>	<b>591</b>	<b>(10.0)</b>	<b>532</b>	<b>575</b>	<b>(7.5)</b>
Share in equity affiliates						
in Russia.....	1	1	46.3	1	1	46.3
outside Russia.....	11	11	12.5	11	11	(2.5)
<b>Total share in production of equity affiliates.....</b>	<b>12</b>	<b>12</b>	<b>15.7</b>	<b>12</b>	<b>12</b>	<b>1.5</b>
<b>Total natural and petroleum gas.....</b>	<b>544</b>	<b>603</b>	<b>(9.8)</b>	<b>544</b>	<b>587</b>	<b>(7.3)</b>
<b>Total daily hydrocarbon production (excluding the West Qurna-2 project).....</b>	<b>2,328</b>	<b>2,388</b>	<b>(2.5)</b>	<b>2,328</b>	<b>2,379</b>	<b>(2.1)</b>
<b>Total daily hydrocarbon production.....</b>	<b>2,382</b>	<b>2,419</b>	<b>(1.5)</b>	<b>2,382</b>	<b>2,407</b>	<b>(1.0)</b>
Including natural gas liquids produced at the gas processing plants.....	45	43	5.3	45	46	(1.5)

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

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



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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(thousands of tonnes)					
West Siberia.....	9,151	9,261	(1.2)	9,151	9,159	(0.1)
Timan-Pechora .....	4,023	4,005	0.4	4,023	3,988	0.9
Ural region.....	3,906	3,929	(0.6)	3,906	3,820	2.3
Volga region .....	2,760	2,830	(2.5)	2,760	2,822	(2.2)
Other in Russia .....	387	400	(3.3)	387	388	(0.3)
Crude oil produced in Russia.....	20,227	20,425	(1.0)	20,227	20,177	0.2
Iraq <sup>1</sup> .....	721	424	70.0	721	365	97.5
Other outside Russia.....	588	616	(4.5)	588	484	21.5
Crude oil produced outside Russia .....	1,309	1,040	25.9	1,309	849	54.2
<b>Total crude oil produced by consolidated subsidiaries .....</b>	<b>21,536</b>	<b>21,465</b>	<b>0.3</b>	<b>21,536</b>	<b>21,026</b>	<b>2.4</b>
<b>Our share in crude oil produced by equity affiliates:</b>						
in Russia .....	138	152	(9.2)	138	151	(8.6)
outside Russia .....	431	441	(2.3)	431	433	(0.5)
<b>Total crude oil produced .....</b>	<b>22,105</b>	<b>22,058</b>	<b>0.2</b>	<b>22,105</b>	<b>21,610</b>	<b>2.3</b>

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

Our main oil producing region is West Siberia where we produced 42.5% of our crude oil in the first quarter of 2020 (43.1% in the fourth quarter of 2019 and 43.6% in the first quarter of 2019). Our crude oil production didn't change significantly compared to the fourth quarter of 2019 and increased by 2.3% compared to the first quarter of 2019. This growth was driven by international projects due to the acquisition of a share in the Marine XII project in the Republic of Congo, as well as an increase in our share in crude oil production at the PSA projects in Kazakhstan and Azerbaijan due to oil price decline.

In the first quarter of 2020, the active development of the priority projects was on track. In particular, the development of the Yaregskoye field and Permian reservoir of the Usinskoye field, including the launch of new steam-generating facilities, allowed increasing high viscosity oil production in the first quarter of 2020 by 6% year-on-year, to 1.2 million tonnes.

In West Siberia overall oil and gas condensate production at the V. Vinogradov, Imilorskoye, Sredne-Nazymkoye and Pyakyakhinskoye fields increased in the first quarter of 2020 by 29% year-on-year and exceeded 1.0 million tonnes.

In the Caspian Sea at the V. Filanovsky and Yu. Korchagin fields production was maintained at designed levels due to drilling programs. Total crude oil and gas condensate production at these fields in the first quarter of 2020 was 1.8 million tonnes, which is flat year-on-year.

The dynamics of our crude oil production volumes in Russia since the beginning of 2017 has been mainly driven by external limitations due to an agreement of OPEC and some of the non-OPEC countries, including Russia, to cap production levels in order to stabilize the global crude oil market. In December 2018, the OPEC+ countries agreed to decrease crude oil production relative to October 2018 levels until June 2019, which subsequently was prolonged until March 2020.

Following these agreements the Group limited production in our traditional regions (West Siberia, Timan-Pechora, and Ural) at the least-productive fields and fields with high water-cuts.

In early March 2020, the OPEC+ countries failed to reach a new agreement, that aggravated the drop in crude oil prices driven by dramatic contraction in global demand for crude oil owing to the COVID-19 pandemic. However, 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. According to the agreement, these initial limitations will last for two months then decreasing to 7.7 million barrels per day from 1 July 2020 and to 5.8 million barrels per day from 1 January 2021 until the agreement expires at the end of April 2022. According to the agreement, Russia committed to reduce its crude oil production to 8.5 million barrels per day, starting from 1 May 2020 with respective increases in production from July 2020 and January 2021. From 1 May 2020, the Group reduced crude oil production volumes in Russia by approximately 310 thousand barrels per day, or by 19%, as compared to our average daily crude oil production level in the first quarter of 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.

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(millions of cubic meters)					
West Siberia.....	3,312	3,202	3.4	3,312	3,075	7.7
Timan-Pechora .....	517	519	(0.4)	517	519	(0.4)
Ural region.....	383	387	(1.0)	383	362	5.8
Volga region.....	425	479	(11.3)	425	423	0.5
Other in Russia .....	6	6	-	6	7	(14.3)
Gas produced in Russia .....	4,643	4,593	1.1	4,643	4,386	5.9
Uzbekistan .....	2,839	3,875	(26.7)	2,839	3,824	(25.8)
Other outside Russia.....	742	774	(4.1)	742	582	27.5
Gas produced outside Russia.....	3,581	4,649	(23.0)	3,581	4,406	(18.7)
<b>Total gas produced by consolidated subsidiaries ....</b>	<b>8,224</b>	<b>9,242</b>	<b>(11.0)</b>	<b>8,224</b>	<b>8,792</b>	<b>(6.5)</b>
<b>Our share in gas produced by equity affiliates:</b>						
in Russia .....	22	22	-	22	21	4.8
outside Russia.....	166	168	(1.2)	166	163	1.8
<b>Total gas produced .....</b>	<b>8,412</b>	<b>9,432</b>	<b>(10.8)</b>	<b>8,412</b>	<b>8,976</b>	<b>(6.3)</b>

In the first quarter of 2020, LUKOIL Group's gas production was 8.4 billion cubic meters, which was 10.8% lower quarter-on-quarter, and 6.3% lower year-on-year. In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where gas is produced from the Nakhodkinskoe and Pyakyakhinskoe fields. In the first quarter of 2020, gas production in Russia increased by 1.1% compared to the fourth quarter of 2019 and by 5.9% year-on-year as a result of the launch of the second stage of the booster compressor station at Nakhodkinskoye field in December 2019. Outside Russia, the main gas production region is Uzbekistan where we have shares in two PSAs. Our international gas production (including our share in affiliates' production) decreased by 22.2% quarter-on-quarter, and by 18.0% year-on-year, mainly as a result of lower gas demand in China owing to the coronavirus.

### West Qurna-2 project

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

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

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

There are two steps of revenue recognition:

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

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

(millions of US dollars)	Costs incurred <sup>1</sup>	Remuneration fee	Crude oil received	Crude oil to be received
Cumulative at 31 December 2019.....	9,229	548	9,242	535
Change in the first quarter of 2020 .....	164	31	125	70
<b>Cumulative at 31 March 2020.....</b>	<b>9,393</b>	<b>579</b>	<b>9,367</b>	<b>605</b>

<sup>1</sup> Including prepayments.

The West Qurna-2 project summary is presented below:

	Q1 2020		Q4 2019		Change, %	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production .....	36,688	5,364	37,098	5,423	(1.1)	(1.1)
Production related to cost compensation and remuneration.....	4,930	721	2,902	424	70.0	70.0
Shipment of compensation crude oil <sup>1</sup> .....	3,771	551	2,779	406	35.7	35.7
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation.....	14,087	212	9,077	142	55.2	49.3
Remuneration fee.....	2,103	32	2,035	32	3.3	-
	16,190	244	11,112	174	45.7	40.2
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) <sup>1</sup> .....	8,300	125	10,341	162	(19.7)	(22.8)
Extraction expenses .....	4,344	65	4,133	65	5.1	-
Depreciation, depletion and amortization .....	9,812	148	4,988	78	96.7	89.7
EBITDA .....	11,412	172	2,105	33	>100	>100

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

	Q1 2020		Q1 2019		Change, %	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production .....	36,688	5,364	32,274	4,718	13.7	13.7
Production related to cost compensation and remuneration.....	4,930	721	2,498	365	97.4	97.5
Shipment of compensation crude oil <sup>1</sup> .....	3,771	551	1,895	277	98.9	98.9
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation.....	14,087	212	8,125	123	73.4	72.4
Remuneration fee.....	2,103	32	1,846	28	13.9	14.3
	16,190	244	9,971	151	62.4	61.6
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) <sup>1</sup> .....	8,300	125	7,625	115	8.9	8.7
Extraction expenses .....	4,344	65	4,757	72	(8.7)	(9.7)
Depreciation, depletion and amortization .....	9,812	148	3,407	52	>100	>100
EBITDA .....	11,412	172	5,112	77	>100	>100

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

## Refining, marketing and distribution

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
				(millions of rubles)		
EBITDA .....	40,291	82,157	(51.0)	40,291	79,938	(49.6)
in Russia.....	61,757	71,584	(13.7)	61,757	73,887	(16.4)
outside Russia.....	(21,466)	10,573	-	(21,466)	6,051	-
Refining expenses at the Group refineries .....	22,274	24,636	(9.6)	22,274	23,504	(5.2)
in Russia.....	9,544	11,328	(15.7)	9,544	9,640	(1.0)
outside Russia.....	12,730	13,308	(4.3)	12,730	13,864	(8.2)
				(rubles per tonne)		
Refining expenses at the Group refineries .....	1,303	1,448	(10.0)	1,303	1,410	(7.6)
in Russia.....	873	1,046	(16.6)	873	879	(0.7)
outside Russia.....	2,069	2,153	(3.9)	2,069	2,432	(14.9)
				(US dollars per tonne)		
Refining expenses at the Group refineries .....	19.63	22.73	(13.6)	19.63	21.32	(7.9)
in Russia.....	13.15	16.42	(19.9)	13.15	13.29	(1.1)
outside Russia.....	31.17	33.79	(7.8)	31.17	36.77	(15.2)

In the first quarter of 2020, our refining, marketing and distribution EBITDA was 51.0% lower than in the fourth quarter of 2019 and 49.6% lower than in first quarter of 2019 primarily due to negative inventory effect at our refineries and inventory write-down to net realizable value due to sharp decline in prices for crude oil and refined products in March 2020. EBITDA dynamics was also affected by the impact of the COVID-19 pandemic on our retail sales volumes of refined products.

In Russia, the negative impact of the above mentioned factors was partially offset by higher benchmark refining margins, as well as higher throughput volumes and better product slate at our refineries. Compared to the fourth quarter of 2019, EBITDA was also positively impacted by lower operating expenses at our refineries and better performance of the power generation and petrochemical businesses.

Outside Russia, our refining, marketing and distribution EBITDA turned negative due to the above mentioned factors, the impact of which was partially offset by lower refining expenses. Compared to the fourth quarter of 2019, EBITDA was also supported by higher benchmark refining margins and compared to the first quarter of 2019 – by better product slate.

## Refining and petrochemicals

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(thousands of tonnes)					
Refinery throughput at the Group refineries .....	17,090	17,009	0.5	17,090	16,668	2.5
in Russia.....	10,937	10,828	1.0	10,937	10,967	(0.3)
outside Russia, including.....	6,153	6,181	(0.5)	6,153	5,701	7.9
crude oil .....	5,590	5,687	(1.7)	5,590	5,224	7.0
refined products .....	563	494	14.0	563	477	18.0
Refinery throughput at third party refineries .....	53	45	17.8	53	1,588	(96.7)
<b>Total refinery throughput .....</b>	<b>17,143</b>	<b>17,054</b>	<b>0.5</b>	<b>17,143</b>	<b>18,256</b>	<b>(6.1)</b>
<b>Production of the Group refineries in Russia<sup>1</sup>.....</b>	<b>10,353</b>	<b>10,220</b>	<b>1.3</b>	<b>10,353</b>	<b>10,400</b>	<b>(0.5)</b>
diesel fuel .....	4,326	4,196	3.1	4,326	4,161	4.0
motor gasoline.....	1,976	2,009	(1.6)	1,976	1,831	7.9
fuel oil .....	791	947	(16.5)	791	1,167	(32.2)
jet fuel .....	629	656	(4.1)	629	625	0.6
lubricants and components .....	248	242	2.5	248	248	-
straight-run gasoline.....	736	623	18.1	736	769	(4.3)
vacuum gas oil.....	-	51	-	-	237	-
bitumen .....	229	216	6.0	229	197	16.2
coke .....	297	292	1.7	297	280	6.1
bunker fuel .....	492	413	19.1	492	313	57.2
gas products.....	80	72	11.1	80	82	(2.4)
petrochemicals.....	100	103	(2.9)	100	99	1.0
other products.....	449	400	12.3	449	391	14.8
<b>Production of the Group refineries outside</b>						
<b>Russia.....</b>	<b>5,605</b>	<b>5,850</b>	<b>(4.2)</b>	<b>5,605</b>	<b>5,343</b>	<b>4.9</b>
diesel fuel .....	2,649	2,695	(1.7)	2,649	2,344	13.0
motor gasoline.....	1,151	1,309	(12.1)	1,151	1,116	3.1
fuel oil .....	490	473	3.6	490	446	9.9
jet fuel .....	243	275	(11.6)	243	254	(4.3)
straight-run gasoline.....	605	599	1.0	605	538	12.5
coke .....	19	23	(17.4)	19	32	(40.6)
gas products.....	141	144	(2.1)	141	99	42.4
petrochemicals.....	12	9	33.3	12	9	33.3
other products.....	295	323	(8.7)	295	505	(41.6)
<b>Refined products produced by the Group .....</b>	<b>15,958</b>	<b>16,070</b>	<b>(0.7)</b>	<b>15,958</b>	<b>15,743</b>	<b>1.4</b>
Refined products produced at third party refineries .....	50	40	25.0	50	1,504	(96.7)
<b>Total refined products produced .....</b>	<b>16,008</b>	<b>16,110</b>	<b>(0.6)</b>	<b>16,008</b>	<b>17,247</b>	<b>(7.2)</b>
Reference: Net of cross-supplies of refined products between the Group refineries .....	488	483	1.0	488	343	42.3
<b>Products produced at petrochemical plants and facilities.....</b>	<b>313</b>	<b>253</b>	<b>23.7</b>	<b>313</b>	<b>287</b>	<b>9.1</b>
in Russia.....	228	170	34.1	228	215	6.0
outside Russia.....	85	83	2.4	85	72	18.1

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

In the first quarter of 2020, refinery throughput at the Group refineries was 17.1 million tonnes, which is 2.5% higher year-on-year, and practically flat compared to the fourth quarter of 2019.

In the first quarter of 2020, in Russia, refinery throughput increased compared to the fourth quarter of 2019 mainly due to planned maintenance works at Volgograd and Nizhny Novgorod refineries in the fourth quarter of 2019. Outside Russia, refinery throughput remained practically unchanged.

The year-on-year throughput growth by 7.9% outside Russia was due to feedstock supply disruptions through the port of Novorossiysk due to weather conditions in the first quarter of 2019. The year-on-year decrease throughput in Russia was mainly due to planned maintenance works at some secondary refining units of Nizhny Novgorod refinery in the first quarter of 2020.

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

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

## Marketing and trading

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

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

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

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(thousands of tonnes)					
<b>Crude oil purchases</b>						
In Russia .....	282	229	23.1	282	168	67.9
For trading internationally .....	15,498	13,193	17.5	15,498	10,187	52.1
For refining internationally .....	4,184	4,244	(1.4)	4,184	6,388	(34.5)
Shipment of the West Qurna-2 compensation crude oil .....	551	406	35.7	551	277	98.9
<b>Total crude oil purchased .....</b>	<b>20,515</b>	<b>18,072</b>	<b>13.5</b>	<b>20,515</b>	<b>17,020</b>	<b>20.5</b>

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(thousands of tonnes)					
Refined products retail sales .....	3,114	3,520	(11.5)	3,114	3,322	(6.3)
Refined products wholesale sales .....	23,992	25,957	(7.6)	23,992	25,149	(4.6)
<b>Total refined products sales .....</b>	<b>27,106</b>	<b>29,477</b>	<b>(8.0)</b>	<b>27,106</b>	<b>28,471</b>	<b>(4.8)</b>
Refined products purchased in Russia .....	290	235	23.4	290	247	17.4
Refined products purchased internationally .....	13,034	13,233	(1.5)	13,034	13,216	(1.4)
<b>Total refined products purchased .....</b>	<b>13,324</b>	<b>13,468</b>	<b>(1.1)</b>	<b>13,324</b>	<b>13,463</b>	<b>(1.0)</b>
Petrochemical products purchased in Russia .....	40	12	>100	40	9	>100
Petrochemical products purchased internationally .....	144	180	(20.0)	144	366	(60.7)
<b>Total petrochemical products purchased .....</b>	<b>184</b>	<b>192</b>	<b>(4.2)</b>	<b>184</b>	<b>375</b>	<b>(50.9)</b>

**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:

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(millions of rubles)					
Exports of crude oil to Customs Union.....	-	15,966	(100.0)	-	16,234	(100.0)
Exports of crude oil beyond Customs Union .....	180,087	244,240	(26.3)	180,087	244,423	(26.3)
<b>Total crude oil exports.....</b>	<b>180,087</b>	<b>260,206</b>	<b>(30.8)</b>	<b>180,087</b>	<b>260,657</b>	<b>(30.9)</b>
	(thousands of tonnes)					
Exports of crude oil to Customs Union.....	-	692	(100.0)	-	674	(100.0)
Exports of crude oil beyond Customs Union .....	9,082	8,771	3.5	9,082	8,314	9.2
<b>Total crude oil exports.....</b>	<b>9,082</b>	<b>9,463</b>	<b>(4.0)</b>	<b>9,082</b>	<b>8,988</b>	<b>1.0</b>
Exports of crude oil through Transneft and other third party infrastructure including: .....	6,813	7,279	(6.4)	6,813	6,764	0.7
ESPO pipeline .....	240	480	(50.0)	240	379	(36.7)
CPC pipeline .....	1,252	1,413	(11.4)	1,252	1,303	(3.9)
Exports of crude oil through the Group's transportation infrastructure.....	2,269	2,184	3.9	2,269	2,224	2.0
<b>Total crude oil exports.....</b>	<b>9,082</b>	<b>9,463</b>	<b>(4.0)</b>	<b>9,082</b>	<b>8,988</b>	<b>1.0</b>
	(millions of rubles)					
<b>Refined and petrochemical products exports .....</b>	<b>135,583</b>	<b>150,229</b>	<b>(9.7)</b>	<b>135,583</b>	<b>176,531</b>	<b>(23.2)</b>
	(thousands of tonnes)					
<b>Refined products exports</b>						
diesel fuel .....	2,815	2,524	11.5	2,815	2,769	1.7
gasoline.....	368	214	72.0	368	118	>100
fuel oil .....	429	574	(25.3)	429	587	(26.9)
jet fuel.....	6	2	>100	6	3	100.0
lubricants and components .....	174	163	6.7	174	161	8.1
gas refinery products .....	214	207	3.4	214	184	16.3
other products .....	1,025	1,096	(6.5)	1,025	1,354	(24.3)
<b>Total refined products exports.....</b>	<b>5,031</b>	<b>4,780</b>	<b>5.3</b>	<b>5,031</b>	<b>5,176</b>	<b>(2.8)</b>
<b>Total petrochemicals exports .....</b>	<b>96</b>	<b>62</b>	<b>54.8</b>	<b>96</b>	<b>98</b>	<b>(2.0)</b>

The volume of our crude oil exports from Russia decreased by 4.0% compared to the fourth quarter of 2019, and increased by 1.0% compared to the first quarter of 2019. In the first quarter of 2020, we exported 44.9% of our domestic crude oil production (46.3% in the fourth quarter of 2019 and 44.5% in the first quarter of 2019).

The volume of our refined products exports increased by 5.3% compared to the fourth quarter of 2019 following seasonal decrease in domestic demand, and decreased by 2.8% compared to the first quarter of 2019.

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

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

**Priority sales channels.** We develop our priority sales channels aiming at increasing our margin on sale of refined products produced by the Group.

In the first quarter of 2020, we sold 2.2 million tonnes of motor fuels via our domestic retail network, which was 11.6% less compared to the fourth quarter of 2019 and 6.3% less compared to the first quarter of 2019. Outside Russia, retail sales decreased by 11.5% compared to the fourth quarter of 2019 and by 6.3% compared to the first quarter of 2019. The decrease was driven by lower demand due to the COVID-19 pandemic. Compared to the fourth quarter of 2019, the volumes were also negatively impacted by seasonality factor.

We also supply jet fuel to airports and bunker fuel to sea and river ports in and outside Russia. In the first quarter of 2020, our jet fuel deliveries and bunkering volume net of trading operations amounted to 0.8 million tonnes each. Our jet fuel supplies were also affected by the COVID-19 pandemic.

**Power generation.** We own commercial generation facilities in the Southern regions of European Russia, Romania and Italy. We also own renewable energy capacity in Russia and abroad. In the first quarter of 2020, our total output of commercial electrical energy was 5.5 billion kWh (4.9 billion kWh in the fourth quarter of 2019 and 5.5 billion kWh in the first quarter of 2019), and our total output of commercial heat energy was approximately 4.2 million Gcal (3.4 million Gcal in the fourth quarter of 2019 and 4.6 million Gcal in the first quarter of 2019).



## Financial results

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
(millions of rubles)						
<b>Revenues</b>						
Sales (including excise and export tariffs) .....	1,665,985	1,912,439	(12.9)	1,665,985	1,850,933	(10.0)
<b>Costs and other deductions</b>						
Operating expenses .....	(111,518)	(115,565)	(3.5)	(111,518)	(109,169)	2.2
Cost of purchased crude oil, gas and products .....	(971,675)	(1,060,155)	(8.3)	(971,675)	(987,525)	(1.6)
Transportation expenses .....	(80,059)	(74,195)	7.9	(80,059)	(73,222)	9.3
Selling, general and administrative expenses .....	(45,109)	(52,974)	(14.8)	(45,109)	(49,573)	(9.0)
Depreciation, depletion and amortization .....	(110,718)	(101,030)	9.6	(110,718)	(103,830)	6.6
Taxes other than income taxes .....	(193,708)	(219,676)	(11.8)	(193,708)	(221,019)	(12.4)
Excise and export tariffs .....	(112,679)	(104,534)	7.8	(112,679)	(111,456)	1.1
Exploration expenses .....	(394)	(7,180)	(94.5)	(394)	(912)	(56.8)
<b>Profit from operating activities .....</b>	<b>40,125</b>	<b>177,130</b>	<b>(77.3)</b>	<b>40,125</b>	<b>194,227</b>	<b>(79.3)</b>
Finance income .....	4,811	6,131	(21.5)	4,811	5,984	(19.6)
Finance costs .....	(10,249)	(10,774)	(4.9)	(10,249)	(11,734)	(12.7)
Equity share in income of affiliates .....	4,431	1,628	>100	4,431	6,180	(28.3)
Foreign exchange (loss) gain .....	(14,910)	45	-	(14,910)	1,901	-
Other expenses .....	(46,614)	(23,888)	95.1	(46,614)	(3,972)	>100
<b>(Loss) profit before income taxes .....</b>	<b>(22,406)</b>	<b>150,272</b>	<b>-</b>	<b>(22,406)</b>	<b>192,586</b>	<b>-</b>
Current income taxes .....	(17,038)	(25,605)	(33.5)	(17,038)	(41,381)	(58.8)
Deferred income taxes .....	(6,340)	(4,924)	28.8	(6,340)	(1,415)	>100
<b>Total income tax expense .....</b>	<b>(23,378)</b>	<b>(30,529)</b>	<b>(23.4)</b>	<b>(23,378)</b>	<b>(42,796)</b>	<b>(45.4)</b>
<b>(Loss) profit for the period .....</b>	<b>(45,784)</b>	<b>119,743</b>	<b>-</b>	<b>(45,784)</b>	<b>149,790</b>	<b>-</b>
Profit for the period attributable to non-controlling interests .....	(176)	(433)	(59.4)	(176)	(554)	(68.2)
<b>(Loss) profit for the period attributable to PJSC LUKOIL shareholders .....</b>	<b>(45,960)</b>	<b>119,310</b>	<b>-</b>	<b>(45,960)</b>	<b>149,236</b>	<b>-</b>
<b>Earnings per share</b>						
(Loss) profit for the period attributable to PJSC LUKOIL shareholders per share of common stock (in Russian rubles):						
Basic .....	(71.11)	184.71	-	(71.11)	215.71	-
Diluted .....	(68.50)	178.22	-	(68.50)	210.35	-

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

## Sales revenues

Sales breakdown	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
(millions of rubles)						
Crude oil						
Export and sales on international markets other than Customs Union .....	616,744	644,015	(4.2)	616,744	581,528	6.1
Export and sales to Customs Union .....	-	16,221	(100.0)	-	16,581	(100.0)
Domestic sales .....	7,494	7,815	(4.1)	7,494	9,505	(21.2)
	<b>624,238</b>	<b>668,051</b>	<b>(6.6)</b>	<b>624,238</b>	<b>607,614</b>	<b>2.7</b>
Cost compensation and remuneration at the West Qurna-2 project .....	16,190	11,112	45.7	16,190	9,971	62.4
	<b>640,428</b>	<b>679,163</b>	<b>(5.7)</b>	<b>640,428</b>	<b>617,585</b>	<b>3.7</b>
Refined products <sup>1</sup>						
Export and sales on international markets						
Wholesales .....	645,799	810,817	(20.4)	645,799	813,461	(20.6)
Retail .....	74,488	84,349	(11.7)	74,488	82,134	(9.3)
Domestic sales						
Wholesales .....	96,818	108,596	(10.8)	96,818	95,749	1.1
Retail .....	106,686	120,340	(11.3)	106,686	111,421	(4.2)
	<b>923,791</b>	<b>1,124,102</b>	<b>(17.8)</b>	<b>923,791</b>	<b>1,102,765</b>	<b>(16.2)</b>
Petrochemicals						
Export and sales on international markets .....	15,791	14,915	5.9	15,791	31,379	(49.7)
Domestic sales .....	10,428	8,139	28.1	10,428	10,944	(4.7)
	<b>26,219</b>	<b>23,054</b>	<b>13.7</b>	<b>26,219</b>	<b>42,323</b>	<b>(38.1)</b>
Gas						
Sales on international markets.....	25,037	36,993	(32.3)	25,037	38,229	(34.5)
Domestic sales .....	8,588	8,681	(1.1)	8,588	7,965	7.8
	<b>33,625</b>	<b>45,674</b>	<b>(26.4)</b>	<b>33,625</b>	<b>46,194</b>	<b>(27.2)</b>
Sales of energy and related services						
Sales on international markets.....	2,748	2,952	(6.9)	2,748	4,076	(32.6)
Domestic sales .....	17,580	14,443	21.7	17,580	17,888	(1.7)
	<b>20,328</b>	<b>17,395</b>	<b>16.9</b>	<b>20,328</b>	<b>21,964</b>	<b>(7.4)</b>
Other						
Export and sales on international markets .....	12,275	12,899	(4.8)	12,275	10,185	20.5
Domestic sales .....	9,319	10,152	(8.2)	9,319	9,917	(6.0)
	<b>21,594</b>	<b>23,051</b>	<b>(6.3)</b>	<b>21,594</b>	<b>20,102</b>	<b>7.4</b>
<b>Total sales .....</b>	<b>1,665,985</b>	<b>1,912,439</b>	<b>(12.9)</b>	<b>1,665,985</b>	<b>1,850,933</b>	<b>(10.0)</b>

<sup>1</sup> Including revenue from gas refined products sales.

Sales volumes	Q1	Q4	Change,	Q1	Change,	
	2020	2019	%	2020	2019	%
(thousands of tonnes)						
Crude oil						
Export and sales on international markets other than Customs Union.....	23,905	21,788	9.7	23,905	18,980	25.9
Export and sales to Customs Union.....	-	702	(100.0)	-	684	(100.0)
Domestic sales.....	420	348	20.7	420	393	6.9
	<b>24,325</b>	<b>22,838</b>	<b>6.5</b>	<b>24,325</b>	<b>20,057</b>	<b>21.3</b>
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project.....	721	424	70.0	721	365	97.5
	<b>25,046</b>	<b>23,262</b>	<b>7.7</b>	<b>25,046</b>	<b>20,422</b>	<b>22.6</b>
Refined products <sup>1</sup>						
Export and sales on international markets						
Wholesales.....	20,709	22,422	(7.6)	20,709	21,927	(5.6)
Retail.....	926	1,046	(11.5)	926	988	(6.3)
Domestic sales						
Wholesales.....	3,283	3,535	(7.1)	3,283	3,222	1.9
Retail.....	2,188	2,474	(11.6)	2,188	2,334	(6.3)
	<b>27,106</b>	<b>29,477</b>	<b>(8.0)</b>	<b>27,106</b>	<b>28,471</b>	<b>(4.8)</b>
Petrochemicals						
Export and sales on international markets.....	310	276	12.3	310	484	(36.0)
Domestic sales.....	212	146	45.2	212	174	21.8
	<b>522</b>	<b>422</b>	<b>23.7</b>	<b>522</b>	<b>658</b>	<b>(20.7)</b>
(millions of cubic meters)						
Gas						
Sales on international markets.....	3,424	4,388	(22.0)	3,424	4,142	(17.3)
Domestic sales.....	3,392	3,389	0.1	3,392	3,193	6.2
	<b>6,816</b>	<b>7,777</b>	<b>(12.4)</b>	<b>6,816</b>	<b>7,335</b>	<b>(7.1)</b>

<sup>1</sup> Including volumes of gas refined products sales.

Realized average sales prices	Q1	Q4	Change,	Q1	Change,	
	2020	2019	%	2020	2019	%
Average realized price on international markets						
Crude oil (beyond Customs Union) <sup>1</sup> .... (RUB/barrel)	3,520	4,033	(12.7)	3,520	4,180	(15.8)
Crude oil (Customs Union) ..... (RUB/barrel)	-	3,152	-	-	3,307	-
Refined products						
Wholesales ..... (RUB/tonne)	31,184	36,162	(13.8)	31,184	37,099	(15.9)
Retail..... (RUB/tonne)	80,441	80,640	(0.2)	80,441	83,132	(3.2)
Petrochemicals..... (RUB/tonne)	50,939	54,040	(5.7)	50,939	64,833	(21.4)
Gas (excluding royalty) ..... (RUB/1,000 m <sup>3</sup> )	7,312	8,430	(13.3)	7,312	9,230	(20.8)
Crude oil (beyond Customs Union) <sup>1</sup> .... (\$/barrel)	53.02	63.29	(16.2)	53.02	63.21	(16.1)
Crude oil (Customs Union) ..... (\$/barrel)	-	49.47	-	-	50.01	-
Refined products						
Wholesales ..... (\$/tonne)	470	568	(17.2)	470	561	(16.3)
Retail..... (\$/tonne)	1,212	1,266	(4.2)	1,212	1,257	(3.6)
Petrochemicals..... (\$/tonne)	767	848	(9.5)	767	980	(21.7)
Gas (excluding royalty) ..... (\$/1,000 m <sup>3</sup> )	110	132	(16.7)	110	140	(21.1)
Average realized price within Russia						
Crude oil..... (RUB/barrel)	2,434	3,064	(20.5)	2,434	3,300	(26.2)
Refined products						
Wholesales ..... (RUB/tonne)	29,491	30,720	(4.0)	29,491	29,717	(0.8)
Retail..... (RUB/tonne)	48,760	48,642	0.2	48,760	47,738	2.1
Petrochemicals..... (RUB/tonne)	49,189	55,747	(11.8)	49,189	62,897	(21.8)
Gas <sup>2</sup> ..... (RUB/1,000 m <sup>3</sup> )	2,532	2,562	(1.2)	2,532	2,495	1.5

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

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

In the first quarter of 2020, our revenues were negatively affected by a sharp decrease in international hydrocarbon prices as a result of a drop in global demand for hydrocarbons due to the COVID-19 pandemic. The problem of supply-demand imbalance was further aggravated after the failure of OPEC+ countries to reach a new agreement in the beginning of March 2020. Among other adverse factors were a decrease in refined products trading volumes and reduced gas production in Uzbekistan due to lower demand from China, and a decrease in retail sales volumes at our filling stations. This was partially offset by an increase in crude oil trading.

#### *Sales of crude oil*

Compared to the fourth quarter of 2019, our crude oil sales revenue decreased by 4.1% in Russia and by 4.2% outside Russia. This decrease was largely a result of lower crude oil prices that was partially offset by higher international trading volumes and higher domestic sales volumes owing to a decrease in export deliveries.

Compared to the first quarter of 2019, our international crude oil sales revenue increased by 6.1%. A decrease in crude oil prices was offset by an increase in trading volumes. At the same time, our domestic crude oil sales revenue decreased by 21.2% mainly due to a decrease in crude oil prices by 26.2%, despite an increase in domestic sales volumes by 6.9%.

#### *Sales of refined products*

Sales breakdown	Q1	Q4	Change,	Q1	Change,	
	2020	2019	%	2020	2019	
	(millions of rubles)					
<b>Wholesales outside Russia .....</b>	<b>645,799</b>	<b>810,817</b>	<b>(20.4)</b>	<b>645,799</b>	<b>813,461</b>	<b>(20.6)</b>
diesel fuel .....	278,118	398,753	(30.3)	278,118	406,438	(31.6)
motor gasoline .....	123,248	149,404	(17.5)	123,248	125,349	(1.7)
fuel oil .....	103,298	134,541	(23.2)	103,298	113,377	(8.9)
jet fuel .....	9,073	8,812	3.0	9,073	30,374	(70.1)
lubricants and components .....	17,587	15,230	15.5	17,587	21,204	(17.1)
gas products.....	23,341	15,024	55.4	23,341	12,825	82.0
others.....	91,134	89,053	2.3	91,134	103,894	(12.3)
<b>Retail outside Russia.....</b>	<b>74,488</b>	<b>84,349</b>	<b>(11.7)</b>	<b>74,488</b>	<b>82,134</b>	<b>(9.3)</b>
<b>Wholesales in Russia.....</b>	<b>96,818</b>	<b>108,596</b>	<b>(10.8)</b>	<b>96,818</b>	<b>95,749</b>	<b>1.1</b>
diesel fuel .....	27,810	32,730	(15.0)	27,810	25,304	9.9
motor gasoline .....	9,996	12,114	(17.5)	9,996	8,986	11.2
fuel oil .....	2,734	4,610	(40.7)	2,734	8,350	(67.3)
jet fuel .....	29,293	31,333	(6.5)	29,293	27,745	5.6
lubricants and components .....	5,843	5,429	7.6	5,843	5,738	1.8
gas products.....	2,301	2,665	(13.7)	2,301	2,475	(7.0)
others.....	18,841	19,715	(4.4)	18,841	17,151	9.9
<b>Retail in Russia.....</b>	<b>106,686</b>	<b>120,340</b>	<b>(11.3)</b>	<b>106,686</b>	<b>111,421</b>	<b>(4.2)</b>
<b>Total refined products sales .....</b>	<b>923,791</b>	<b>1,124,102</b>	<b>(17.8)</b>	<b>923,791</b>	<b>1,102,765</b>	<b>(16.2)</b>

Sales volumes	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(thousands of tonnes)					
<b>Wholesales outside Russia.....</b>	<b>20,709</b>	<b>22,422</b>	<b>(7.6)</b>	<b>20,709</b>	<b>21,927</b>	<b>(5.6)</b>
diesel fuel.....	8,001	9,637	(17.0)	8,001	9,503	(15.8)
motor gasoline.....	3,459	3,538	(2.2)	3,459	3,158	9.5
fuel oil.....	4,376	5,203	(15.9)	4,376	4,259	2.7
jet fuel.....	265	207	28.0	265	733	(63.8)
lubricants and components.....	296	228	29.8	296	361	(18.0)
gas products.....	831	521	59.5	831	442	88.0
others.....	3,481	3,088	12.7	3,481	3,471	0.3
<b>Retail outside Russia.....</b>	<b>926</b>	<b>1,046</b>	<b>(11.5)</b>	<b>926</b>	<b>988</b>	<b>(6.3)</b>
diesel fuel.....	632	707	(10.6)	632	670	(5.7)
motor gasoline.....	257	294	(12.6)	257	276	(6.9)
gas products.....	37	45	(17.8)	37	42	(11.9)
<b>Wholesales in Russia.....</b>	<b>3,283</b>	<b>3,535</b>	<b>(7.1)</b>	<b>3,283</b>	<b>3,222</b>	<b>1.9</b>
diesel fuel.....	657	758	(13.3)	657	580	13.3
motor gasoline.....	254	310	(18.1)	254	256	(0.8)
fuel oil.....	314	423	(25.8)	314	510	(38.4)
jet fuel.....	747	753	(0.8)	747	683	9.4
lubricants and components.....	91	86	5.8	91	77	18.2
gas products.....	136	137	(0.7)	136	171	(20.5)
others.....	1,084	1,068	1.5	1,084	945	14.7
<b>Retail in Russia.....</b>	<b>2,188</b>	<b>2,474</b>	<b>(11.6)</b>	<b>2,188</b>	<b>2,334</b>	<b>(6.3)</b>
diesel fuel.....	858	938	(8.5)	858	911	(5.8)
motor gasoline.....	1,316	1,516	(13.2)	1,316	1,412	(6.8)
gas products.....	14	20	(30.0)	14	11	27.3
<b>Total refined products volumes.....</b>	<b>27,106</b>	<b>29,477</b>	<b>(8.0)</b>	<b>27,106</b>	<b>28,471</b>	<b>(4.8)</b>

#### The first quarter of 2020 vs. the fourth quarter of 2019

- Our revenue from the wholesales of refined products outside Russia decreased by 20.4% due to a decrease in average realized prices by 17.2% and volumes by 7.6% due to a decrease in trading operations.
- International retail revenue decreased by 11.7% due to a seasonal decrease in sales volumes by 11.5%, amplified by decline in demand in Europe due to the COVID-19 pandemic.
- Revenue from the wholesales of refined products on the domestic market decreased by 10.8% mainly as a result of a decrease in sales volumes due to a seasonal decline in demand and lower average realized prices.
- Revenue from the retail sales of refined products on the domestic market decreased by 11.3% mainly as a result of a decrease in sales volumes due to a seasonal decline in demand.

#### The first quarter of 2020 vs. the first quarter of 2019

- Our revenue from the wholesales of refined products outside Russia decreased by 20.6% mainly due to a decrease in prices by 16.3% and sales volumes by 5.6% due to a decrease in trading operations..
- Our international retail revenue decreased by 9.3% mainly as a result of a decrease in sales volumes caused by a decline in demand due to the COVID-19 pandemic and a decrease in prices.
- Our revenue from the wholesales of refined products on the domestic market increased by 1.1% as a result of volume factor, while our realized prices didn't change significantly.
- Our revenue from refined products retail sales in Russia decreased by 4.2%, as a result of a decrease in sales volumes that was partially offset by an increase in our realized prices.

#### *Sales of petrochemical products*

Compared to the fourth quarter of 2019, our revenue from sales of petrochemical products increased by 13.7%, as a result of an increase in output at our plant in Stavropol region after maintenance works, and an increase in trading volumes both in and outside Russia.

Compared to the first quarter of 2019, our revenue from sales of petrochemical products decreased by 38.1%, mainly as a result of decline in trading volumes outside Russia and realized prices.



### Hydrocarbon extraction expenses

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(millions of rubles)					
Hydrocarbon extraction expenses <sup>1</sup> .....	47,315	49,877	(5.1)	47,315	45,829	3.2
in Russia.....	41,992	43,285	(3.0)	41,992	41,243	1.8
outside Russia <sup>1</sup> .....	5,323	6,592	(19.3)	5,323	4,586	16.1
	(rubles per BOE)					
Hydrocarbon extraction expenses <sup>1</sup> .....	229	233	(1.7)	229	220	4.2
in Russia.....	233	239	(2.5)	233	231	1.0
outside Russia <sup>1</sup> .....	203	200	1.2	203	152	33.4

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

Compared to the previous quarter, our total extraction expenses in Russia decreased by 3.0% mainly due to lower overhauls costs and a decrease in expenses on artificial stimulation of reservoir. Our per BOE hydrocarbon extraction expenses in Russia decreased by 2.5%. Our extraction expenses outside Russia decreased by 19.3% owing to a decline in gas production in Uzbekistan in the first quarter of 2020, and maintenance works in Kazakhstan and Azerbaijan in the fourth quarter of 2019. As a result, our per BOE hydrocarbon extraction expenses slightly increased by 1.2%.

In Russia, our total extraction expenses increased by 1.8% compared to the first quarter of 2019, while our domestic per BOE hydrocarbon extraction expenses didn't change significantly. Outside Russia, our hydrocarbon extraction expenses increased by 16.1% primarily at our projects in Kazakhstan due to payroll and overhaul costs, and in Azerbaijan as a result of an increase in gas production. Our per BOE hydrocarbon extraction expenses outside Russia increased by 33.4% mainly as a result of a decrease in share of gas production in total hydrocarbon production due to a decline in gas production in Uzbekistan.

### Own refining expenses

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(millions of rubles)					
Refining expenses at the Group refineries .....	22,274	24,636	(9.6)	22,274	23,504	(5.2)
in Russia.....	9,544	11,328	(15.7)	9,544	9,640	(1.0)
outside Russia .....	12,730	13,308	(4.3)	12,730	13,864	(8.2)
	(rubles per tonne)					
Refining expenses at the Group refineries .....	1,303	1,448	(10.0)	1,303	1,410	(7.6)
in Russia.....	873	1,046	(16.6)	873	879	(0.7)
outside Russia .....	2,069	2,153	(3.9)	2,069	2,432	(14.9)

Compared to the fourth quarter of 2019, refining expenses at our domestic refineries decreased by 15.7%, mainly due to a decrease in maintenance costs, as well as a decrease in consumption of purchased additives. Outside Russia, our expenses decreased by 4.3% largely due to lower electricity and fuel costs, despite a devaluation of the ruble against euro.

Compared to the first quarter of 2019, expenses at our domestic refineries didn't change significantly. Outside Russia, our expenses decreased by 8.2% due to a decline in fuel and electricity costs, and the ruble appreciation against euro.

### Refining expenses at third-party refineries

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

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

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

Our figures for the fourth quarter of 2019 included adjustment related to operating expenses for September 2019.

### Expenses for crude oil transportation to refineries

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

Compared to the fourth quarter and the first quarter of 2019, our expenses for crude oil transportation to refineries increased by 17.4% and by 32.2%, respectively, primarily due to an increase in volumes of supplies of own crude oil to our refineries outside Russia.

### Power generation and distribution expenses

Power generation and distribution expenses decreased by 11.4% compared to the fourth quarter of 2019 due to maintenance works on power grids and electric supply equipment in the fourth quarter of 2019, and didn't change significantly compared to the first quarter of 2019.

### Petrochemical expenses

Our petrochemical expenses decreased by 13.5% quarter-on-quarter as a result of a high level of maintenance costs at our plant in Stavropol region in the fourth quarter of 2019, and went down by 2.1% year-on-year due to lower raw materials costs.

### Cost of purchased crude oil, gas and products

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(millions of rubles)					
Cost of purchased crude oil in Russia.....	4,873	5,292	(7.9)	4,873	4,310	13.1
Cost of purchased crude oil outside Russia .....	518,915	507,554	2.2	518,915	504,895	2.8
Compensation crude oil related to West Qurna-2 project.....	8,300	10,341	(19.7)	8,300	7,625	8.9
<b>Cost of purchased crude oil.....</b>	<b>532,088</b>	<b>523,187</b>	<b>1.7</b>	<b>532,088</b>	<b>516,830</b>	<b>3.0</b>
Cost of purchased refined products in Russia.....	10,920	9,100	20.0	10,920	9,273	17.8
Cost of purchased refined products outside Russia.....	380,305	470,717	(19.2)	380,305	482,942	(21.3)
<b>Cost of purchased refined products .....</b>	<b>391,225</b>	<b>479,817</b>	<b>(18.5)</b>	<b>391,225</b>	<b>492,215</b>	<b>(20.5)</b>
Other purchases .....	16,494	15,606	5.7	16,494	31,375	(47.4)
Net (gain)/loss from hedging of trading operations .....	(129,641)	28,418	-	(129,641)	48,140	-
Change in crude oil and petroleum products inventory.....	161,509	13,127	>100	161,509	(101,035)	-
<b>Total cost of purchased crude oil, gas and products.....</b>	<b>971,675</b>	<b>1,060,155</b>	<b>(8.3)</b>	<b>971,675</b>	<b>987,525</b>	<b>(1.6)</b>

In the first quarter of 2020, cost of purchased crude oil, gas and products decreased by 8.3% quarter-on-quarter and by 1.6% year-on-year, which was mostly defined by international crude oil and refined products prices dynamics. At the same time, an increase in volumes of crude oil trading partly offset the impact of the price factor. The substantial price decline at the end of the first quarter led to inventory write-down to its net realizable value. As a result we recognized an inventory valuation provision of 92 billion RUB, 58 billion RUB of which is related to our trading operations and is offset by the hedging gain.



## Transportation expenses

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(millions of rubles)					
Crude oil transportation expenses .....	29,273	25,133	16.5	29,273	28,090	4.2
in Russia.....	11,811	11,922	(0.9)	11,811	13,456	(12.2)
outside Russia .....	17,462	13,211	32.2	17,462	14,634	19.3
Refined products transportation expenses.....	46,814	43,873	6.7	46,814	41,630	12.5
in Russia.....	22,529	23,018	(2.1)	22,529	22,263	1.2
outside Russia .....	24,285	20,855	16.4	24,285	19,367	25.4
Other transportation expenses.....	3,972	5,189	(23.5)	3,972	3,502	13.4
in Russia.....	515	456	12.9	515	472	9.1
outside Russia .....	3,457	4,733	(27.0)	3,457	3,030	14.1
<b>Total transportation expenses.....</b>	<b>80,059</b>	<b>74,195</b>	<b>7.9</b>	<b>80,059</b>	<b>73,222</b>	<b>9.3</b>

Compared to the fourth quarter of 2019 our expenses for transportation of crude oil and refined products increased by 16.5% and 6.7%, respectively. Outside Russia, increase was mainly due to higher freight rates, the ruble devaluation, increased oil transportation volumes, which was partially offset by a decline in refined products supplies. In Russia, our expenses decreased due to lower oil export sales volumes and lower refined products domestic supplies, despite tariffs indexation and an inventory effect.

Compared to the first quarter of 2019, our expenses for transportation of crude oil and refined products increased by 4.2% and 12.5%, respectively. Outside Russia, our expenses for transportation of crude oil increased mainly due to volume factor, while increase in expenses for transportation of refined products was mainly a result of freight rates increase and an increase in supplies on the Incoterms with transport component. The dynamics of expenses in Russia was influenced by tariffs indexation, inventory effect, lower refined products sales volumes and lower oil export volumes (net off volumes exported to our refineries outside Russia).

## 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.

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(millions of rubles)					
Labor costs included in selling, general and administrative expenses .....	15,004	15,909	(5.7)	15,004	16,067	(6.6)
Other selling, general and administrative expenses .....	21,258	25,454	(16.5)	21,258	20,869	1.9
Share-based compensation.....	7,842	7,841	-	7,842	7,842	-
Expenses on allowance for expected credit losses .....	1,005	3,770	(73.3)	1,005	4,795	(79.0)
<b>Total selling, general and administrative expenses .....</b>	<b>45,109</b>	<b>52,974</b>	<b>(14.8)</b>	<b>45,109</b>	<b>49,573</b>	<b>(9.0)</b>

Compared to the fourth quarter of 2019, a decrease in selling, general and administrative expenses was largely due to lower advertising, consulting and other expenses, as well as change in allowance for expected credit losses.

In the first quarter of 2020, our selling, general and administrative expenses decreased by 9.0% compared to the first quarter of 2019 mainly as a result of change in allowance for expected credit losses.

## Depreciation, depletion and amortization

Compared to the fourth and the first quarter of 2019, our depreciation, depletion and amortization expenses increased by 9.6% and 6.6%, respectively, mainly as a result of an increase in depreciation expense due to commissioning of new infrastructure at our Caspian Sea projects, as well as higher amount of cost compensation related to our West Qurna-2 project in Iraq in the first quarter of 2020.

## Equity share in income of affiliates

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

Our share in income of affiliates increased by 2.8 billion RUB, or by 172.2%, compared to the fourth quarter of 2019 mainly due to a partial impairment of fixed assets of our upstream affiliates in the fourth quarter of 2019, and decreased by 2 billion RUB, or by 28.3%, compared to the first quarter of 2019 mainly due to decline in hydrocarbon prices.

## Taxes other than income taxes

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
(millions of rubles)						
<b>In Russia</b>						
Mineral extraction taxes .....	174,539	200,682	(13.0)	174,539	201,080	(13.2)
Tax on additional income .....	2,211	3,401	(35.0)	2,211	4,353	(49.2)
Social security taxes and contributions .....	7,569	6,163	22.8	7,569	7,144	5.9
Property tax .....	6,408	5,943	7.8	6,408	5,509	16.3
Other taxes .....	481	668	(28.0)	481	482	(0.2)
<b>Total in Russia .....</b>	<b>191,208</b>	<b>216,857</b>	<b>(11.8)</b>	<b>191,208</b>	<b>218,568</b>	<b>(12.5)</b>
<b>International</b>						
Mineral extraction taxes .....	6	22	(72.7)	6	-	-
Social security taxes and contributions .....	1,450	1,797	(19.3)	1,450	1,522	(4.7)
Property tax .....	205	237	(13.5)	205	232	(11.6)
Other taxes .....	839	763	10.0	839	697	20.4
<b>Total internationally .....</b>	<b>2,500</b>	<b>2,819</b>	<b>(11.3)</b>	<b>2,500</b>	<b>2,451</b>	<b>2.0</b>
<b>Total taxes other than income taxes .....</b>	<b>193,708</b>	<b>219,676</b>	<b>(11.8)</b>	<b>193,708</b>	<b>221,019</b>	<b>(12.4)</b>

In the first quarter of 2020, our taxes other than income taxes decreased by 11.8% and 12.4% compared to the fourth quarter and to the first quarter of 2019, mainly a result of a decrease in mineral extraction tax expense on the back of a decrease in the tax rate by 16.4% and 18.4%, respectively due to lower crude oil prices. This was partially compensated by inventory effect. TAI expenses decreased due to a decline of crude oil prices and an increase in capital expenditures at certain license areas in the first quarter of 2020 compared to the first quarter of 2019.

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).

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
(millions of rubles)						
<b>Decrease in extraction taxes from application of reduced and zero rates for crude oil production .....</b>	<b>24,363</b>	<b>30,970</b>	<b>(21.3)</b>	<b>24,363</b>	<b>30,098</b>	<b>(19.1)</b>
(thousands of tonnes)						
Volume of crude oil production subject to:						
zero rates (ultra-high viscosity) .....	601	557	7.9	601	483	24.4
reduced rates (tax holidays for specific regions and high viscosity oil) .....	1,052	1,076	(2.2)	1,052	1,045	0.7
reduced rates (low permeability deposits) .....	384	395	(2.8)	384	187	>100
reduced rates (Tyumen deposits) .....	211	181	16.6	211	160	31.9
reduced rates (depleted fields) .....	5,364	4,703	14.1	5,364	4,803	11.7
reduced rates (other) .....	690	632	9.2	690	592	16.6
<b>Total volume of production subject to reduced or zero rates .....</b>	<b>8,302</b>	<b>7,544</b>	<b>10.0</b>	<b>8,302</b>	<b>7,270</b>	<b>14.2</b>

The Group also applies special tax regime for offshore crude oil production at certain fields and deposits. In the first quarter of 2020, volumes of production subject to such regimes amounted to 1,587 thousand tonnes (compared to 1,657 thousand tonnes in the fourth quarter of 2019 and 1,613 thousand tonnes in the first quarter of 2019).

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
(millions of rubles)						
<b>Mineral extraction tax for crude oil and gas condensate on license areas under TAI .....</b>	<b>4,470</b>	<b>6,418</b>	<b>(30.4)</b>	<b>4,470</b>	<b>6,450</b>	<b>(30.7)</b>
(thousands of tonnes)						
Group 1 .....	536	499	7.4	536	504	6.3
Group 3 .....	768	760	1.1	768	685	12.1
Group 4 .....	23	14	64.3	23	8	>100
<b>Total volume of crude oil and gas condensate production at license areas subject to TAI.....</b>	<b>1,327</b>	<b>1,273</b>	<b>4.2</b>	<b>1,327</b>	<b>1,197</b>	<b>10.9</b>

### Excise and export tariffs

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
(millions of rubles)						
<b>In Russia</b>						
Excise tax on refined products .....	32,084	35,499	(9.6)	32,084	30,547	5.0
Excise tax on oil feedstock (excluding damper).....	(11,221)	(7,381)	52.0	(11,221)	(7,840)	43.1
Damper .....	12,524	(12,359)	-	12,524	(5,978)	-
Crude oil export tariffs .....	32,151	32,612	(1.4)	32,151	37,493	(14.2)
Refined products export tariffs.....	9,187	10,813	(15.0)	9,187	13,466	(31.8)
<b>Total in Russia .....</b>	<b>74,725</b>	<b>59,184</b>	<b>26.3</b>	<b>74,725</b>	<b>67,688</b>	<b>10.4</b>
<b>International</b>						
Excise tax and sales taxes on refined products.....	37,934	45,347	(16.3)	37,934	43,842	(13.5)
Crude oil export tariffs .....	13	7	85.7	13	13	-
Refined products export and import tariffs, net.....	7	(4)	-	7	(87)	-
<b>Total internationally .....</b>	<b>37,954</b>	<b>45,350</b>	<b>(16.3)</b>	<b>37,954</b>	<b>43,768</b>	<b>(13.3)</b>
<b>Total excise and export tariffs .....</b>	<b>112,679</b>	<b>104,534</b>	<b>7.8</b>	<b>112,679</b>	<b>111,456</b>	<b>1.1</b>

Compared to the fourth quarter of 2019, crude oil and refined products export tariffs declined due to a decrease in export duty rate as a result of ongoing tax manoeuvre and a decline in crude oil prices, which was partially offset by export duty lag effect. A decrease in crude oil export duty rate was also partially offset by inventory effect and an increase in crude oil export volumes beyond Customs Union. Despite an increase in refined products export volumes, the export tariffs expenses declined due to a decrease in the share of heavy refined products in total export volume.

In the first quarter of 2020, excise tax on refined products decreased both in Russia and internationally compared to the previous quarter mainly due to a seasonal decrease in sales volumes subject to excise taxes, which was partially offset by an increase of excise tax rates in Russia.

Compared to the first quarter of 2019, crude oil and refined products export tariffs declined due to a decrease in export duty rate as a result of ongoing tax manoeuvre and a decline in crude oil prices, which was partially offset by export duty lag effect. Export tariffs also decreased due to inventory effect. Decline in crude oil export tariffs was partially compensated by an increase in crude oil export volumes beyond Customs Union.

Compared to the first quarter of 2019, excise tax in Russia increased due to higher excise tax rates and decreased internationally due to a decline in sales volumes subject to excise taxes.

Proceeds from excise tax on feedstock, excluding damper, increased by 52.0% compared to the fourth quarter of 2019 and increased by 43.1% compared to the first quarter of 2019 as a result of an increase in excise tax rate due to ongoing tax manoeuvre, which was partially offset by a decline in crude oil prices. At the same time, in the first quarter of 2020, the damper became negative as a result of a decrease in export netbacks for gasoline and diesel fuel below respective fixed benchmarks and was paid to the budget, as opposed to the first and fourth quarters of 2019.

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

### Exploration expenses

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

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

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

In the first quarter of 2020, foreign exchange loss amounted to 14.9 billion RUB, compared to a foreign exchange gain of 45 million RUB in the fourth quarter of 2019 and a gain of 1.9 billion RUB in the first quarter of 2019.

### **Other (expenses) income**

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

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 fixes assets and other non-current assets for its refining, marketing and distribution assets outside Russia in the amount of 36 billion RUB.

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

### **Income taxes**

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

Compared to the fourth quarter of 2019, our total income tax expense decreased by 7 billion RUB, or by 23.4%. At the same time, our profit before income tax decreased by 173 billion RUB, or by 114.9%.

Compared to the first quarter of 2019, our total income tax expense decreased by 19 billion RUB, or by 45.4%. Our profit before income tax decreased by 215 billion RUB, or by 111.6%.

Recognition of income tax expense in the first quarter of 2020 despite incurred loss before income taxes resulted from write-offs of deferred tax assets related to tax loss carry forwards and non-recognition of deferred tax assets related to impairment losses in certain international downstream 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.

## 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.

	Q1 2020	Q4 2019	Q1 2020	Q1 2019
	(millions of rubles)			
<b>(Loss) profit for the period attributable to PJSC LUKOIL shareholders .....</b>	<b>(45,960)</b>	<b>119,310</b>	<b>(45,960)</b>	<b>149,236</b>
Add back				
Profit for the period attributable to non-controlling interests .....	176	433	176	554
Income tax expense .....	23,378	30,529	23,378	42,796
Financial income .....	(4,811)	(6,131)	(4,811)	(5,984)
Financial costs .....	10,249	10,774	10,249	11,734
Foreign exchange loss (gain) .....	14,910	(45)	14,910	(1,901)
Equity share in income of affiliates .....	(4,431)	(1,628)	(4,431)	(6,180)
Other expenses .....	46,614	23,888	46,614	3,972
Depreciation, depletion and amortization .....	110,718	101,030	110,718	103,830
<b>EBITDA .....</b>	<b>150,843</b>	<b>278,160</b>	<b>150,843</b>	<b>298,057</b>
<b>EBITDA by operating segments</b>				
<b>Exploration and production segment</b>				
Sales (including excise and export tariffs) .....	437,851	579,500	437,851	593,305
Operating expenses .....	(70,069)	(70,069)	(70,069)	(65,286)
Cost of purchased crude oil, gas and products .....	(19,480)	(10,326)	(19,480)	(7,481)
Transportation expenses .....	(16,165)	(18,846)	(16,165)	(17,040)
Selling, general and administrative expenses .....	(12,986)	(13,303)	(12,986)	(15,068)
Taxes other than income taxes .....	(179,099)	(214,657)	(179,099)	(221,876)
Excise and export tariffs .....	(30,482)	(33,333)	(30,482)	(30,510)
Exploration expenses .....	(381)	(7,180)	(381)	(912)
<b>EBITDA of Exploration and production segment .....</b>	<b>109,189</b>	<b>211,786</b>	<b>109,189</b>	<b>235,132</b>
<b>Refining, marketing and distribution segment</b>				
Sales (including excise and export tariffs) .....	1,628,374	1,851,598	1,628,374	1,793,162
Operating expenses .....	(48,977)	(56,644)	(48,977)	(55,897)
Cost of purchased crude oil, gas and products .....	(1,352,377)	(1,541,297)	(1,352,377)	(1,487,422)
Transportation expenses .....	(73,318)	(61,385)	(73,318)	(59,819)
Selling, general and administrative expenses .....	(27,176)	(31,439)	(27,176)	(30,145)
Taxes other than income taxes .....	(6,351)	(6,242)	(6,351)	(6,128)
Excise and export tariffs .....	(79,884)	(72,434)	(79,884)	(73,813)
<b>EBITDA of Refining, marketing and distribution segment .....</b>	<b>40,291</b>	<b>82,157</b>	<b>40,291</b>	<b>79,938</b>
<b>EBITDA of Corporate and other segment .....</b>	<b>(10,689)</b>	<b>(13,679)</b>	<b>(10,689)</b>	<b>(7,068)</b>
<b>Elimination .....</b>	<b>12,052</b>	<b>(2,104)</b>	<b>12,052</b>	<b>(9,945)</b>
<b>EBITDA .....</b>	<b>150,843</b>	<b>278,160</b>	<b>150,843</b>	<b>298,057</b>

### Free cash flow reconciliation

	Q1 2020	Q4 2019	Q1 2020	Q1 2019
	(millions of rubles)			
Net cash provided by operating activities .....	185,730	320,681	185,730	243,324
Capital expenditures .....	(130,211)	(135,937)	(130,211)	(97,421)
<b>Free cash flow .....</b>	<b>55,519</b>	<b>184,744</b>	<b>55,519</b>	<b>145,903</b>

## Liquidity and capital resources

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(millions of rubles)					
Net cash provided by operating activities .....	185,730	320,681	(42.1)	185,730	243,324	(23.7)
including decrease (increase) in working capital ....	45,531	44,960	1.3	45,531	(37,434)	-
Net cash used in investing activities .....	(129,718)	(157,725)	(17.8)	(129,718)	(99,551)	30.3
Net cash used in financing activities.....	(151,630)	(79,980)	89.6	(151,630)	(169,807)	(10.7)

Changes in operating assets and liabilities:

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
	(millions of rubles)					
Decrease (increase) in accounts receivable.....	71,465	(29,162)	-	71,465	(17,767)	-
Decrease (increase) in inventory.....	164,663	10,798	>100	164,663	(101,788)	-
(Decrease) increase in accounts payable.....	(164,651)	54,345	-	(164,651)	56,889	-
(Decrease) increase in net taxes other than on income payable .....	(13,347)	1,525	-	(13,347)	35,794	-
Change in other current assets and liabilities.....	(12,599)	7,454	-	(12,599)	(10,562)	19.3
<b>Total decrease (increase) in working capital .....</b>	<b>45,531</b>	<b>44,960</b>	<b>1.3</b>	<b>45,531</b>	<b>(37,434)</b>	<b>-</b>

### Operating activities

Our primary source of cash flow is funds generated from our operations. Our cash generated from operations decreased by 42.1% compared to the fourth quarter of 2019 and by 23.7% compared to the first quarter of 2019 as a result of lower profitability of our core operations. At the same time, the working capital changes positively impacted our operating cash flow compared to the first quarter of 2019.

### Investing activities

Our cash used in investing activities decreased by 17.8% compared to the previous quarter, and increased by 30.3% compared to the first quarter of 2019, that resulted from the dynamics of capital expenditures and lower spending on acquisitions of subsidiaries. In the fourth quarter of 2019, we acquired a 5% interest in the Ghasha upstream project in the United Arab Emirates for approximately 13.8 billion RUB.

Our capital expenditures decreased by 4.2% compared to the fourth quarter of 2019, and increased by 33.7% compared to the first quarter of 2019.

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
(millions of rubles)						
<b>Capital expenditures</b>						
Exploration and production						
West Siberia.....	45,824	35,922	27.6	45,824	32,035	43.0
Timan-Pechora.....	19,002	16,203	17.3	19,002	16,683	13.9
Ural region.....	11,418	10,567	8.1	11,418	7,459	53.1
Volga region.....	10,175	14,542	(30.0)	10,175	6,957	46.3
Other in Russia.....	2,604	3,700	(29.6)	2,604	2,337	11.4
<b>Total in Russia.....</b>	<b>89,023</b>	<b>80,934</b>	<b>10.0</b>	<b>89,023</b>	<b>65,471</b>	<b>36.0</b>
Iraq.....	9,885	7,101	39.2	9,885	3,363	>100
Other outside Russia.....	10,673	14,527	(26.5)	10,673	12,004	(11.1)
<b>Total outside Russia.....</b>	<b>20,558</b>	<b>21,628</b>	<b>(4.9)</b>	<b>20,558</b>	<b>15,367</b>	<b>33.8</b>
<b>Total exploration and production.....</b>	<b>109,581</b>	<b>102,562</b>	<b>6.8</b>	<b>109,581</b>	<b>80,838</b>	<b>35.6</b>
Refining, marketing and distribution						
Russia.....	16,319	26,540	(38.5)	16,319	10,851	50.4
refining.....	11,639	16,228	(28.3)	11,639	6,777	71.7
retail.....	1,311	1,634	(19.8)	1,311	1,394	(6.0)
other.....	3,369	8,678	(61.2)	3,369	2,680	25.7
International.....	3,731	5,356	(30.3)	3,731	4,681	(20.3)
refining.....	2,752	2,849	(3.4)	2,752	3,302	(16.7)
retail.....	957	2,159	(55.7)	957	899	6.5
other.....	22	348	(93.7)	22	480	(95.4)
<b>Total refining, marketing and distribution.....</b>	<b>20,050</b>	<b>31,896</b>	<b>(37.1)</b>	<b>20,050</b>	<b>15,532</b>	<b>29.1</b>
Corporate and other.....	580	1,479	(60.8)	580	1,051	(44.8)
<b>Total capital expenditures.....</b>	<b>130,211</b>	<b>135,937</b>	<b>(4.2)</b>	<b>130,211</b>	<b>97,421</b>	<b>33.7</b>

Compared to the fourth and the first quarters of 2019, an increase in our upstream capital expenditures in Russia was mainly in West Siberia due to payments schedule, as well as increased purchases of materials. Moreover, compared to the first quarter of 2019, an increase was due to increased production drilling. Our upstream capital expenditures also increased in Timan-Pechora mainly due to an increase in seismic exploration expenses and changes in drilling schedule.

Capital expenditures in Volga region decreased compared to the fourth quarter of 2019 mainly due to the completion of the stages of development works at the Yu. Korchagin and V. Filanovsky fields in the Caspian Sea in the previous quarter, and increased compared to the first quarter of 2019 due to payments related to previously incurred and accrued capital expenditures.

An increase in our capital expenditures in Iraq was a result of further development of West-Qurna-2 project. A decrease in upstream capital expenditures in other regions outside Russia was due to completion of another stage of our project in Uzbekistan in 2019.

The dynamics of our capital expenditures in domestic refining segment in the first quarter of 2020 compared to the fourth and the first quarters of 2019 was mainly defined by construction and payments schedule of a construction of delayed coker complex at our Nizhny Novgorod refinery.

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

	Q1 2020	Q4 2019	Change, %	Q1 2020	Q1 2019	Change, %
(millions of rubles)						
West Siberia (Yamal).....	6,627	5,110	29.7	6,627	5,942	11.5
Caspian region (Projects in Russia).....	8,431	11,726	(28.1)	8,431	6,860	22.9
Timan-Pechora (Yaregskoye field).....	2,688	1,169	>100	2,688	1,894	41.9
Iraq (West Qurna-2 project).....	9,268	6,210	49.2	9,268	2,720	>100
Iraq (Block-10).....	617	891	(30.8)	617	643	(4.0)
Uzbekistan.....	1,439	3,547	(59.4)	1,439	6,296	(77.1)
<b>Total.....</b>	<b>29,070</b>	<b>28,653</b>	<b>1.5</b>	<b>29,070</b>	<b>24,355</b>	<b>19.4</b>

## Financing activities

In the first quarter of 2020, net movements of short-term and long-term debt generated an outflow of 11 billion RUB, compared to an outflow of 65 billion RUB in the fourth quarter of 2019 and an outflow of 21 billion RUB in the first quarter of 2019.

In August 2018, we announced the start of an open market buyback programme which was completed on 20 August 2019. From its start and also taking into account tender offers that took place in July-August 2019 and December 2019 – January 2020, 57.1 million ordinary shares and depositary receipts of the Company were purchased in aggregate. In the first quarter of 2019, a Group company spent 71,488 million RUB in relation to this programme. All of the purchased shares were cancelled.

## **Other information**

### **Sectoral sanctions against the Russian companies**

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

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

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

### **Operations in Iraq**

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