

## PJSC “LUKOIL”

### 2020 Results

### Conference Call and Webcast Transcript

10 March 2021

#### Speakers:

Vagit Alekperov, President of PJSC “LUKOIL”

Azat Shamsuarov, First Vice President

Vadim Vorobyev, First Executive Vice President

Alexander Matytsyn, First Vice President

Pavel Zhdanov, Vice President

#### **Pavel Zhdanov (Introduction)**

Good afternoon, ladies and gentlemen! Thank you for joining us today for this conference call on LUKOIL’s results for 2020.

On today’s call, we have Mr. Vagit Alekperov, President and CEO of LUKOIL, Mr. Alexander Matytsyn, CFO, Mr. Vadim Vorobyev, First Executive Vice President for Downstream, Mr. Azat Shamsuarov, First Vice President for Upstream.

We will start with presentation and then move on to the Q&A session.

I would like to draw your attention to the fact that the presentation contains forward-looking statements that are based on our estimates, assumptions and expectations. More detailed information is presented on the slide.

Now I would like to hand over to Mr. Vagit Alekperov, President and CEO of LUKOIL.

## Vagit Alekperov (Climate)

Good afternoon, ladies and gentlemen!

### **Slide 5. COVID-19: strong responsibility**

Let me begin with key topic of the past 12 months.

Last year, the world faced the pandemic of COVID-19, an unprecedented challenge. In the new circumstances, people health care became the top priority for everyone.

LUKOIL was swift to take all the necessary measures to protect its employees and customers. All of our entities set up special task forces, provided testing, and ensured the availability of protective equipment and disinfectants. We also worked to help Russian regions and countries abroad where we operate. To date, LUKOIL has allocated a total of more than 2 billion rubles to help fight the spread of COVID-19.

By responding quickly, we were able to ensure steady operations across all of our fields, refineries and filling stations.

### **Slide 6. Operating results: structural improvements**

As you may know, the pandemic has caused an unprecedented drop in demand and prices for hydrocarbons. We had to introduce considerable production cuts associated with the OPEC+ agreement and China's weaker demand for pipeline gas. We were also forced to cut down our refining volumes owing to a marked decline in margins and lower demand for petroleum products.

Even against this challenging backdrop, we pushed ahead with our priority upstream projects, increasing their share in total production to 26%. We also continued to install new units at our refineries and to improve our product slate. The share of high sulfur fuel oil went down to a record low of 7%.

Today, we are proud to say that LUKOIL's business model has once again demonstrated its superior resilience to external shocks. By relying on the strong flexibility and great performance of our management team, we have been able to cope with all of the challenges we faced, go ahead with our strategy, and post some very strong financial results amid this tough environment. On a separate note, let me say that the Company maintained a positive free cash flow in each of the four quarters of 2020.

## **Slide 7. Sustainable development: systematic approach, continuous improvements**

Also, we have maintained our strong commitment to sustainability principles and have been contributing to the United Nations Sustainable Development Goals. Despite the cost optimization efforts, we did not downscale any of our environmental and industrial safety programs. Just like in previous years, considerable funding was allocated to social projects.

In corporate governance, our key improvements were linked to the climate agenda. I would like to draw your attention to planned enhancement of our Board of Directors expertise in this area. The list of candidates to the Board of Directors for voting at Annual General Shareholders Meeting includes Mr. Boris Porfirev, Member of the Russian Academy of Sciences and a renowned expert in the economics of climate change.

We are currently in the process of updating LUKOIL's strategy, with special emphasis put on climate change to have it better integrated into the strategy.

Let me talk about that in greater detail.

## **Slide 8. Liquids demand scenarios**

We have now completed putting together our oil demand scenarios. In addition to the Evolution scenario we presented previously, we have also come up with the scenarios that we call Equilibrium, Transformation, and 2 Degrees Celsius. This enabled us to arrive at a complete list of climate change factors and to engage in a detailed analysis of risks and opportunities.

Under the Evolution scenario, nations are expected to comply with the climate change obligations they have already taken on, and also reflects the US to rejoin the Paris Agreement. With a forecast that oil demand will peak in 2035, this scenario is currently the most realistic one but does not deliver on the Paris Agreement goals.

The Equilibrium scenario relies on assumption of accelerated growth of renewable energy and the so-called negative greenhouse gas emissions. Within the range of scenarios from 1.5 to 2.0 degrees Celsius, we believe Equilibrium to be the most probable one as it strikes a balance between delivery against climate change goals and the availability of energy. This scenario requires strong legislative efforts to develop climate change regulations worldwide.

The Transformation scenario is more drastic and expects the annual average temperature to rise by no more than 1.5 degrees Celsius on the back of transformations in global energy and industry, and energy efficiency improvement.

### **Slide 9. Basic assumptions of the scenarios**

Each of the scenarios we have looked into provides for larger share of renewable energy and recyclable plastics, and faster transition to electric vehicles.

Each scenario is a complex challenge for the global community.

As one example, over the past five years, 150 GW of renewable generating capacity were commissioned annually. Under the scenarios of 2 Degrees Celsius and Transformation, this figure is projected to increase at least two-fold and four-fold respectively by 2050.

As you understand, a high share of electric vehicles is only attainable if we successfully address a variety of issues related to the manufacturing of batteries.

Also, the key driver behind lower total booked greenhouse gas emissions across all the scenarios is massive expansion of negative emissions spurred by nature-based and technological solutions for carbon capture, utilization and storage. Today, these technologies are only beginning to emerge.

It is extremely important to make sure that energy transition do not contradict with the other UN Sustainable Development Goals.

To do so we need to have alternative energy sources that are available, affordable, and sufficient, so that we can not only gradually replace fossil fuels but also provide the additional energy required to support the growing economy. Our estimates show that even under the Transformation scenario, total energy consumption worldwide will be growing despite the rapid advancements in energy efficiency.

Importantly, none of the scenarios expects the use of fossil fuels to be fully discontinued. In the long run, oil will continue to be an important part of the global energy mix and an essential feedstock for consumer goods.

### **Slide 10. Supply**

As you know, the oil industry needs investments to continue replacing its resource base and to start developing new reserves as a way to prevent a fairly sharp drop in production.

The slide clearly shows that existing projects are insufficient to meet demand even under the Transformation scenario.

We see that our industry has been lacking investments for quite some time now, with the pandemic only making things worse. Limited access to capital as a result of the strong support that the financial sector has for the concept of energy transition is also reducing the industry's investment potential.

However, unless there is ample investment in new projects, we might well face a shortage of supply as early as within the next five years. Potential implications include price volatility and hindered growth of the global economy.

This is why in the short term it is impossible to have fossil fuels completely phased out, and that might be even hazardous.

### **Slide 11. Resilience in any scenario**

Against this backdrop, the global economy needs to focus on producing the most efficient barrels with the minimum carbon footprint.

And here Russian oil offers some clear advantages. It has a low break-even price and limited carbon footprint while boasting the potential to deliver additional savings in direct and indirect energy greenhouse gas emissions.

The slide shows that Russian oil production is efficient under any climate change scenario, with the Arctic shelf as the only exception.

Importantly, the break-even oil price under different demand scenarios is within a fairly narrow range, from 40 to 50 per barrel in real terms.

### **Slide 12. Key provisions of the climate strategy**

After looking into climate change scenarios and associated risks and opportunities, we now see LUKOIL's mission in the global energy transition as being a responsible producer of hydrocarbons.

We believe that with our competitive edge, the best thing we can do is to continue providing the global economy with the most efficient fossil fuel-based energy while focusing on reducing carbon footprint related to its production.

To support this mission, we have identified three goals of our climate strategy and the objectives and tools related to them.

The first goal is to continue expanding our core business of producing oil, mainly in Russia. Vital aspects here are an enhanced focus on efficiency and also reliance on a conservative scenario for oil prices and internal carbon price when making investment decisions.

The second goal is to reduce controlled greenhouse gas emissions – these are Scope 1 and Scope 2 emissions. To do that, we will be using a wide range of tools, including optimization of our asset portfolio.

The third goal is taking part in climate initiatives and advancing climate opportunities. Here we look at a variety of areas, with many of them also contributing to the first two goals. These areas include development of technologies to reduce emissions, development of the regulatory framework in Russia, and research into low-carbon energy sources such as biofuel and hydrogen.

Given our extensive experience, another area is the delivery of economically feasible projects of commercial renewable energy.

We see additional opportunities in our retail chain, which we can leverage to promote the idea of a low-carbon economy among our customers. We will also continue to deliver reforestation across our regions of operation and will be looking into ways to expand related programs. To support decarbonization and new low-carbon technologies, we are planning to establish a venture capital fund.

Let me say that we fully share the ambition to achieve carbon neutrality by 2050 for the controllable emissions – these are Scope 1 and Scope 2 emissions. However, right now we do not see enough tools sufficient to deliver against this ambition. We will continue looking into this matter and will be actively working towards creating the right conditions to address it.

### **Slide 13. Emissions reduction track record**

We have ample experience with a variety of climate agenda related matters, a focus of our attention for more than 15 years now.

In particular, LUKOIL has implemented a number of projects as part of the Kyoto Protocol, excelled in utilizing associated petroleum gas, and in 2017, took on the commitment to achieve zero routine flaring of associated gas.

Since 2016, we have been consistently engaged in efforts to reduce greenhouse gas emissions, and our actual results are more than 2.5 times better than the targets we set initially.

Amid growing production, greenhouse gas emissions from controlled sources went down by 2 million tonnes, with emission intensity in Upstream falling by 17% to 21 kg per barrel of production. By this metric, we currently outperform most of our competitors despite LUKOIL has higher share of crude oil in its production.

We have been developing renewable energy for more than a decade and have leading positions in Russia in terms of the share of green power that we generate.

Last year we did the first ever exercise of inventory of our sources of emissions and calculation of greenhouse gas emissions under international standards. This lays a crucial foundation for us to set targets and monitor emissions going forward.

#### **Slide 14. Decarbonization program**

Just a week ago, we finalized the Company's decarbonization program spanning all business segments. Today, we are ready to announce our new targets to reduce controlled greenhouse gas emissions by 2030.

Let me say here that these targets are based on existing legislation and our current view of available technologies. They are ambitious – but already at this point, we know exactly how to achieve them.

We aim to reduce emissions from controlled sources per unit of energy equivalent by 20% as compared to the 2017 level, which is used as a baseline in accordance with the Intergovernmental Panel on Climate Change approach. This would mean a 10 million tonnes reduction in gross greenhouse gas emissions on a comparable basis.

To achieve this goal, we will use a set of efficient initiatives focused primarily on energy efficiency improvements of our production operations through energy savings, energy management and optimization of industrial processes. We also plan to develop renewable power generation for own needs, reduce methane leaks in hydrocarbon production and transportation, and work on pilot carbon capture, utilization and storage projects.

We will update our emission reduction targets in line with the evolution of technologies, regulatory framework and other relevant factors.

Once again I would like to emphasize that we take very responsible approach when dealing with climate change issues, and we will do our best to make maximum contribution into achieving global climate goal.

Thank you! Now let me hand over to Azat Shamsuarov, who will present our results in Upstream.



## Azat Shamsuarov (Upstream)

Thank you, Vagit. Good afternoon, ladies and gentlemen!

### **Slide 16. Upstream results**

The Company's production performance in 2020 was driven by external factors beyond our control. Average daily oil production declined by 9% year-on-year driven by the OPEC+ agreement. Gas production saw greater cuts, dropping by 17.5% year-on-year, due to lower production in Uzbekistan caused by a temporary decline in demand for pipeline gas from China. As a result, hydrocarbon production decreased by 12% compared to 2019.

Despite external production constraints and a weak pricing environment, we continued implementing our priority projects in Russia to improve the Company's production mix. The share of such projects in LUKOIL's total production reached 26%, which is 4 percentage points higher than in the previous year.

### **Slide 17. Effective production management within OPEC+ limitations**

Let me share some highlights on our approach to handling oil production in the context of the OPEC+ agreement.

Having to deal with production curbs for more than four years, we have accumulated extensive experience in this area.

The production cuts introduced in May 2020 were certainly more sizeable than before, but no different in terms of handling.

We selected wells for shutting down based primarily on their economic performance with a view to minimizing the impact on our financial results. Geological risks were also taken into account to avoid a negative effect on further development of our fields and their production potential. We also considered technical aspects to minimize the costs of shutting down and resuming production.

When recovering production, we relied primarily on economic criteria as well as when cutting production. Since May last year and further to the instructions of the Russian Ministry of Energy, LUKOIL has added back 130 thousand barrels per day to its production in Russia. We aim to recover the output as quickly as possible and with minimal cost. Restarted wells have not shown major technical issues or geological deviations.

Currently, our spare capacity in Russia is 180 thousand barrels per day. It comes from more than 6 thousand wells, about 80% of which are located in West Siberia and Timan Pechora.

Throughout 2020, we maintained high drilling volumes to support our spare capacity. This approach was driven by expectations of a quick recovery in oil demand. However, at the end of last year, we decided to optimize the drilling program given the persisting impact of the pandemic. Our baseline scenario is to gradually reduce the spare capacity amid naturally declining production. This means that after lifting of restrictions, it will take us some time to recover our production back to the level seen in early 2020. At the same time, we remain flexible as necessary and will make further decisions based on the pricing environment and the OPEC+ agreements.

### **Slide 18. West Siberia**

Our mature fields in West Siberia have become key to balancing production amid external constraints.

Furthermore, we continued to improve efficiency at mature fields by optimizing costs, developing and rolling out new technologies, and streamlining our development systems. The high price volatility and the climate change agenda make these efforts even more important.

West Siberia is the Company's key test bed for testing and scaling new technologies as they promise significant economies of scale. Today, over 70% of our horizontal wells with multi-stage hydraulic fracturing are drilled in West Siberia. It is here that we drill more three-string wells and test neural networks.

Our cost optimization efforts include a special program to cut production costs and a program to reduce drilling costs. An efficient way to cut drilling costs is a greater share of day rate contracts used instead of more expensive turnkey contracts. In 2020, day rate contracts used in our operations in West Siberia accounted for 11% of total meters drilled, and this year we plan to increase their share to 25%. As a result of our efforts, drilling costs per meter of horizontal wells in West Siberia decreased by 7% year-on-year, and by 4% for directional wells.

### **Slide 19. Increasing efficiency via technology development and scale-up**

In 2020, we significantly ramped up the roll-out of horizontal drilling technologies for three-string wells and small-diameter wells.

Our drilling operations for three-string wells increased by 14% year-on-year, with a total of 83 such wells drilled. Their average cost construction is 20% lower than for standard wells. The share of such wells in the Company's new horizontal well stock increased to 24%. Let me remind you that we started drilling such wells just recently – in 2018.

The three-string design is also used in multi-bore wells. Our first basic multi-bore well was spudded in 2018, and in 2020, we drilled as much as 34 such wells. This technology helps expand feasible drilling opportunities by reducing the risk of high water cut.

Our drilling operations for small-diameter wells almost doubled year-on-year, with a total of 133 such wells drilled in 2020. Their share in the total number of newly drilled directional wells increased to 9%, up from only 3% in 2017. Small-diameter wells are twice as cheap to drill than standard ones.

In the future, the speed of new well construction will also be boosted through the roll-out of batch drilling, which has been successfully piloted at several of our fields.

It is also worth reminding that we are also actively developing digital technologies. The intelligent field concept that relies on integrated models is already being applied at more than 60 our fields. This is more by 40% year-on-year. Today, fields using integrated models account for more than one third of our total production. The application of neural networks to manage production and flooding at the pilot sites of mature fields has proven highly efficient. We plan to scale up the deployment of this technology.

In terms of cutting energy consumption, we have achieved excellent results, partly by installing energy saving pumps to maintain reservoir pressure. They help reduce energy use by 15% compared to conventional pumps.

Another tool for increasing energy efficiency is the use of proprietary downhole permanent magnet engines. In 2020, we installed more than 2 thousand of such engines at our fields. Today, wells equipped with permanent magnet engines account for more than 60% of the Company's entire well stock fitted with pumps. As a reminder, three years ago their share was just about 20%.

### **Slide 20. Cost reduction ahead of targets**

The initiatives I have just outlined help to cut down operating and capital expenditures, which is key to our long-term strategy. This allows us to bring more reserves into production, while also making our business more resilient in a volatile market environment.

We have targeted cost reduction programs in place and are ahead of our targets in certain areas.

For instance, for three years, we managed to reduce our drilling costs per meter by 9% in nominal terms. Over the same period, our construction costs were down by 1%, while operating production costs decreased by 2% in nominal terms. Furthermore, our costs are mostly denominated in rubles, so in US dollar terms, the savings are even greater – at more than 20%.

In 2020, we launched continuous improvements program which constant application at our entities will help us further boost efficiency of our operations.

### **Slide 21. North Caspian**

Now let me give you more detail on our priority projects.

In 2020, the Company's oil and condensate production at the Vladimir Filanovsky and Yuri Korchagin fields in the Caspian Sea totaled 7.4 million tonnes, staying flat compared to 2019. The drilling programs helped us keep production at the target level.

I would like to highlight our successful efforts to improve offshore drilling efficiency – since 2016, we have managed to halve the time of production well construction, while also cutting drilling costs per meter by a third.

As part of our third Caspian project – the Valery Grayfer field – shipyards continue to build platforms. As at beginning of this year, the fixed ice-resistant platform was 65% complete, and the accommodation platform was 82% complete. Offshore jackets for both platforms have been already installed in the Caspian Sea. We plan to launch the field next year with designed production level of 1.2 million tonnes of crude oil per year.

As for the Baltic Sea shelf, we have finalised the FEED work on the D33 field and received all the necessary project approvals. We are planning to make the final investment decision shortly. The field will have a design capacity of 1.5 million tonnes per year and may be launched as early as in 2023.

### **Slide 22. Hard-to-recover: high-viscosity oil**

We managed to deliver strong production growth from the fields with hard-to-recover reserves. Over the last five years, production at key fields has doubled, with the largest contribution in absolute terms made by high-viscosity oil projects in Timan Pechora.

In 2020, these projects' total production increased by 6% year-on-year to 5.2 million tonnes. During the year, at the Yaregskoye field we commissioned 21 SAGD production wells, 323 underground wells and new steam-generating facilities. 62 production wells were commissioned at the Permian deposit of the Usinskoye field. We continued to expand infrastructure and production facilities.

As a result of tax incentives being abolished from 1 January 2021, the fiscal burden on oil produced from the Yaregskoye and Usinskoye fields has increased considerably, compromising the return on investments into further production ramp up from these fields. We hope that decisions will be made to support the economics of these projects and to allow us to go ahead with their development as initially planned. Until such decisions are made, we intend to focus on completing the current phases of development.

### **Slide 23. Hard-to-recover: low permeability**

Let me say a few words about our progress in developing the fields with low permeability deposits in West Siberia.

Our three major low permeability fields increased production by 35% year-on-year, while production at the Sredne-Nazymkoye field doubled. In 2020, we launched 186 production wells at these fields.

We remain committed to implementing new efficient drilling technologies. As one example, the improved well design helped increase the drilling speed at the Sredne-Nazymkoye field by more than 30%, reducing the per unit drilling costs by 14% year-on-year.

Import substitution is a major focus area where we also deliver some excellent results. Earlier this year, LUKOIL and a Russian oil and gas equipment producer completed the development of the first Russian completion system for horizontal wells used in multi-stage hydrofracturing, and began implementation.

Today, this is the only commercially used system made in Russia. Tests have shown better performance compared to foreign analogues, which will benefit the economics of developing hard-to-recover reserves.

### **Slide 24. Gas projects in Uzbekistan**

In conclusion, I want to update you on our projects in Uzbekistan.

As you know, in the second quarter we had to cut production as our gas export deliveries declined and then stopped completely. This was mainly attributable to a pandemic-driven fall in demand for Uzbek gas from China and also to a slump in LNG prices. Export deliveries resumed in September amid rising LNG prices in Asia and more attractive pricing of Uzbek gas. As a result, in the fourth quarter, the production at our assets recovered back to the designed capacity. Provided the situation is stable, in 2021 our production at the Uzbek fields is expected to reach around 14 billion cubic meters of gas based on a 100% share.

Thank you. Now let me hand over to Vadim Vorobyev, who will present our results in Downstream.

## **Vadim Vorobyev (Downstream)**

Thank you, Azat! Good afternoon, ladies and gentlemen!

### **Slide 26. Refineries operating results**

2020 presented a real challenge for the refining segment. As a result of a sharp decline in demand, primarily for jet fuel and motor fuels, the gross benchmark refinery margin went into negative territory during 2020.

The high quality of our refining facilities, operational flexibility and well-developed sales channels allowed us to largely offset the effect of the extremely weak market environment and end the year with a positive EBITDA for our refining portfolio in general. This performance is attributable to optimized refinery utilization and yields, as well as flexibility in maintenance scheduling, and additional cost-cutting efforts. Having our own trading operations made a significant contribution to ensuring high utilization rates when demand was at its lowest levels.

Refining volumes declined by 15% year-on-year, a result much stronger than that demonstrated by many of our peers. For refineries in Russia, the reduction stood at just 9%.

Our efforts to optimize the product slate helped increase the share of mid-distillates to a record high of 51%, while cutting the fuel oil yield to a record low of 7%.

### **Slide 27. Efficiency improvement program at refineries**

Continuous efficiency improvement at the existing facilities remains a pivotal part of our long-term strategy in the refining segment.

This is achieved through a range of measures outlined in our regularly updated roadmaps. The measures are of an operational nature and either require zero investments or have very short payback periods. More than 800 measures have been implemented over the last three years, with the combined effect of about 90 billion rubles. Over 12 billion rubles comes from cost savings.

This effort is further supported by special projects launched at a number of our refineries and aimed at breakthrough improvements. The projects are well on track, and we intend to have them rolled out at our other refineries as well.

## **Slide 28. Selective projects at Russian refineries**

Pandemic-driven mobility restrictions threatened to delay the completion of some of the new units at our plants. However, we have managed to overcome this challenge.

In January, we launched a deasphaltization unit at the Volgograd refinery fully in line with schedule, which allowed us to increase the production of high-viscosity index oils and reduce per unit production costs. Lubricants production and marketing is a premium business we actively focus on.

Our largest project for the construction of a residue refining facility at the delayed coker at the Nizhny Novgorod refinery is scheduled to be launched in the second half of this year. As at the end of 2020, the project was 86% complete. At this point, main items have been installed, and the pipelines installation is nearing completion. The facility will complement the existing catalytic cracking units and will dramatically improve the production slate of the Nizhny Novgorod refinery. Given that this is the largest plant in our portfolio, the slate of the Group will also see a major improvement. We expect the share of fuel oil in the Group's output to fall below 4% and the light product yield to reach 75%.

The Nizhny Novgorod refinery is also completing the construction of an isomerization unit, which is scheduled for launch as early as next quarter. The unit will increase the Group's production of high-octane motor gasoline by more than 200 thousand tonnes annually using light naphtha as feedstock. As at the end of 2020, the project was almost 90% complete.

## **Slide 29. Petrochemical projects**

While we are on the subject of new projects, let me say a few words about petrochemistry.

Two polypropylene units are currently at the design stage, one at the Nizhny Novgorod refinery, and the other one in Burgas. Final investment decisions on both projects may be made as early as next year.

The proposed joint capacity of the units stands at 800 thousand tonnes of feedstock annually. The units could engage in production all spare propylene produced by these two refineries, as well as propylene from our refinery in Romania. On top of our own feedstock, another competitive advantage is the proximity to polymer processing hubs and premium markets of sufficient capacity.



As for broader expansion opportunities for the petrochemical business that we announced earlier, we will be closely considering this matter when updating our strategy.

### **Slide 30. Premium sales channels**

Let us now turn to the sales segment.

Due to significantly lower demand for motor fuels as a result of mobility restrictions, sales at our filling stations decreased by 10% year-on-year. The decline was most pronounced in the second quarter, with the volumes going down by 22% compared to the same period of 2019.

We saw an almost complete recovery as early as the third quarter, but towards the end of the year the situation slightly deteriorated again as the second wave of the pandemic triggered new restrictions.

Currently, the situation appears quite optimistic. As at February, retail sales are only 3% down compared to February 2020, with the decline in domestic sales standing at just 2%.

Jet fuel was hit the hardest by reduced mobility. In the second quarter, our ‘into-plane’ jet fuel sales fell by more than 70% compared to the same period of 2019, with the decline for the year standing at 46% year-on-year. Despite a positive trend that we see, ‘into-plane’ jet fuel sales still remain considerably below their usual levels.

We expect COVID-19 vaccinations to drive the recovery of demand for light petroleum products, while jet fuel might be the strongest performer on the back of a quick recovery of international air traffic.

Thank you. Now I would like to hand over to Alexander Matytsyn.

## Alexander Matytsyn (Finance)

Thank you, Vadim! Good afternoon, ladies and gentlemen!

### *Slide 32. Macro environment*

Let me begin with the price environment.

In addition to being a year when oil prices plunged to 20-year lows on the back of an unprecedented drop in demand, 2020 was also marked by exceptional price volatility.

The average annual price of Brent crude oil went down by more than a third year-on-year, taking a toll on our Upstream performance. By contrast, financial results in Russia were strongly supported by ruble devaluation and the impact of the progressive tax scale. Mitigated by these factors, the decline in the average annual price of Urals crude oil in ruble terms was half of that seen in the international price.

It is worth noting though that the net price was more volatile, going into a negative territory in March as a result of a tax lag effect.

At the outset of the pandemic, gross margin in Downstream was improving quickly, driven by a drop in oil prices. However, inventory build-up in the light product market caused the margin to turn negative as early as May, both in Europe and in Russia. Throughout 2020, the average margin more than halved, which is the worst performance over the past decade. In Russia, additional pressure came from the damper mechanism for motor fuels.

### *Slide 33. Financial results*

In this challenging environment, we managed to post very strong financial results. Our natural drivers of resilience include an effective business model, high quality assets, low production costs, flexible investment program, and natural hedges. All of these helped considerably offset the negative impact that the external environment had on our financial performance.

A major pillar underpinning our financial success was the hard work of our management team and its unwavering focus on efficiency improvements, thorough approach to production management, and flexible optimization of refining capacity utilization.

EBITDA for the year came in at 687 billion rubles while free cash flow totaled 281 billion rubles. In terms of free cash flow, we exceeded our performance of 2015 to 2017, when the price environment was more favorable and production was higher. As Mr. Alekperov said, our free cash flow remained positive in each of the four quarters of 2020, including the most challenging second quarter.

### ***Slide 34. Leadership in efficiency***

In the weak market environment, we managed to improve our positioning in terms of per unit financial metrics as compared to our competitors. Importantly, many of them posted a negative free cash flow for the year.

This is the best testament to LUKOIL's strong business resilience and ability to build shareholder value in almost any environment.

### ***Slide 35. CAPEX optimization***

Considerable support to our financial results came from the timely measures that we took to optimize our expenses across the board.

Let me now focus on capital expenditures. In early 2020, we targeted CAPEX of around 550 billion rubles excluding the service project in Iraq. As the market environment deteriorated and production was subject to external restrictions, we responded by quickly optimizing our budget, enabling savings of around 80 billion rubles for the year even despite the devaluing Russian currency.

The key driver behind the savings was the shift of expenditures in exploration and early-stage upstream and downstream projects to later periods, primarily abroad.

The optimization exercise hardly involved any Russian projects, with actual investments in Russia demonstrating an increase year-on-year.

In dollar terms, actual savings exceeded 20% of the original target, or approximately 2 billion dollars.

Let me emphasize here that the optimization of CAPEX has not affected the implementation of our key investment projects, nor any of the core industrial safety and environmental aspects.

### ***Slide 36. Cost control***

Low production costs is a vital part of our resilience, that is why we enhanced focus amid a weak market environment. We have always been paying great attention to this area and have now stepped up our efforts to improve efficiency as part of targeted programs.

You can see the outcomes of our work in our financial statements. Our total controllable expenses are down. Despite the marked reduction in volumes and inflation, per unit lifting costs remain at the level of 2018. The similar situation is with per unit refining costs. Selling, general and administrative expenses fell by 4%.

### ***Slide 37. Optimization of management model and asset portfolio***

An important part of our efficiency improvement efforts is optimization of the governance model. In 2020, we launched a project to transfer routine functions from the corporate center to dedicated servicing subsidiaries to enable the former to focus on its strategic function and achieve an additional reduction in administrative expenses.

We are also reorganizing the way we manage our downstream operations abroad. This is done via our LITASCO business using an integrated trader model. The new system will enhance the flexibility and efficiency of operations in a volatile environment while also offering additional competitive benefits for this line of business given the European climate change agenda.

Also, as a way to enhance focus on our core business and create additional shareholder value, we are considering potential divestments of our non-core energy business. We are currently looking into different options available, from sale to strategic investor to having the energy company stock paid to our shareholders as dividends.

### ***Slide 38. Financial position***

Now let me traditionally turn to our strong financial position that we have been maintaining despite all the external challenges. As a major competitive edge, this provides us with additional flexibility in decision making and enables us to develop our business fully in line with our strategy and to honor all our obligations to lenders and shareholders.

As at the end of 2020, our net financial debt was slightly above 120 billion rubles, with financial leverage of mere 0.2. LUKOIL's credit ratings and outlook stayed unchanged even amid the turbulent market.

In May, we successfully placed 10-year Eurobonds for 1.5 billion dollars and redeemed 1 billion US dollars of Eurobonds in November, as per the schedule.

In December, we paid 32 billion rubles in interim dividends for 2020 based on the actual free cash flow for the first half of the year.

### ***Slide 39. Dividends***

We remain committed to our dividend policy. We believe it to be the most effective in our industry as it places no restrictions on our investment potential, creates no risks for our robust financial standing, and provides for the optimal allocation of capital. On top of that, it offers superior transparency.

As early as today, our Regulations on the Dividend Policy already make it possible to estimate the final dividend for 2020, which stands at 213 rubles per share. Taking into account the interim dividends paid to date, the total dividend estimate for 2020 is 259 rubles per share. For objective reasons this is below the 2019 dividend but still above what was paid out for 2018.

The Board of Directors will issue its recommendation on the final dividend in April.

Thank you! Now I would like to hand over to Pavel Zhdanov.

## **Pavel Zhdanov (Accounts)**

Thank you, Alexander! Let me focus on some of the metrics of our financial statements.

### ***Slide 41. Revenue***

Lower hydrocarbon prices became the key factor driving revenue 28% down year-on-year. Other factors contributing to the reduction included lower volumes of hydrocarbon production and petroleum product output, as well as a decline in trading volumes and retail sales. Our revenue was supported by the ruble devaluation.

### ***Slide 42. EBITDA***

EBITDA for 2020 came in at 687 billion rubles, down 44% year-on-year.

In the Upstream segment, lower EBITDA was the result of declining oil prices, the negative tax lag effect in Russia, as well as forced oil and gas production cuts in Russia and Uzbekistan, respectively.

The negative effect of these factors was partially offset by lower operating expenses, better production structure, and ruble devaluation.

Downstream EBITDA delivered a mixed performance. Refining results deteriorated significantly due to a lower margin and a strong negative inventory effect. We were able to somewhat mitigate these factors by flexibly optimizing throughput and product slate. International trading, on the opposite, delivered very strong results on the back of high price volatility. As a result, Downstream EBITDA outside Russia remained almost flat compared to 2019.

### ***Slide 43. Profit***

Unlike most of our competitors, we ended the challenging 2020 in a positive net profit territory.

Apart from the lower EBITDA, our profit was adversely impacted by non-cash FX effect, as well as an asset impairment loss attributable to the sharp deterioration in the market environment.

Let me say that most of the impairment relates to the assets in Uzbekistan and the ISAB refining facility in Italy, which was further impaired in the fourth quarter. ISAB write-offs were also recognized as part of the deferred income tax, resulting in a high effective income tax rate applicable to the Group as a whole.

***Slide 44. Well positioned for market recovery***

The financial performance for the second half of 2020 confirms that LUKOIL is perfectly positioned to get the most benefit from the market recovery.

We still maintain strong potential to ramp up production as demand rebounds and external restrictions are lifted. By developing our priority projects and further enhancing our production structure, we will be able to better capitalize on the recovery as a driver of our financial results.

Today, the refining margin remains extremely low, but it is bound to recover as the situation in the light product markets gets back to normal. An improved environment in the refining market will bolster financial performance of the Downstream segment, while the launch of new units and the associated enhancement of the product slate will amplify the positive impact from this recovery.

We will also continue emphasizing our efforts to improve efficiency and cost cutting.

***Slide 45. LUKOIL – a unique investment proposition in Oil&Gas***

Let me summarise the key strengths of our investment case.

LUKOIL combines the best features of both Russian and international oil companies.

Our benefits include low costs, strong investment discipline, clear focus on efficiencies, effective capital distribution policy, high level of disclosure, and strong corporate governance standards.

We prioritize adherence to sustainability principles and ability to successfully manage climate change risks and opportunities.

We rely on a major resource base of superior quality and best in class refining facilities. On top of that, we aim to grow organically with a focus on Russia.

Our key goal is to deliver value to our shareholders.

The Company's performance in 2020 has once again confirmed its strong resilience to external shocks as a result of an effective business model with extensive vertical integration, combined with natural hedges, low leverage, and flexible financial policy.

*Slide 46. 2021 outlook*

In conclusion, let me turn to our plans for 2021.

Our base-case plan is to grow hydrocarbon production by 2% excluding the West Qurna-2 project assuming that the current limitations on oil production in Russia remain unchanged.

We will continue flexibly adjusting the utilization of our refineries depending on the market environment, which we, however, expect to improve, with a resulting increase in our refining volumes. In 2021, we intend to launch two new units, both at the Nizhny Novgorod refinery.

Our base-case plan for capital expenditures is around 450 billion rubles excluding West Qurna-2. We maintain a flexible approach to our investment program and this plan can be adjusted upwards if the market environment is sustainably favourable.

This year, as Mr. Alekperov has already said, we will be updating our strategy. This indeed is going to be an update as we see no need for a fundamental transformation of our strategy and key priorities. We plan to present our updated strategy next spring.

Thank you!