



PJSC LUKOIL

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

**for the three-month periods ended
30 September and 30 June 2019
and the nine-month periods ended
30 September 2019 and 2018**

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 30 September 2019 and the results of its operations for the three-month periods ended 30 September and 30 June 2019 and the nine-month periods ended 30 September 2019 and 2018, 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 15.9 billion BOE at 1 January 2019 and comprised of 12.1 billion barrels of crude oil and 23.1 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and natural 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 nine months of 2019 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 nine months of 2019 amounted to 1.4 million barrels per day, and we produced 0.9 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 18 countries. Most of our retail networks are located close to our refineries. Our retail sales in the nine months of 2019 amounted to 10.6 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 nine months of 2019, our total output of electrical energy was 13.4 billion kWh.

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

Key financial and operational results

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
(millions of rubles)						
Sales	1,952,322	2,125,552	(8.1)	5,928,807	5,992,672	(1.1)
EBITDA ¹ , including	327,805	332,170	(1.3)	958,032	836,485	14.5
Exploration and production segment.....	211,958	235,074	(9.8)	682,164	680,248	0.3
Refining, marketing and distribution segment	116,380	93,167	24.9	289,485	200,658	44.3
EBITDA ¹ net of West Qurna-2 project.....	321,126	324,376	(1.0)	938,447	815,309	15.1
Profit for the period attributable to LUKOIL shareholders.....	190,387	181,245	5.0	520,868	460,147	13.2
Capital expenditures	109,062	107,555	1.4	314,038	338,260	(7.2)
Free cash flow ²	208,859	162,363	28.6	517,125	342,880	50.8
Free cash flow before changes in working capital	196,063	189,466	3.5	568,866	450,665	26.2
(thousand BOE per day)						
Production of hydrocarbons, including our share in equity affiliates	2,339	2,355	(0.7)	2,367	2,332	1.5
crude oil and natural gas liquids.....	1,811	1,813	(0.1)	1,815	1,801	0.8
gas	528	542	(2.6)	552	531	4.0
Refinery throughput at the Group refineries	1,454	1,355	7.3	1,389	1,351	2.8

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

² Cash flow from operating activities less capital expenditures.

Compared to the second quarter of 2019, our results were negatively affected by a decrease in hydrocarbon prices and negative export duty and mineral extraction tax lag effects, that was almost offset by an increase in refining margins and throughput volumes, both in and outside Russia, and higher international hydrocarbon production volumes.

Compared to the nine months of 2018, our results improved due to growth in volumes of production of crude oil in Russia and gas outside Russia, an increase in share of high-margin volumes in our domestic crude oil production structure, the effect of the ruble devaluation, an implementation of a tax on additional income from the hydrocarbon production at certain fields in Russia, as well as better profitability of our retail and trading businesses. Our results dynamics was negatively affected by a decrease in international hydrocarbon prices and European refining margins, as well as lower positive export duty and mineral extraction tax lag effects.

From 1 January 2019, the Company adopted IFRS 16 “Leases” that had a positive impact on our EBITDA in the nine months of 2019 in the amount of 26.5 billion RUB, on our profit for the period in the amount of 3.4 billion RUB, and on our free cash flow in the amount of 35.0 billion RUB.

Our EBITDA amounted to 328 billion RUB in the third quarter of 2019, a decrease of 1.3% to the second quarter of 2019, and amounted to 958 billion RUB in the nine months of 2019, an increase of 14.5% to the nine months of 2018.

Our depreciation, depletion and amortization expenses increased compared to the nine months of 2018 mainly as a result of the adoption of IFRS 16 “Leases,” as well as due to an increase in gas production.

In the third quarter of 2019, profit attributable to LUKOIL shareholders amounted to 190 billion RUB, an increase of 5.0% to the second quarter of 2019. In the nine months of 2019, profit attributable to LUKOIL shareholders amounted to 521 billion RUB, an increase of 13.2% to the nine months of 2018.

Our capital expenditures increased by 2 billion RUB, or by 1.4%, compared to the second quarter of 2019, and decreased by 24 billion RUB, or by 7.2%, compared to the nine months of 2018. The year-on-year decrease was due to completion of major development stages at our upstream projects in Uzbekistan and on the Russian Caspian offshore.

Our free cash flow amounted to 209 billion RUB in the third quarter of 2019, an increase of 28.6% compared to the second quarter of 2019, and amounted to 517 billion RUB in the nine months of 2019, an increase of 50.8% to the nine months of 2018. An increase to the second quarter of 2019 was mainly a result of changes in working capital and an increase to the nine months of 2018 was a result of an increase in profitability of our core operations and changes in working capital.

The Group’s average daily hydrocarbon production decreased by 0.7% compared to the second quarter of 2019 mainly due to a decrease in gas production volumes in Russia, and increased by 1.5% compared to the nine months of 2018, driven primarily by growth in gas production volumes in Uzbekistan and Azerbaijan, as well as oil production growth in Russia due to change in terms of the external limitations of Russian companies’ production volumes.

In the third quarter and the nine months of 2019, throughput at our refineries increased by 7.3% compared to the second quarter of 2019 and by 2.8% compared to the nine months of 2018.

Changes in accounting policies

The Group adopted IFRS 16 “Leases” (“IFRS 16”) from 1 January 2019, which introduced a single, on-balance sheet lease accounting model for lessees. Under IFRS 16, a contract is, or contains, a lease if it conveys a right to control the use of an identified asset for a period of time in exchange for consideration. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items.

The Group applied IFRS 16 using the modified retrospective approach by one-off recognition of non-current assets and financial liabilities of 162 billion RUB at 1 January 2019 measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Primarily the Group leases such assets as transport (vessels, tank cars), land, drilling rigs and other equipment, storage facilities. The lease typically runs for a period of 3–5 years. Some leases include an option to renew the lease for additional period after the end of the non-cancellable period. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal option. Moreover, in determining the lease term the Group also took into account economic factors, which influence asset usage duration in its activity.

The nature of expenses related to new assets and liabilities recognized for operating leases will now change because the Group will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously the Group recognized lease expenses on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

Adoption of IFRS 16 in the nine months of 2019 had the following effects on the Group's financial statements.

Our operating, transportation and selling, general and administrative expenses decreased by 4.4 billion RUB, 15.4 billion RUB and 6.6 billion RUB, respectively. Our depreciation expenses, finance costs and income tax expenses increased by 23.6 billion RUB, 5.2 billion RUB and 0.3 billion RUB, respectively. The Group also recognized a foreign exchange gain of 5.9 billion RUB related to certain lease liabilities in foreign currencies. As a result, our EBITDA increased by 26.5 billion RUB, our profit for the period attributable to LUKOIL shareholders increased by 3.4 billion RUB and our free cash flow increased by 35.0 billion RUB.

At the same time, our debt at 30 September 2019 increased by 134.9 billion RUB.

Changes in Group structure

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 \$768 million was closed after all the customary conditions, including approval by the government of the Republic of Congo, were fulfilled.

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 (ADNOC) for approximately \$190 million.

Main macroeconomic factors affecting our results of operations

International crude oil and refined products prices

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

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

In the nine months of 2019, the price for Brent crude oil fluctuated between \$53 and \$75 per barrel, reached its maximum of \$74.7 in the middle of May and its minimum of \$53.2 in early January. Average price expressed in US dollars decreased by 10.3% compared to the second quarter of 2019, and decreased by 10.4% compared to the nine months of 2018.

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

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
(US dollars per BOE)						
Brent crude	61.83	68.94	(10.3)	64.60	72.13	(10.4)
Urals crude (CIF Mediterranean)	61.68	68.29	(9.7)	64.43	70.79	(9.0)
Urals crude (CIF Rotterdam).....	60.67	67.75	(10.4)	63.74	70.50	(9.6)
(US dollars per tonne)						
Diesel fuel 10 ppm (FOB Rotterdam)	578.68	610.38	(5.2)	592.18	639.47	(7.4)
High-octane gasoline (FOB Rotterdam)	622.61	684.09	(9.0)	618.63	697.13	(11.3)
Naphtha (FOB Rotterdam)	471.83	524.53	(10.0)	496.07	617.05	(19.6)
Jet fuel (FOB Rotterdam)	626.15	646.47	(3.1)	631.07	686.99	(8.1)
Vacuum gas oil (FOB Rotterdam).....	439.90	490.82	(10.4)	452.31	496.49	(8.9)
Fuel oil 3.5% (FOB Rotterdam)	330.41	387.74	(14.8)	364.63	393.33	(7.3)

Source: Platts.

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
(rubles per BOE)						
Brent crude	3,992	4,451	(10.3)	4,204	4,431	(5.1)
Urals crude (CIF Mediterranean)	3,983	4,408	(9.6)	4,193	4,349	(3.6)
Urals crude (CIF Rotterdam).....	3,917	4,374	(10.4)	4,148	4,331	(4.2)
(rubles per tonne)						
Diesel fuel 10 ppm (FOB Rotterdam)	37,364	39,405	(5.2)	38,538	39,287	(1.9)
High-octane gasoline (FOB Rotterdam)	40,201	44,164	(9.0)	40,260	42,829	(6.0)
Naphtha (FOB Rotterdam)	30,465	33,863	(10.0)	32,284	37,909	(14.8)
Jet fuel (FOB Rotterdam)	40,430	41,735	(3.1)	41,069	42,206	(2.7)
Vacuum gas oil (FOB Rotterdam).....	28,404	31,686	(10.4)	29,436	30,502	(3.5)
Fuel oil 3.5% (FOB Rotterdam)	21,334	25,032	(14.8)	23,730	24,164	(1.8)

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.

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
(rubles per tonne)						
Diesel fuel	40,713	40,092	1.5	40,199	40,395	(0.5)
High-octane gasoline (Regular).....	39,472	39,046	1.1	38,161	39,668	(3.8)
High-octane gasoline (Premium).....	43,146	41,886	3.0	41,341	40,743	1.5
Fuel oil	15,063	16,855	(10.6)	15,977	15,275	4.6

Source: InfoTEK (excluding VAT).

Changes in ruble exchange rate and inflation

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

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

	Q3 2019	Q2 2019	9 months of	
			2019	2018
Ruble inflation (CPI), %	(0.2)	0.7	2.3	2.5
Ruble to US dollar exchange rate				
Average for the period	64.6	64.6	65.1	61.4
At the beginning of the period	63.1	64.7	69.5	57.6
At the end of the period	64.4	63.1	64.4	65.6
Ruble to euro exchange rate				
Average for the period	71.8	72.5	73.2	73.3
At the beginning of the period	71.8	72.7	79.5	68.9
At the end of the period	70.3	71.8	70.3	76.2

Source: CBR, Federal State Statistics Service.

Taxation

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

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(US dollars per tonne)					
Mineral extraction tax ¹	192.12	219.46	(12.5)	202.42	202.50	-
Export duty on crude oil	95.08	104.14	(8.7)	95.49	124.17	(23.1)

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

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(rubles per tonne)					
Mineral extraction tax	12,405	14,168	(12.4)	13,173	12,441	5.9
Export duty on crude oil ¹	6,139	6,723	(8.7)	6,214	7,628	(18.6)

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

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

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

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

Excise tax rates on motor fuels in Russia also increased from 1 January 2019 after a temporary reduction in June–December 2018.

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.

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

	2018	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	357	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

From 2020, a new variable Damper Factor will be added to the formula in addition to the fixed factors.

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, our Pyakyakhinskoye field located in the Yamal-Nenets Autonomous region of West Siberia (starting from 2019, the field is subject to a tax on additional income from hydrocarbon production), 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.N. 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 at \$50 per barrel Urals price.

	Mineral extraction tax	Export duty (in US dollars per barrel)	Total	As % of oil price
Under 2019 tax formulas				
Standard	20.2	9.6	29.8	59.6
Yaregskoye field	0.7	0.9	1.6	3.3
Yu. Korchagin field	8.0	0.0	8.0	16.0
V. Filanovsky field	7.5	0.0	7.5	15.0
Usinskoye (Permian layers)	9.9	9.6	19.5	39.0
V. Vinogradov and Imilorskoe fields	12.0	9.6	21.6	43.1
Fields with depletion above 80%	13.0–20.2	9.6	22.6–29.8	45.2–59.6
New fields with reserves below 5 million tonnes	13.8–20.2	9.6	23.4–29.8	46.7–59.6
Tyumen deposits	18.1	9.6	27.7	55.5

Tax on additional income. Starting from 2019, a tax on additional income from the hydrocarbon 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 with total crude oil production of 1,337 thousand tonnes in the nine months of 2019. In Group 3, LUKOIL has eight license areas with brownfields in West Siberia with total crude oil production of 2,136 thousand tonnes in the nine months of 2019. In Group 4, LUKOIL has two license areas with greenfields in traditional regions (West Siberia) with total crude oil production of 27 thousand tonnes in the nine months of 2019.

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

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

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

	2018	2019	2020	2021	2022	2023	2024 and further
Adjusting factor	-	0.833	0.667	0.5	0.333	0.167	0

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

	Q3 2019	Q2 2019	Change, %	9 months of 2019	2018	Change, %
	(US dollars per barrel)					
Urals price (Argus)	61.26	68.46	(10.5)	64.30	70.62	(8.9)
Export duty on crude oil	13.02	14.27	(8.8)	13.08	17.01	(23.1)
Mineral extraction tax on crude oil	26.32	30.06	(12.4)	27.73	27.74	-
Net Urals price ¹	21.92	24.13	(9.2)	23.49	25.87	(9.2)
Export duty lag effect	(0.64)	(0.08)	-	0.06	0.67	(91.0)
Mineral extraction tax lag effect	(0.11)	(0.01)	-	0.01	-	-
Net Urals price ¹ assuming no lag	22.67	24.22	(6.4)	23.42	25.20	(7.1)
	(rubles per barrel) ²					
Urals price (Argus)	3,955	4,420	(10.5)	4,185	4,339	(3.5)
Export duty on crude oil	841	921	(8.7)	851	1,045	(18.6)
Mineral extraction tax on crude oil	1,699	1,941	(12.5)	1,805	1,704	5.9
Net Urals price ¹	1,415	1,558	(9.2)	1,529	1,590	(3.8)
Export duty lag effect	(41)	(5)	-	4	41	(90.2)
Mineral extraction tax lag effect	(7)	(1)	-	1	-	-
Net Urals price ¹ assuming no lag	1,463	1,564	(6.5)	1,524	1,549	(1.6)

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

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

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

	Q3 2019	Q2 2019	Change, %	9 months of 2019	2018	Change, %
	(US dollars per tonne) ¹					
Nakhodkinskoye field	5.54	5.47	1.4	5.44	4.93	10.3
Pyakyakhinskoye field	8.16	8.26	(1.1)	8.22	8.76	(6.2)

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

	Q3 2019	Q2 2019	Change, %	9 months of 2019	2018	Change, %
	(rubles per tonne)					
Nakhodkinskoye field	358	353	1.4	354	303	16.8
Pyakyakhinskoye field	527	533	(1.1)	535	538	(0.6)

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.

	2018 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.

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

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

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
(rubles per tonne)						
Gasoline						
Below Euro-5.....	13,100	13,100	-	13,100	13,100	-
Euro-5.....	12,314	12,314	-	12,314	9,872	24.7
Diesel fuel						
All ecological classes.....	8,541	8,541	-	8,541	6,771	26.1
Motor oils.....	5,400	5,400	-	5,400	5,400	-
Middle distillates.....	9,241	9,241	-	9,241	7,770	18.9
Straight-run gasoline.....	13,912	13,912	-	13,912	13,100	6.2

Established excise tax rates starting from 2018 are listed below.

	1 January to 31 May 2018	1 June to 31 December 2018	2019	2020	2021	2022
(rubles per tonne)						
Gasoline						
Below Euro-5.....	13,100	13,100	13,100	13,100	13,624	14,169
Euro-5.....	11,213	8,213	12,314	12,752	13,262	13,793
Diesel fuel						
All ecological classes.....	7,665	5,665	8,541	8,835	9,188	9,556
Motor oils.....	5,400	5,400	5,400	5,616	5,841	6,075
Middle distillates.....	8,662	6,665	9,241	variable rate	variable rate	variable rate
Straight-run gasoline.....	13,100	13,100	13,912	14,720	15,533	16,345

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:

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
	(US dollars per tonne) ¹					
Gasoline	80.64	107.19	(24.8)	59.64	-	-
Diesel fuel	65.70	83.94	(21.7)	75.68	-	-

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

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
	(rubles per tonne)					
Gasoline	5,207	6,920	(24.8)	3,881	-	-
Diesel fuel	4,242	5,419	(21.7)	4,925	-	-

Income tax. Operations in the Russian Federation are subject to a 20% income tax rate. For the period from 2017 till 2024 (inclusive) a Federal income tax rate is set as 3.0% and a regional income tax rate varies from 12.5% to 17.0% at the discretion of the individual regional administration. Legislation sets certain restrictions on the application of the reduced regional rates.

The Company and its Russian subsidiaries file income tax returns in Russia. A number of Group companies in Russia are paying income tax as a consolidated taxpayers' group ("CTG"). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG.

The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

Transportation tariffs on crude oil, natural gas and refined products in Russia

Many of our production assets are located relatively far from our customers. As a result, transportation tariffs are an important factor affecting our profitability.

Crude oil produced at our fields in Russia is transported to refineries and exported primarily through the trunk oil pipeline system of the state-owned company, Transneft. In some cases, crude oil is also shipped via railway infrastructure of the state-owned company, Russian Railways.

Refined products produced at our Russian refineries are transported primarily by railway (Russian Railways) and the pipeline system of Transneftproduct, 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.

	3 rd quarter of 2019 to 2 nd quarter of 2019	9 months of 2019 to 9 months of 2018
Transneft (crude oil).....	0.0%	3.9%
Russian Railways (crude oil and refined products)	0.0%	3.5%

The tariffs for transportation of crude oil and refined products were increased on 1 January 2019. Tariffs for crude oil export through the trunk oil pipeline system grew by 3.9%. Tariffs for crude oil and refined products transportation via railway infrastructure increased by 3.5%, while tariffs for transportation of refined products by pipeline changed for the Groups' refineries in a range from 3.6% to 3.8%.

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. 7, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. We present the financial data for each segment in Note 28 “Segment information” to our condensed interim consolidated financial statements.

Exploration and production

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

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(millions of rubles)					
EBITDA	211,958	235,074	(9.8)	682,164	680,248	0.3
in Russia.....	169,844	193,730	(12.3)	555,969	568,495	(2.2)
outside Russia and Iraq	35,435	33,550	5.6	106,610	90,577	17.7
in Iraq.....	6,679	7,794	(14.3)	19,585	21,176	(7.5)
Hydrocarbon extraction expenses.....	53,428	52,843	1.1	156,857	157,451	(0.4)
in Russia.....	42,970	43,092	(0.3)	127,305	130,182	(2.2)
outside Russia and Iraq	6,607	5,482	20.5	16,675	14,690	13.5
in Iraq.....	3,851	4,269	(9.8)	12,877	12,579	2.4
	(rubles per BOE)					
Hydrocarbon extraction expenses (excluding Iraq) ...	240	236	1.6	232	237	(2.2)
in Russia.....	239	240	(0.5)	237	243	(2.6)
outside Russia and Iraq	247	208	18.8	200	193	3.6
	(US dollars per BOE)					
Hydrocarbon extraction expenses (excluding Iraq) ...	3.71	3.65	1.7	3.56	3.87	(8.0)
in Russia.....	3.70	3.72	(0.6)	3.64	3.97	(8.4)
outside Russia and Iraq	3.83	3.22	18.8	3.07	3.14	(2.2)

Our upstream EBITDA decreased by 9.8% compared to the second quarter of 2019. In Russia, that was mainly a result of a decrease in hydrocarbon prices and higher negative export duty and mineral extraction tax lag effects. Outside Russia, our upstream EBITDA increased following an increase in hydrocarbon production volumes.

Compared to the nine months of 2018, our upstream EBITDA increased by 0.3% despite a decrease in crude oil prices. In Russia, this decrease in prices was partially offset by bigger share of high-margin volumes in our production structure, an implementation of a tax on additional income from the hydrocarbon production at certain license areas and the ruble devaluation. At the same time, our domestic upstream EBITDA dynamics was restrained by adverse change in export duty and mineral extraction tax lag effects, compared to the nine months of 2018. Outside Russia, our upstream EBITDA was positively impacted by an increase in gas production volumes, gas prices in Uzbekistan and the ruble devaluation.

The decrease in EBITDA of the West Qurna-2 project in Iraq compared to the second quarter of 2019 and the nine months of 2018 was as a result of lower amount of capital expenditures compensation.

In the nine months of 2019, our upstream EBITDA was also positively affected by the effect of IFRS 16 adoption, which resulted in lower operating expenses.

The following table summarizes our hydrocarbon production by major regions.

	Q3 2019	Q2 2019	Change, %	9 months of 2019	2018	Change, %
	(thousand BOE per day)					
Crude oil and natural gas liquids						
Consolidated subsidiaries						
West Siberia	768	765	0.4	767	774	(0.9)
Timan-Pechora	320	318	0.6	319	317	0.6
Ural region	334	334	-	334	326	2.5
Volga region.....	228	238	(4.2)	235	225	4.4
Other in Russia.....	31	31	-	32	31	3.2
Total in Russia.....	1,681	1,686	(0.3)	1,687	1,673	0.8
Iraq ¹	31	31	-	30	31	(3.2)
Other outside Russia	49	46	6.5	48	47	2.1
Total outside Russia.....	80	77	3.9	78	78	-
Total consolidated subsidiaries.....	1,761	1,763	(0.1)	1,765	1,751	0.8
Our share in equity affiliates						
in Russia.....	13	13	-	13	13	-
outside Russia	37	37	-	37	37	-
Total share in equity affiliates	50	50	-	50	50	-
Total crude oil and natural gas liquids.....	1,811	1,813	(0.1)	1,815	1,801	0.8
Natural and petroleum gas²						
Consolidated subsidiaries						
West Siberia.....	196	203	(3.4)	200	212	(5.7)
Timan-Pechora	33	33	-	33	33	-
Ural region.....	23	21	9.5	23	15	53.3
Volga region	23	29	(20.7)	27	27	-
Other in Russia	0	0	-	0	0	-
Total in Russia	275	286	(3.8)	283	287	(1.4)
Uzbekistan	206	207	(0.5)	221	204	8.3
Other outside Russia.....	36	37	(2.7)	37	28	32.1
Total outside Russia	242	244	(0.8)	258	232	11.2
Total consolidated subsidiaries.....	517	530	(2.5)	541	519	4.2
Share in equity affiliates						
in Russia.....	1	2	(6.3)	1	2	(28.5)
outside Russia	10	10	(2.3)	10	10	4.0
Total share in production of equity affiliates....	11	12	(7.7)	11	12	(8.3)
Total natural and petroleum gas.....	528	542	(2.6)	552	531	4.0
Total daily hydrocarbon production.....	2,339	2,355	(0.7)	2,367	2,332	1.5
Including natural gas liquids produced at the gas processing plants	41	46	(12.6)	44	42	5.7

¹ Compensation crude oil related to the Group.

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

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

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(thousands of tonnes)					
West Siberia	9,366	9,213	1.7	27,738	28,025	(1.0)
Timan-Pechora	4,088	4,018	1.7	12,094	12,005	0.7
Ural region	3,933	3,845	2.3	11,598	11,359	2.1
Volga region.....	2,737	2,818	(2.9)	8,377	8,066	3.9
Other in Russia.....	428	410	4.4	1,226	1,194	2.7
Crude oil produced in Russia	20,552	20,304	1.2	61,033	60,649	0.6
Iraq ¹	417	410	1.7	1,192	1,238	(3.7)
Other outside Russia.....	508	476	6.7	1,468	1,404	4.6
Crude oil produced outside Russia	925	886	4.4	2,660	2,642	0.7
Total crude oil produced by consolidated subsidiaries.....	21,477	21,190	1.4	63,693	63,291	0.6
Our share in crude oil produced by equity affiliates:						
in Russia.....	152	155	(1.9)	458	474	(3.4)
outside Russia.....	428	418	2.4	1,279	1,251	2.2
Total crude oil produced.....	22,057	21,763	1.4	65,430	65,016	0.6

¹ Compensation crude oil related to the Group.

Our main oil producing region is West Siberia where we produced 43.6% of our crude oil in the third quarter of 2019 and 43.5% in the nine months of 2019 (43.5% in the second quarter of 2019, 44.3% in the nine months of 2018).

The dynamics of our crude oil production volumes was 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. During the first half of 2018, our production was limited in accordance with the first OPEC+ agreement valid until the end of June 2018. We increased our production in July 2018, when the parameters of the agreement were amended. 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. The Group limited production in our traditional regions (West Siberia, Timan-Pechora, Ural) at the least-productive fields and fields with high water-cuts.

The active development of the priority projects was on track. We produced 4,751 thousand tonnes of crude oil at the V. Filanovsky field in the nine months of 2019, an increase of 7%, compared to the nine months of 2018. In October 2019, production started at the third production platform of this field.

In the nine months of 2019, crude oil production at the Yu. Korchagin field increased by 22% year-on-year as a result of drilling programme at the field's second development stage.

The development of the Yaregskoye field and the Permian layers of our Usinskoye field in Timan-Pechora, including the launch of new steam-generating facilities, led to an increase in the high viscosity crude oil production to 3.7 million tonnes, or by 18%, compared to the nine months of 2018.

The development of growth projects in West Siberia also continued. The aggregate crude oil and gas condensate production at the V. Vinogradov, Imilorskoye and Pyakyakhinskoye fields for the nine months of 2019 increased by 17% year-on-year.

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

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
	(millions of cubic meters)					
West Siberia	3,070	3,145	(2.4)	9,290	9,821	(5.4)
Timan-Pechora	509	503	1.2	1,531	1,542	(0.7)
Ural region	358	325	10.2	1,045	691	51.2
Volga region.....	362	447	(19.0)	1,232	1,254	(1.8)
Other in Russia.....	5	6	(16.7)	18	19	(5.3)
Gas produced in Russia	4,304	4,426	(2.8)	13,116	13,327	(1.6)
Uzbekistan.....	3,225	3,206	0.6	10,255	9,447	8.6
Other outside Russia.....	553	560	(1.3)	1,695	1,308	29.6
Gas produced outside Russia.....	3,778	3,766	0.3	11,950	10,755	11.1
Total gas produced by consolidated subsidiaries..	8,082	8,192	(1.3)	25,066	24,082	4.1
Our share in gas produced by equity affiliates:						
in Russia.....	22	23	(4.3)	66	72	(8.3)
outside Russia.....	158	161	(1.9)	482	484	(0.4)
Total gas produced.....	8,262	8,376	(1.4)	25,614	24,638	4.0

In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where gas is produced from the Nakhodkinskoe and Pyakyakhinskoe fields. Outside Russia, the main gas production region is Uzbekistan where we have shares in two PSAs. In the nine months of 2019, LUKOIL Group's gas production was 25.6 billion cubic meters, which was 4.0% higher year-on-year. The main driver of gas production growth was the development of projects in Uzbekistan and Azerbaijan. As a result of the launch of the second stage of the Kandym gas processing plant, our international gas production (including our share in affiliates' production) increased by 10.6%.

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.

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.

	Costs incurred ¹	Remunera- tion fee	Crude oil received	Crude oil to be received
	(millions of US dollars)			
Cumulative at 31 December 2018	8,597	424	8,681	340
Change in the nine months of 2019	434	92	398	128
Cumulative at 30 September 2019	9,031	516	9,079	468

¹ Including prepayments.

The West Qurna-2 project summary is presented below:

	Q3 2019		Q2 2019		Change, %	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production	37,127	5,428	36,185	5,291	2.6	2.6
Production related to cost compensation and remuneration	2,854	417	2,800	410	1.9	1.9
Shipment of compensation crude oil ¹	2,904	425	1,834	268	58.3	58.3
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation	8,553	133	10,081	156	(15.2)	(14.7)
Remuneration fee	2,066	32	2,076	32	(0.5)	-
	10,619	165	12,157	188	(12.7)	(12.2)
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) ¹	10,399	161	7,860	122	32.3	32.0
Extraction expenses	3,851	60	4,269	66	(9.8)	(9.1)
Depreciation, depletion and amortization	4,735	73	5,820	90	(18.6)	(18.9)
EBITDA	6,679	103	7,794	121	(14.3)	(14.9)

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

	9 months of				Change, %	
	2019		2018			
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production	105,586	15,437	103,284	15,100	2.2	2.2
Production related to cost compensation and remuneration	8,152	1,192	8,469	1,238	(3.7)	(3.7)
Shipment of compensation crude oil ¹	6,633	970	9,840	1,439	(32.6)	(32.6)
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation	26,759	412	26,116	425	2.5	(3.1)
Remuneration fee	5,988	92	7,574	121	(20.9)	(24.0)
	32,747	504	33,690	546	(2.8)	(7.7)
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) ¹	25,884	398	42,215	680	(38.7)	(41.5)
Extraction expenses	12,877	198	12,579	204	2.4	(2.9)
Depreciation, depletion and amortization	13,962	215	13,637	222	2.4	(3.2)
EBITDA	19,585	301	21,176	342	(7.5)	(12.0)

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

Refining, marketing and distribution

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

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
(millions of rubles)						
EBITDA	116,380	93,167	24.9	289,485	200,658	44.3
in Russia	87,693	67,972	29.0	229,552	154,312	48.8
outside Russia	28,687	25,195	13.9	59,933	46,346	29.3
Refining expenses at the Group refineries	24,942	23,461	6.3	71,907	75,991	(5.4)
in Russia	11,036	10,551	4.6	31,227	32,876	(5.0)
outside Russia	13,906	12,910	7.7	40,680	43,115	(5.6)
(rubles per tonne)						
Refining expenses at the Group refineries	1,367	1,395	(2.0)	1,390	1,510	(8.0)
in Russia	951	982	(3.2)	937	1,019	(8.0)
outside Russia	2,096	2,125	(1.4)	2,210	2,388	(7.5)
(US dollars per tonne)						
Refining expenses at the Group refineries	21.17	21.61	(2.0)	21.36	24.53	(12.9)
in Russia	14.72	15.21	(3.2)	14.40	16.53	(12.9)
outside Russia	32.45	32.92	(1.4)	33.95	38.84	(12.6)

Our refining, marketing and distribution EBITDA was 24.9% higher than in the second quarter of 2019.

In Russia, our refining, marketing and distribution EBITDA increased compared to the second quarter of 2019 owing largely to higher refining margins and throughput volumes at our refineries, as well as better product slate. Outside Russia, our refining, marketing and distribution EBITDA increased also mainly as a result of higher refining margins, throughput volumes and better profitability of retail business.

Our refining, marketing and distribution EBITDA was 44.3% higher than in the nine months of 2018.

Compared to the nine months of 2018, our refining, marketing and distribution EBITDA in Russia increased largely due to higher refining margins and throughput volumes, as well as better profitability of our retail business. Outside Russia, our downstream EBITDA increased due to higher trading margins, better product slate and the effect of the ruble devaluation despite lower benchmark refining margins.

Moreover, in the nine months of 2019, our refining, marketing and distribution EBITDA both in and outside Russia was positively affected by the effect of IFRS 16 adoption, which resulted in lower transportation expenses.

Refining and petrochemicals

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

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
	(thousands of tonnes)					
Refinery throughput at the Group refineries.....	18,246	16,823	8.5	51,737	50,314	2.8
in Russia	11,610	10,749	8.0	33,326	32,262	3.3
outside Russia, including	6,636	6,074	9.3	18,411	18,052	2.0
crude oil	6,208	5,554	11.8	16,986	15,726	8.0
refined products.....	428	520	(17.7)	1,425	2,326	(38.7)
Refinery throughput at third party refineries	1,742	1,643	6.0	4,973	4,913	1.2
Total refinery throughput.....	19,988	18,466	8.2	56,710	55,227	2.7
Production of the Group refineries in Russia¹	11,032	10,179	8.4	31,611	30,546	3.5
diesel fuel.....	4,339	3,836	13.1	12,336	12,069	2.2
motor gasoline	2,202	1,822	20.9	5,855	6,127	(4.4)
fuel oil.....	1,204	1,339	(10.1)	3,710	3,588	3.4
jet fuel.....	835	727	14.9	2,187	2,076	5.3
lubricants and components.....	261	212	23.1	721	692	4.2
straight-run gasoline	525	738	(28.9)	2,032	1,545	31.5
vacuum gas oil	-	44	(100.0)	281	574	(51.0)
bitumen	262	233	12.4	692	635	9.0
coke	276	224	23.2	780	821	(5.0)
bunker fuel.....	450	370	21.6	1,133	1,180	(4.0)
gas products	85	78	9.0	245	273	(10.3)
petrochemicals	98	92	6.5	289	258	12.0
other products	495	464	6.7	1,350	708	90.7
Production of the Group refineries outside						
Russia	6,209	5,848	6.2	17,400	16,939	2.7
diesel fuel.....	2,807	2,724	3.0	7,875	7,041	11.8
motor gasoline	1,384	1,256	10.2	3,756	3,369	11.5
fuel oil.....	464	738	(37.1)	1,648	2,075	(20.6)
jet fuel.....	351	269	30.5	874	931	(6.1)
straight-run gasoline	663	485	36.7	1,686	1,583	6.5
coke	25	27	(7.4)	84	153	(45.1)
gas products	164	181	(9.4)	444	379	17.2
petrochemicals	14	11	27.3	34	38	(10.5)
other products	337	157	114.6	999	1,370	(27.1)
Refined products produced by the Group.....	17,241	16,027	7.6	49,011	47,485	3.2
Refined products produced at third party refineries ..	1,641	1,553	5.7	4,698	4,821	(2.6)
Total refined products produced.....	18,882	17,580	7.4	53,709	52,306	2.7
Reference: Net of cross-supplies of refined products between the Group refineries.....	380	355	7.0	1,078	1,267	(14.9)
Products produced at petrochemical plants and facilities	263	334	(21.3)	884	988	(10.5)
in Russia	170	235	(27.7)	620	729	(15.0)
outside Russia.....	93	99	(6.1)	264	259	1.9

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

Compared to the second quarter of 2019, refinery throughput at the Group's refineries increased by 8.5%. In Russia, a quarter-on-quarter increase in throughput was due to scheduled maintenance works at the Perm refinery in the second quarter of 2019. Outside Russia, a quarter-on-quarter increase in throughput was driven by scheduled maintenance works at the refinery in the Netherlands in the second quarter of 2019, as well as by higher utilization rate of the refinery in Italy.

In the nine months of 2019, refinery throughput at the Group's refineries was 51.7 million tonnes, which is 2.8% higher year-on-year. In Russia, an increase of 3.3% was mainly due to higher utilization rate of the Nizhny Novgorod refinery. Outside Russia, the growth of 2.0% was explained by the maintenance at the refinery in Bulgaria in the first quarter of 2018.

In the periods considered, we processed our crude oil at third party refineries in Belarus, Kazakhstan and Canada. In 2016, a Group company entered into a tolling agreement originally valid through 2019 and subsequently prolonged till 31 August 2022 with a Canadian refinery. In the third quarter and the nine months of 2019, attributable refined products output amounted to 1.6 million tonnes and 4.6 million tonnes (1.5 million tonnes in the second quarter of 2019 and 4.7 million tonnes in the nine months of 2018).

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. We use traditional physical volumes hedging techniques to hedge our trading operations to secure trading margin.

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

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(thousands of tonnes)					
Crude oil purchases						
In Russia.....	171	188	(9.0)	527	635	(17.0)
For trading internationally.....	14,265	14,654	(2.7)	39,106	35,058	11.5
For refining internationally	5,922	5,132	15.4	17,442	16,782	3.9
Shipment of the West Qurna-2 compensation crude oil.....	425	268	58.6	970	1,439	(32.6)
Total crude oil purchased	20,783	20,242	2.7	58,045	53,914	7.7

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

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(thousands of tonnes)					
Refined products retail sales.....	3,772	3,515	7.3	10,609	11,239	(5.6)
Refined products wholesale sales	27,175	28,617	(5.0)	80,941	81,589	(0.8)
Total refined products sales.....	30,947	32,132	(3.7)	91,550	92,828	(1.4)
Refined products purchased in Russia.....	244	194	25.8	685	898	(23.7)
Refined products purchased internationally	13,057	13,768	(5.2)	40,041	41,235	(2.9)
Total refined products purchased	13,301	13,962	(4.7)	40,726	42,133	(3.3)
Petrochemical products purchased in Russia.....	8	10	(20.0)	27	24	12.5
Petrochemical products purchased internationally	216	287	(24.7)	869	388	124.0
Total petrochemical products purchased	224	297	(24.6)	896	412	117.5

Exports of crude oil, refined and petrochemical products from Russia by our subsidiaries and export revenues (both to the Group companies and third parties) are summarized as follows:

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
	(millions of rubles)					
Exports of crude oil to Customs Union	16,664	15,015	11.0	47,913	48,150	(0.5)
Exports of crude oil beyond Customs Union.....	233,913	273,520	(14.5)	751,856	780,517	(3.7)
Total crude oil exports	250,577	288,535	(13.2)	799,769	828,667	(3.5)
	(thousands of tonnes)					
Exports of crude oil to Customs Union	747	603	23.9	2,024	2,044	(1.0)
Exports of crude oil beyond Customs Union.....	8,457	8,836	(4.3)	25,607	25,206	1.6
Total crude oil exports	9,204	9,439	(2.5)	27,631	27,250	1.4
Exports of crude oil through Transneft and other third party infrastructure including:	7,011	7,220	(2.9)	20,995	20,770	1.1
ESPO pipeline.....	299	580	(48.4)	1,258	900	39.8
CPC pipeline.....	1,239	1,326	(6.6)	3,868	3,439	12.5
Exports of crude oil through the Group's transportation infrastructure	2,193	2,219	(1.2)	6,636	6,480	2.4
Total crude oil exports	9,204	9,439	(2.5)	27,631	27,250	1.4

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
	(millions of rubles)					
Refined and petrochemical products exports.....	151,543	145,329	4.3	473,403	441,012	7.3
	(thousands of tonnes)					
Refined products exports						
diesel fuel.....	2,669	2,243	19.0	7,681	7,581	1.3
gasoline.....	97	62	56.5	277	226	22.6
fuel oil.....	437	364	20.1	1,388	1,071	29.6
jet fuel.....	2	3	(33.3)	8	46	(82.6)
lubricants and components.....	161	144	11.8	466	458	1.7
gas refinery products.....	182	196	(7.1)	562	468	20.1
other products	1,127	1,086	3.8	3,567	2,240	59.2
Total refined products exports	4,675	4,098	14.1	13,949	12,090	15.4
Total petrochemicals exports.....	54	88	(38.6)	240	256	(6.3)

The volume of our crude oil exports from Russia decreased by 2.5% compared to the second quarter of 2019, and increased by 1.4% compared to the nine months of 2018. In the third quarter and the nine months of 2019, we exported 44.8% and 45.3% of our domestic crude oil production (46.5% in the second quarter of 2019 and 44.9% in the nine months of 2018) and 43 thousand tonnes and 117 thousand tonnes of crude oil purchased from our affiliates and third parties (73 thousand tonnes in the second quarter of 2019 and 142 thousand tonnes in the nine months of 2018), respectively.

The volume of our refined products exports increased by 14.1% compared to the second quarter of 2019 as a result of an increase in production volumes against the background of planned maintenance at our Perm refinery, and increased by 15.4% compared to the nine months of 2018 against the background of relatively low volumes of export in the nine months of 2018 due to high domestic demand for our products.

Substantially, we use the Transneft infrastructure to export our crude oil. Nevertheless, a sizeable amount of crude oil is exported through our own infrastructure which 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 third quarter and the nine months of 2019, we sold 2.7 million tonnes and 7.5 million tonnes of motor fuels via our domestic retail network, which was 8.3% more compared to the second quarter of 2019 due to seasonality factor, and 7.9% less compared to the nine months of 2018 due to high demand for our products in the previous year. Outside Russia, retail sales increased by 4.9% compared to the second quarter of 2019 due to seasonality factor, and increased by 0.3% compared to the nine months of 2018.

We also supply jet fuel to airports and bunker fuel to sea and river ports in and outside Russia. In the nine months of 2019, our deliveries of jet fuel into-plane were 1.9 million tonnes (including sales of our joint ventures), and bunkering volumes were 3.2 million tonnes.

Power generation. We established a vertically integrated chain from generation to transportation and sale of power and heat for third party customers (commercial generation) and own consumption. 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 third quarter and the nine months of 2019, our total output of commercial electrical energy was 4.2 billion kWh and 13.4 billion kWh (3.6 billion kWh in the second quarter of 2019 and 14.8 billion kWh in the nine months of 2018), and our total output of commercial heat energy was approximately 0.8 million Gcal and 6.7 million Gcal (1.3 million Gcal in the second quarter of 2019 and 7.4 million Gcal in the nine months of 2018), respectively.

Financial results

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

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
	(millions of rubles)					
Revenues						
Sales (including excise and export tariffs).....	1,952,322	2,125,552	(8.1)	5,928,807	5,992,672	(1.1)
Costs and other deductions						
Operating expenses	(119,286)	(113,690)	4.9	(342,145)	(344,698)	(0.7)
Cost of purchased crude oil, gas and products.....	(1,050,010)	(1,210,383)	(13.2)	(3,247,918)	(3,402,816)	(4.6)
Transportation expenses	(67,349)	(64,032)	5.2	(204,603)	(204,886)	(0.1)
Selling, general and administrative expenses	(45,638)	(48,987)	(6.8)	(144,198)	(141,929)	1.6
Depreciation, depletion and amortization.....	(104,504)	(105,730)	(1.2)	(314,064)	(291,183)	7.9
Taxes other than income taxes	(233,001)	(254,494)	(8.4)	(708,514)	(649,176)	9.1
Excise and export tariffs	(108,573)	(101,200)	7.3	(321,229)	(410,358)	(21.7)
Exploration expenses.....	(660)	(596)	10.7	(2,168)	(2,324)	(6.7)
Profit from operating activities	223,301	226,440	(1.4)	643,968	545,302	18.1
Finance income	6,944	6,075	14.3	19,003	13,294	42.9
Finance costs	(10,872)	(10,976)	(0.9)	(33,582)	(25,556)	31.4
Equity share in income of affiliates	5,496	4,942	11.2	16,618	18,181	(8.6)
Foreign exchange (loss) gain.....	(4,630)	3,607	(228.4)	878	32,177	(97.3)
Other income (expenses)	6,529	(6,360)	(202.7)	(3,803)	(10,643)	(64.3)
Profit before income taxes	226,768	223,728	1.4	643,082	572,755	12.3
Current income taxes.....	(36,954)	(40,675)	(9.1)	(119,010)	(104,253)	14.2
Deferred income taxes.....	1,073	(1,252)	(185.7)	(1,594)	(6,620)	(75.9)
Total income tax expense	(35,881)	(41,927)	(14.4)	(120,604)	(110,873)	8.8
Profit for the period	190,887	181,801	5.0	522,478	461,882	13.1
Profit for the period attributable to non-controlling interests	(500)	(556)	(10.1)	(1,610)	(1,735)	(7.2)
Profit for the period attributable to PJSC LUKOIL shareholders						
LUKOIL shareholders	190,387	181,245	5.0	520,868	460,147	13.2
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):						
Basic	294.10	268.96	9.3	776.42	648.48	19.7
Diluted	285.01	261.30	9.1	754.92	643.85	17.3

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

Sales revenues

Sales breakdown	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(millions of rubles)					
Crude oil						
Export and sales on international markets other than Customs Union	627,510	722,518	(13.1)	1,931,556	1,926,164	0.3
Export and sales to Customs Union	16,897	15,191	11.2	48,669	48,222	0.9
Domestic sales	1,115	4,093	(72.8)	14,713	38,667	(61.9)
	645,522	741,802	(13.0)	1,994,938	2,013,053	(0.9)
Cost compensation and remuneration at the West Qurna-2 project	10,619	12,157	(12.7)	32,747	33,690	(2.8)
	656,141	753,959	(13.0)	2,027,685	2,046,743	(0.9)
Refined products¹						
Export and sales on international markets						
Wholesale.....	840,030	938,894	(10.5)	2,592,385	2,696,640	(3.9)
Retail.....	90,417	88,262	2.4	260,813	256,056	1.9
Domestic sales						
Wholesale.....	122,877	116,445	5.5	335,071	320,911	4.4
Retail.....	129,894	118,393	9.7	359,708	364,656	(1.4)
	1,183,218	1,261,994	(6.2)	3,547,977	3,638,263	(2.5)
Petrochemicals						
Export and sales on international markets	20,863	24,530	(14.9)	76,772	46,353	65.6
Domestic sales	10,379	11,509	(9.8)	32,832	33,993	(3.4)
	31,242	36,039	(13.3)	109,604	80,346	36.4
Gas						
Sales on international markets	32,790	30,985	5.8	102,004	82,513	23.6
Domestic sales	7,685	8,159	(5.8)	23,809	24,872	(4.3)
	40,475	39,144	3.4	125,813	107,385	17.2
Sales of energy and related services						
Sales on international markets	4,451	3,125	42.4	11,652	11,778	(1.1)
Domestic sales	10,483	10,462	0.2	38,833	38,735	0.3
	14,934	13,587	9.9	50,485	50,513	(0.1)
Other						
Export and sales on international markets	14,908	10,032	48.6	35,125	34,912	0.6
Domestic sales	11,404	10,797	5.6	32,118	34,510	(6.9)
	26,312	20,829	26.3	67,243	69,422	(3.1)
Total sales	1,952,322	2,125,552	(8.1)	5,928,807	5,992,672	(1.1)

¹ Including revenue from gas refined products sales.

Sales volumes	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
(thousands of tonnes)						
Crude oil						
Export and sales on international markets other than Customs Union	21,125	22,388	(5.6)	62,493	59,626	4.8
Export and sales to Customs Union	758	609	24.5	2,051	2,062	(0.5)
Domestic sales	52	154	(66.2)	599	1,707	(64.9)
	21,935	23,151	(5.3)	65,143	63,395	2.8
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project	417	410	1.7	1,192	1,238	(3.7)
	22,352	23,561	(5.1)	66,335	64,633	2.6
Refined products ¹						
Export and sales on international markets						
Wholesale	23,172	24,871	(6.8)	69,970	70,553	(0.8)
Retail	1,106	1,054	4.9	3,148	3,140	0.3
Domestic sales						
Wholesale	4,003	3,746	6.9	10,971	11,036	(0.6)
Retail	2,666	2,461	8.3	7,461	8,099	(7.9)
	30,947	32,132	(3.7)	91,550	92,828	(1.4)
Petrochemicals						
Export and sales on international markets	384	403	(4.7)	1,271	712	78.5
Domestic sales	184	195	(5.6)	553	580	(4.7)
	568	598	(5.0)	1,824	1,292	41.2
(millions of cubic meters)						
Gas						
Sales on international markets	3,717	3,538	5.1	11,397	10,121	12.6
Domestic sales	3,079	3,281	(6.2)	9,553	10,336	(7.6)
	6,796	6,819	(0.3)	20,950	20,457	2.4

¹ Including volumes of gas refined products sales.

Realized average sales prices		Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
Average realized price on international markets							
Crude oil (beyond Customs Union) ¹ ..	(RUB/barrel)	4,052	4,403	(8.0)	4,217	4,407	(4.3)
Crude oil (Customs Union)	(RUB/barrel)	3,041	3,403	(10.6)	3,237	3,191	1.4
Refined products							
Wholesale	(RUB/tonne)	36,252	37,751	(4.0)	37,050	38,221	(3.1)
Retail	(RUB/tonne)	81,751	83,740	(2.4)	82,850	81,546	1.6
Petrochemicals	(RUB/tonne)	54,331	60,868	(10.7)	60,403	65,103	(7.2)
Gas (excluding royalty)	(RUB/1,000 m ³)	8,822	8,758	0.7	8,950	8,153	9.8
Crude oil (beyond Customs Union) ¹ ..	(\$/barrel)	62.76	68.20	(8.0)	64.79	71.74	(9.7)
Crude oil (Customs Union)	(\$/barrel)	47.10	52.71	(10.6)	49.74	51.94	(4.2)
Refined products							
Wholesale	(\$/tonne)	561	585	(4.0)	569	622	(8.5)
Retail	(\$/tonne)	1,266	1,297	(2.4)	1,273	1,327	(4.1)
Petrochemicals	(\$/tonne)	841	943	(10.8)	928	1,060	(12.4)
Gas (excluding royalty)	(\$/1,000 m ³)	137	136	0.7	138	133	3.6
Average realized price within Russia							
Crude oil	(RUB/barrel)	2,925	3,626	(19.3)	3,351	3,090	8.4
Refined products							
Wholesale	(RUB/tonne)	30,696	31,085	(1.3)	30,542	29,079	5.0
Retail	(RUB/tonne)	48,722	48,108	1.3	48,212	45,025	7.1
Petrochemicals	(RUB/tonne)	56,408	59,021	(4.4)	59,371	58,609	1.3
Gas ²	(RUB/1,000 m ³)	2,496	2,487	0.4	2,492	2,406	3.6

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

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

Compared to the second quarter of 2019, our revenues decreased by 8.1% driven mainly by a decrease in hydrocarbon prices and crude oil and refined products trading volumes.

Compared to the nine months of 2018, our revenues decreased by 1.1%, largely as a result of a decrease in hydrocarbon prices and refined products trading volumes, that was partially offset by the effect of the ruble devaluation on our revenues denominated in the US dollars, as well as higher crude oil trading volumes.

Sales of crude oil

Compared to the second quarter of 2019, our international crude oil sales revenue decreased by 13.1%, mainly due to a decrease in international hydrocarbon prices and our trading volumes (beyond the Customs Union). In the third quarter of 2019, our sales volumes in Russia more than halved and our domestic sales revenue decreased consequently.

In the nine months of 2019, our international crude oil sales revenue didn't change compared to the nine months of 2018. A decrease in crude oil prices was offset by an increase in trading volumes. At the same time, our domestic sales volumes more than halved, and our sales revenue decreased consequently.

Sales of refined products

Sales breakdown	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(millions of rubles)					
Wholesale outside Russia	840,030	938,894	(10.5)	2,592,385	2,696,640	(3.9)
diesel fuel.....	401,518	430,841	(6.8)	1,238,797	1,172,778	5.6
motor gasoline.....	175,469	187,105	(6.2)	487,923	581,330	(16.1)
fuel oil.....	118,781	155,183	(23.5)	387,341	382,212	1.3
jet fuel.....	31,040	26,976	15.1	88,390	92,866	(4.8)
lubricants and components.....	16,330	12,962	26.0	50,496	53,476	(5.6)
gas products	11,915	13,751	(13.4)	38,491	41,631	(7.5)
others.....	84,977	112,076	(24.2)	300,947	372,347	(19.2)
Retail outside Russia	90,417	88,262	2.4	260,813	256,056	1.9
Wholesale in Russia.....	122,877	116,445	5.5	335,071	320,911	4.4
diesel fuel.....	28,864	30,008	(3.8)	84,176	70,838	18.8
motor gasoline.....	15,886	11,553	37.5	36,425	35,890	1.5
fuel oil.....	8,820	11,344	(22.2)	28,514	32,113	(11.2)
jet fuel.....	37,708	31,886	18.3	97,339	88,630	9.8
lubricants and components.....	7,200	6,898	4.4	19,836	20,296	(2.3)
gas products	2,675	3,088	(13.4)	8,238	11,204	(26.5)
others.....	21,724	21,668	0.3	60,543	61,940	(2.3)
Retail in Russia	129,894	118,393	9.7	359,708	364,656	(1.4)
Total refined products sales	1,183,218	1,261,994	(6.2)	3,547,977	3,638,263	(2.5)

Sales volumes	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
	(thousands of tonnes)					
Wholesale outside Russia.....	23,172	24,871	(6.8)	69,970	70,553	(0.8)
diesel fuel	9,759	10,103	(3.4)	29,365	26,984	8.8
motor gasoline	4,160	4,159	-	11,477	13,013	(11.8)
fuel oil	4,840	5,819	(16.8)	14,918	15,205	(1.9)
jet fuel	748	635	17.8	2,116	2,109	0.3
lubricants and components	258	150	72.0	769	846	(9.1)
gas products.....	475	464	2.4	1,381	1,255	10.0
others.....	2,932	3,541	(17.2)	9,944	11,141	(10.7)
Retail outside Russia.....	1,106	1,054	4.9	3,148	3,140	0.3
diesel fuel	738	699	5.6	2,107	2,105	0.1
motor gasoline	317	308	2.9	901	899	0.2
gas products.....	51	47	8.5	140	136	2.9
Wholesale in Russia	4,003	3,746	6.9	10,971	11,036	(0.6)
diesel fuel	691	704	(1.8)	1,975	1,757	12.4
motor gasoline	392	299	31.1	947	902	5.0
fuel oil	602	649	(7.2)	1,761	2,089	(15.7)
jet fuel	919	783	17.4	2,385	2,208	8.0
lubricants and components	100	98	2.0	275	280	(1.8)
gas products.....	170	170	-	511	582	(12.2)
others.....	1,129	1,043	8.2	3,117	3,218	(3.1)
Retail in Russia.....	2,666	2,461	8.3	7,461	8,099	(7.9)
diesel fuel	981	885	10.8	2,777	3,024	(8.2)
motor gasoline	1,674	1,559	7.4	4,645	5,024	(7.5)
gas products.....	11	17	(35.3)	39	51	(23.5)
Total refined products volumes	30,947	32,132	(3.7)	91,550	92,828	(1.4)

The third quarter of 2019 vs. the second quarter of 2019

- Our revenue from the wholesale of refined products outside Russia decreased by 10.5% due to a decrease in trading volumes and realized prices.
- International retail revenue increased by 2.4% due to a seasonal growth of sales volumes.
- Revenue from the wholesale and retail sale of refined products on the domestic market increased by 5.5% and 9.7%, respectively, due to a seasonal increase in sales volumes.

The nine months of 2019 vs. the nine months of 2018

- Our revenue from the wholesale of refined products outside Russia decreased by 3.9% that was mainly due to a decrease in prices in dollar terms that was partially offset by the effect of the ruble devaluation.
- Our international retail revenue increased by 1.9% also mainly as a result of the effect of the ruble devaluation on our realized prices.
- Our revenue from the wholesale of refined products on the domestic market increased by 4.4% as a result of growth of our realized prices.
- Our revenue from refined products retail sales in Russia decreased by 1.4%, as a result of a decrease in sales volumes against a background of high demand for our products in the nine months of 2018.

Sales of petrochemical products

Compared to the second quarter of 2019, our revenue from sales of petrochemical products decreased by 13.3%, as a result of a decrease in trading volumes and average realized sales prices outside Russia, as well as a decrease in production at our refineries in Russia due to maintenance works.

Compared to the nine months of 2018, our revenue from sales of petrochemical products increased by 36.4%, as a result of growth of trading volumes outside Russia and the effect of the ruble devaluation.

Sales of gas

Compared to the second quarter of 2019, our revenue from gas sales increased by 3.4%, as a result of an increase in gas sales volumes outside Russia after completion of maintenance works at Kandym gas processing complex.

Our sales of gas increased by 17.2%, compared to the nine months of 2018. This increase related mostly to our operations outside Russia and was a result of natural gas production growth in Uzbekistan. Higher gas prices also contributed to an increase in our gas sales revenue.

Sales of energy and related services

Compared to the second quarter of 2019, our revenue from sales of energy and related services increased by 9.9% due to seasonal factor outside Russia.

Compared to the nine months of 2018, our revenue from sales of energy and related services didn't change significantly.

Other sales

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

In the third quarter of 2019, revenue from other sales increased by 26.3%, compared to the second quarter of 2019, largely as a result of seasonal increase in non-petrol revenue of our retail network, as well as an increase in sales of transportation services abroad.

Compared to the nine months of 2018, revenue from other sales decreased by 3.1%. This was largely a result of a discontinuing of a non-core car sales business.

Moreover, other sales revenue for the third quarter and the nine months of 2019 included 2.2 billion RUB (approximately €30 million) of profit compensation in relation to energy supplies in Sicily, Italy in 2016.

Operating expenses

Operating expenses include the following:

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(millions of rubles)					
Hydrocarbon extraction expenses ¹	49,577	48,574	2.1	143,980	144,872	(0.6)
Extraction expenses at the West Qurna-2 field.....	3,851	4,269	(9.8)	12,877	12,579	2.4
Own refining expenses	24,942	23,461	6.3	71,907	75,991	(5.4)
Refining expenses at third-party refineries.....	4,523	1,199	277.2	8,691	8,742	(0.6)
Expenses for crude oil transportation to refineries	13,570	14,268	(4.9)	39,616	37,889	4.6
Power generation and distribution expenses.....	7,310	7,047	3.7	21,915	21,324	2.8
Petrochemical expenses.....	2,904	3,193	(9.1)	9,084	8,633	5.2
Other operating expenses	12,609	11,679	8.0	34,075	34,668	(1.7)
Total operating expenses.....	119,286	113,690	4.9	342,145	344,698	(0.7)

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

The method of allocation of operating expenses above differs from the approach used in preparing data for Note 28 "Segment information" to our condensed interim consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs and do not include adjustments related to elimination of intra-group service margin. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

Hydrocarbon extraction expenses

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

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
				(millions of rubles)		
Hydrocarbon extraction expenses ¹	49,577	48,574	2.1	143,980	144,872	(0.6)
in Russia	42,970	43,092	(0.3)	127,305	130,182	(2.2)
outside Russia ¹	6,607	5,482	20.5	16,675	14,690	13.5
				(rubles per BOE)		
Hydrocarbon extraction expenses ¹	240	236	1.6	232	237	(2.2)
in Russia	239	240	(0.5)	237	243	(2.6)
outside Russia ¹	247	208	18.8	200	193	3.6

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

Compared to the second quarter of 2019, per BOE hydrocarbon extraction expenses and our total extraction expenses in Russia didn't change significantly.

Our extraction expenses outside Russia increased by 20.5% compared to the second quarter of 2019 due to higher expenses for repairs and maintenance costs in Kazakhstan and adjustment related to IFRS 16 adoption related to our project in Azerbaijan. At the same time, per BOE hydrocarbon extraction expenses increased by 18.8%.

In Russia, in the nine months of 2019, decrease in workover operations and reservoir stimulation was partially offset by higher electricity costs. A decrease of our extraction expenses was also driven by the adoption of IFRS 16. Our domestic per BOE hydrocarbon extraction expenses decreased by 2.6% compared to the nine months of 2018.

Outside Russia, our hydrocarbon extraction expenses increased by 13.5% as a result of an increase in expenses on gas production due to substantial gas production growth in Uzbekistan, maintenance work in Kazakhstan, as well as the ruble devaluation. Our per BOE hydrocarbon extraction expenses outside Russia only increased by 3.6% owing to an increase in gas share in our production structure.

Own refining expenses

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
				(millions of rubles)		
Refining expenses at the Group refineries	24,942	23,461	6.3	71,907	75,991	(5.4)
in Russia	11,036	10,551	4.6	31,227	32,876	(5.0)
outside Russia	13,906	12,910	7.7	40,680	43,115	(5.6)
				(rubles per tonne)		
Refining expenses at the Group refineries	1,367	1,395	(2.0)	1,390	1,510	(8.0)
in Russia	951	982	(3.2)	937	1,019	(8.0)
outside Russia	2,096	2,125	(1.4)	2,210	2,388	(7.5)

Compared to the second quarter of 2019, refining expenses at our domestic refineries increased by 4.6%, mainly due to higher throughput volumes. Outside Russia, our expenses increased by 7.7% largely as a result of an increase in refinery throughput in Italy.

Compared to the nine months of 2018, expenses at our domestic refineries decreased by 5.0%, mainly due to a decrease in consumption of purchased additives, despite an increase in electricity and maintenance costs and an increase in throughput volumes. Outside Russia, our expenses decreased by 5.6% due to a decline in fuel, electricity and maintenance costs, despite higher throughput volumes.

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 represent variable toll that is mostly the difference between the price of feedstocks supplied, including various related costs, and the selling price of the refined products taken. When the refined products are sold, this toll is naturally offset by the respective refined products sales revenue. The agreed compensation is received by the Group company for execution of this agreement.

In the third quarter of 2019, this tolling fee increased to 4.4 billion RUB compared to 1.1 billion RUB in the previous quarter as a result of higher refining margin.

In the nine months of 2019, tolling fee amounted to 8.2 billion RUB compared to 8.3 billion RUB in the nine months of 2018.

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 second quarter of 2019, our expenses for crude oil transportation to refineries decreased by 4.9% due to changes in volumes of own crude oil supplies to our refineries in Europe.

Compared to the nine months of 2018, our expenses for crude oil transportation to refineries increased by 4.6% mainly due to an increase in volumes and tariffs.

Petrochemical expenses

Our petrochemical expenses decreased by 9.1% quarter-on-quarter as a result of a significant decrease in production volumes due to maintenance works at our plants in Russia.

Our petrochemical expenses increased by 5.2% year-on-year as a result of an increase in production volumes during the nine months of 2019 against the background of suspension of production at our Bulgarian refinery in 2018.

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.

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
				(millions of rubles)		
Cost of purchased crude oil in Russia	3,846	4,675	(17.7)	12,831	15,772	(18.6)
Cost of purchased crude oil outside Russia	586,976	629,927	(6.8)	1,721,798	1,664,778	3.4
Compensation crude oil related to West Qurna-2 project.....	10,399	7,860	32.3	25,884	42,215	(38.7)
Cost of purchased crude oil	601,221	642,462	(6.4)	1,760,513	1,722,765	2.2
Cost of purchased refined products in Russia.....	10,101	8,672	16.5	28,046	35,426	(20.8)
Cost of purchased refined products outside Russia ...	466,206	510,846	(8.7)	1,459,994	1,536,081	(5.0)
Cost of purchased refined products	476,307	519,518	(8.3)	1,488,040	1,571,507	(5.3)
Other purchases	15,871	19,305	(17.8)	66,551	39,422	68.8
Net (gain)/loss from hedging of trading operations...	(11,370)	(3,855)	194.9	32,915	45,112	(27.0)
Change in crude oil and petroleum products inventory	(32,019)	32,953	(197.2)	(100,101)	24,010	-
Total cost of purchased crude oil, gas and products.....	1,050,010	1,210,383	(13.2)	3,247,918	3,402,816	(4.6)

Compared to the second quarter of 2019, cost of purchased crude oil, gas and products decreased, largely as a result of a decrease in hydrocarbon prices and volumes of crude oil and refined products trading.

Compared to the nine months of 2018, cost of purchased crude oil, gas and products decreased largely as a result of a decrease in hydrocarbon prices.

Transportation expenses

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(millions of rubles)					
Crude oil transportation expenses.....	23,633	21,550	9.7	73,273	72,212	1.5
in Russia	10,261	11,307	(9.3)	35,024	35,272	(0.7)
outside Russia.....	13,372	10,243	30.5	38,249	36,940	3.5
Refined products transportation expenses	38,942	38,203	1.9	118,775	118,432	0.3
in Russia	22,429	22,132	1.3	66,824	67,491	(1.0)
outside Russia.....	16,513	16,071	2.8	51,951	50,941	2.0
Other transportation expenses	4,774	4,279	11.6	12,555	14,242	(11.8)
in Russia	736	536	37.3	1,744	2,395	(27.2)
outside Russia.....	4,038	3,743	7.9	10,811	11,847	(8.7)
Total transportation expenses	67,349	64,032	5.2	204,603	204,886	(0.1)

Compared to the second quarter of 2019, our expenses for transportation of refined products didn't change significantly. Our expenses for transportation of crude oil increased by 9.7%, which was mainly due to an increase in volumes sold on the Incoterms with transport component outside Russia, partly offset by expenses decrease in Russia due to lower sales and export volumes and an inventory effect.

Compared to the nine months of 2018, the impact of tariffs indexation, higher freight expenses and ruble devaluation on crude oil and refined products transportation expenses was largely offset by the positive impact of IFRS 16 adoption which amounted to 15.4 billion RUB.

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 loss and other expenses. Our selling, general and administrative expenses are roughly equally split between domestic and international operations.

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(millions of rubles)					
Labor costs included in selling, general and administrative expenses.....	17,957	18,447	(2.7)	52,471	46,755	12.2
Other selling, general and administrative expenses...	20,686	21,077	(1.9)	62,632	70,535	(11.2)
Share-based compensation	7,841	7,842	-	23,525	23,459	0.3
Expenses on allowance for expected credit losses.....	(846)	1,621	(152.2)	5,570	1,180	372.0
Total selling, general and administrative expenses.....	45,638	48,987	(6.8)	144,198	141,929	1.6

In late December 2017, the Company announced a new compensation plan based on approximately 40 million shares available to certain members of management and key employees for the period from 2018 to 2022, which was implemented in July 2018 and recognized as equity-settled share-based compensation plan.

The decrease in selling, general and administrative expenses in the third quarter of 2019 was largely a result of change in expenses on allowance for expected credit losses, as well as bonus payments in the second quarter of 2019.

An increase in labour costs compared to the nine months of 2018 was a result of indexation and bonus payments.

In the nine months of 2019, our selling, general and administrative expenses were also positively impacted by the effect of IFRS 16 adoption in the amount of 6.6 billion RUB.

Depreciation, depletion and amortization

Compared to the second quarter of 2019, our depreciation, depletion and amortization expenses didn't change significantly.

Compared to the nine months of 2018, depreciation, depletion and amortization expenses increased by 23 billion RUB, or by 7.9%, as a result of amortization of the right-of-use assets in the amount of approximately 23.6 billion RUB under newly adopted IFRS 16 and an increase in depletion expenses as a result of higher gas production volumes after launching new production facilities as part of the Kandym project in Uzbekistan. These effects were partially offset by a decrease in depletion expenses due to an increase in proved developed hydrocarbon reserves at some of our fields as at the end of 2018.

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.

Our share in income of affiliates increased by 0.6 billion RUB, or by 11.2%, compared to the second quarter of 2019, and decreased by 2 billion RUB, or by 8.6% compared to the nine months of 2018.

Taxes other than income taxes

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(millions of rubles)					
In Russia						
Mineral extraction taxes.....	214,115	233,568	(8.3)	648,763	601,651	7.8
Tax on additional income	3,367	5,108	(34.1)	12,828	-	-
Social security taxes and contributions	6,798	7,203	(5.6)	21,145	20,557	2.9
Property tax	5,652	5,559	1.7	16,720	18,715	(10.7)
Other taxes.....	729	636	14.6	1,847	1,146	61.2
Total in Russia	230,661	252,074	(8.5)	701,303	642,069	9.2
International						
Social security taxes and contributions	1,317	1,473	(10.6)	4,312	4,431	(2.7)
Property tax	222	215	3.3	669	650	2.9
Other taxes.....	801	732	9.4	2,230	2,026	10.1
Total internationally	2,340	2,420	(3.3)	7,211	7,107	1.5
Total taxes other than income taxes.....	233,001	254,494	(8.4)	708,514	649,176	9.1

In the third quarter of 2019, our taxes other than income taxes decreased by 8.4% compared to the previous quarter. This was a result of a decrease in mineral extraction tax expense following the tax rate decline by 12.4%. Tax on additional income from the hydrocarbon production in the third quarter of 2019 decreased by 34.1% as a result of a decrease in crude oil prices and an increase in capital expenditures at the license areas subject to TAI.

An increase in our taxes other than income taxes compared to the nine months of 2018 by 9.1% was largely driven by a growth in mineral extraction tax expense following an increase in the mineral extraction tax rate by 5.9%.

The following table summarizes data on application of reduced and zero mineral extraction tax rates for crude oil produced in Russia (excluding special tax regimes).

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
	(millions of rubles)					
Decrease in extraction taxes from application of reduced and zero rates for crude oil production.....	31,688	34,262	(7.5)	96,048	95,856	0.2
	(thousands of tonnes)					
Volume of crude oil production subject to:						
ultra-high viscosity	577	540	6.9	1,600	1,182	35.4
reduced rates (tax holidays for specific regions and high viscosity oil).....	1,037	1,063	(2.4)	3,145	4,169	(24.6)
reduced rates (low permeability deposits).....	548	292	87.7	1,027	364	182.1
reduced rates (Tyumen deposits)	225	159	41.5	544	580	(6.2)
reduced rates (depleted fields)	4,786	4,758	0.6	14,347	11,735	22.3
reduced rates (other)	664	615	8.0	1,871	1,709	9.5
Total volume of production subject to reduced or zero rates	7,837	7,427	5.5	22,534	19,739	14.2

From 1 January 2019, the Group also applies special tax regime at certain license areas with reduced mineral extraction tax for crude oil along with newly-implemented TAI. In the third quarter and the nine months of 2019, the total volume of crude oil production subject to TAI amounted to 1,185 thousand tonnes and 3,500 thousand tonnes, respectively. The mineral extraction tax on crude oil produced at the license areas subject to TAI totaled 5,437 million RUB and 18,114 million RUB in the third quarter and the nine months of 2019, respectively.

The Group also applies special tax regime for offshore crude oil production at certain fields and deposits. In the third quarter and the nine months of 2019, volumes of production subject to such regimes amounted to 1,554 thousand tonnes and 4,779 thousand tonnes, respectively (compared to 1,612 thousand tonnes in the second quarter of 2019 and 4,433 thousand tonnes in the nine months of 2018).

Excise and export tariffs

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
	(millions of rubles)					
In Russia						
Excise tax on refined products	39,133	35,480	10.3	105,160	91,029	15.5
Excise tax on oil feedstock (excluding damper)	(7,932)	(8,059)	(1.6)	(23,831)	-	-
Damper	(17,927)	(20,973)	(14.5)	(44,878)	-	-
Crude oil export tariffs.....	33,498	38,019	(11.9)	109,010	144,417	(24.5)
Refined products export tariffs	11,686	10,093	15.8	35,245	37,971	(7.2)
Total in Russia	58,458	54,560	7.1	180,706	273,417	(33.9)
International						
Excise tax and sales taxes on refined products	50,158	46,731	7.3	140,731	136,704	2.9
Crude oil export tariffs.....	15	16	(6.3)	44	22	100.0
Refined products export and import tariffs	(58)	(107)	(45.8)	(252)	215	(217.2)
Total internationally	50,115	46,640	7.5	140,523	136,941	2.6
Total excise and export tariffs	108,573	101,200	7.3	321,229	410,358	(21.7)

Compared to the second quarter of 2019, our expenses for crude oil export tariffs decreased due to a decline in export duty rates by 8.7% and lower crude oil export volumes. Refined products export tariffs increased mainly as a result of an increase in refined products export volumes from Russia by 14.1% and inventory effect, despite a decrease in export duty rate.

In the third quarter of 2019, excise tax on refined products increased both in Russia and internationally mainly due to a seasonal increase in sales volumes subject to excise taxes.

In the third quarter of 2019, our proceeds from negative excise tax on refinery feedstock decreased to 26 billion RUB from 29 billion RUB in the second quarter of 2019 primarily due to lower damper as a result of a decrease in export netbacks for gasoline and diesel fuel in the third quarter of 2019.

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

Compared to the nine months of 2018, crude oil export tariffs declined mainly as a result of a decrease in export duty rate by 18.6% and increased share of crude oil from fields with special export duty rates in export volumes structure. Refined products export tariffs also decreased, as a result of lower export duty rate, despite higher refined products export volumes.

Compared to the nine months of 2018, excise tax in Russia increased due to higher excise tax rate and internationally due to ruble devaluation.

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 end of 2018, the Company's net monetary position in foreign currencies significantly changed as a result of a change in the structure of intra-group financing. Moreover, starting from 1 January 2019, the Group recognized certain lease liabilities in foreign currencies in accordance with IFRS 16.

In the third quarter and the nine months of 2019, foreign exchange loss amounted to 4.6 billion RUB and foreign exchange gain amounted 0.9 billion RUB, respectively, compared to a foreign exchange gain of 3.6 billion RUB in the second quarter of 2019 and a gain of 32.2 billion RUB in the nine months of 2018.

Implementation of IFRS 16 resulted in a foreign exchange gain of 5.9 billion RUB in the nine months of 2019.

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 second quarter of 2019, our total income tax expense decreased by 6 billion RUB, or by 14.4%. At the same time, our profit before income tax didn't change. In the third quarter of 2019, our effective income tax rate was 15.8%, compared to 18.7% in the second quarter of 2019. A decrease in our effective income tax rate was a result of tax adjustments related to prior periods and changes in income tax incentives for certain Russian subsidiaries.

Compared to the nine months of 2018, our total income tax expense increased by 10 billion RUB, or by 8.8%. Our profit before income tax increased by 70 billion RUB, or by 12.3%. In the nine months of 2019, our effective income tax rate was 18.8%, compared to 19.4% in the nine months of 2018. The decrease in the effective income tax rate in the nine months of 2019 was also a result of tax adjustments related to prior periods and changes in income tax incentives for certain Russian subsidiaries.

Non-GAAP items reconciliation

Reconciliation of profit for the period attributable to PJSC LUKOIL shareholders to EBITDA

EBITDA is not defined under IFRS. We define EBITDA as profit from operating activities before depreciation, depletion and amortization. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and to raise and service debt. EBITDA should not be considered in isolation as an alternative to profit or any other measure of performance under IFRS.

	Q3 2019	Q2 2019	9 months of 2019 2018	
	(millions of rubles)			
Profit for the period attributable to PJSC LUKOIL shareholders	190,387	181,245	520,868	460,147
Add back				
Profit for the period attributable to non-controlling interests.....	500	556	1,610	1,735
Income tax expense.....	35,881	41,927	120,604	110,873
Financial income.....	(6,944)	(6,075)	(19,003)	(13,294)
Financial costs	10,872	10,976	33,582	25,556
Foreign exchange loss (gain)	4,630	(3,607)	(878)	(32,177)
Equity share in income of affiliates	(5,496)	(4,942)	(16,618)	(18,181)
Other (income) expenses	(6,529)	6,360	3,803	10,643
Depreciation, depletion and amortization	104,504	105,730	314,064	291,183
EBITDA	327,805	332,170	958,032	836,485
EBITDA by operating segments				
Exploration and production	211,958	235,074	682,164	680,248
in Russia.....	169,844	193,730	555,969	568,495
outside Russia and Iraq	35,435	33,550	106,610	90,577
in Iraq.....	6,679	7,794	19,585	21,176
Refining, marketing and distribution segment	116,380	93,167	289,485	200,658
in Russia.....	87,693	67,972	229,552	154,312
outside Russia	28,687	25,195	59,933	46,346
Corporate and other	(10,544)	(8,671)	(26,283)	(26,609)
Elimination	10,011	12,600	12,666	(17,812)
EBITDA	327,805	332,170	958,032	836,485

Reconciliation of Cash provided by operating activities to Free cash flow

	Q3 2019	Q2 2019	9 months of 2019 2018	
	(millions of rubles)			
Net cash provided by operating activities.....	317,921	269,918	831,163	681,140
Capital expenditures.....	(109,062)	(107,555)	(314,038)	(338,260)
Free cash flow	208,859	162,363	517,125	342,880

Liquidity and capital resources

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(millions of rubles)					
Net cash provided by operating activities	317,921	269,918	17.8	831,163	681,140	22.0
including decrease (increase) in working capital ..	12,796	(27,103)	(147.2)	(51,741)	(107,785)	(52.0)
Net cash used in investing activities	(143,238)	(109,612)	30.7	(352,401)	(329,459)	7.0
Net cash used in financing activities	(240,489)	(92,068)	161.2	(502,364)	(337,816)	48.7

Changes in operating assets and liabilities:

	Q3 2019	Q2 2019	Change, %	9 months of		Change, %
				2019	2018	
	(millions of rubles)					
Decrease (increase) in accounts receivable	84,710	(85,804)	(198.7)	(18,861)	(140,397)	(86.6)
(Increase) decrease in inventory	(17,428)	39,247	(144.4)	(79,969)	(12,037)	564.4
(Decrease) increase in accounts payable	(37,056)	14,799	(350.4)	34,632	39,464	(12.2)
(Decrease) increase in net taxes other than on income payable.....	(4,287)	(8,979)	(52.3)	22,528	31,563	(28.6)
Change in other current assets and liabilities.....	(13,143)	13,634	(196.4)	(10,071)	(26,378)	(61.8)
Total decrease (increase) in working capital	12,796	(27,103)	(147.2)	(51,741)	(107,785)	(52.0)

Operating activities

Our primary source of cash flow is funds generated from our operations. Compared to the second quarter of 2019 and the nine months of 2018, our cash generated from operations increased by 17.8% and 22.0%, respectively. An increase to the second quarter of 2019 was mainly a result of a decrease in working capital compared to an increase in the previous quarter. An increase in cash provided by operating activities compared to the nine months of 2018 was a result of higher profitability of our core operations and changes in working capital.

The positive impact of IFRS 16 adoption on our cash provided by operating activities in the nine months of 2019 amounted to 26.5 billion RUB.

Investing activities

Our cash used in investing activities increased compared to the previous quarter and to the nine months of 2018, largely due to the acquisition of a 25% interest in the Marine XII license in the Republic of Congo for approximately 51 billion RUB.

Our capital expenditures increased by 2 billion RUB, or by 1.4%, compared to the second quarter of 2019, and decreased by 24 billion RUB, or by 7.2%, compared to the nine months of 2018.

The positive impact of IFRS 16 adoption on our cash used in investing activities in the nine months of 2019 amounted to 8.4 billion RUB and resulted in a decrease in capital expenditures.

	Q3 2019	Q2 2019	Change, %	9 months of 2019	9 months of 2018	Change, %
	(millions of rubles)					
Capital expenditures						
Exploration and production						
West Siberia.....	37,868	35,441	6.8	105,344	98,744	6.7
Timan-Pechora.....	14,964	18,958	(21.1)	50,605	55,031	(8.0)
Ural region.....	9,773	9,444	3.5	26,676	26,982	(1.1)
Volga region.....	12,767	9,532	33.9	29,256	37,177	(21.3)
Other in Russia.....	2,367	2,374	(0.3)	7,078	6,616	7.0
Total in Russia.....	77,739	75,749	2.6	218,959	224,550	(2.5)
Iraq.....	5,153	7,216	(28.6)	15,732	15,328	2.6
Other outside Russia.....	7,894	7,789	1.3	27,687	36,721	(24.6)
Total outside Russia.....	13,047	15,005	(13.0)	43,419	52,049	(16.6)
Total exploration and production.....	90,786	90,754	-	262,378	276,599	(5.1)
Refining, marketing and distribution						
Russia.....	13,972	11,377	22.8	36,200	45,786	(20.9)
refining.....	9,264	7,643	21.2	23,684	31,646	(25.2)
retail.....	601	560	7.3	2,555	5,227	(51.1)
other.....	4,107	3,174	29.4	9,961	8,913	11.8
International.....	3,551	4,812	(26.2)	13,044	13,703	(4.8)
refining.....	2,308	3,868	(40.3)	9,478	9,659	(1.9)
retail.....	880	380	131.6	2,159	2,532	(14.7)
other.....	363	564	(35.6)	1,407	1,512	(6.9)
Total refining, marketing and distribution.....	17,523	16,189	8.2	49,244	59,489	(17.2)
Corporate and other.....	753	612	23.0	2,416	2,172	11.2
Total capital expenditures.....	109,062	107,555	1.4	314,038	338,260	(7.2)

In Russia, an increase in our upstream capital expenditures in the third quarter of 2019 was mainly due to an increase in capital expenditures in Volga region where we continue to develop the Yu. Korchagin and V. Filanovsky fields and prepare to develop the V.Grayfer (Rakushechnoye) field.

An increase in capital expenditures in refining segment in Russia compared to the previous quarter was primarily due to construction of new facilities at our refineries.

Compared to the nine months of 2018, our domestic capital expenditures in the exploration and production segment decreased, due to a decrease in expenses in Timan-Pechora region as a result of uneven payments schedule, as well as the completion of the next stages of development works at the Yu. Korchagin and V. Filanovsky fields in the Caspian Sea. Higher capital expenditures in West Siberia were a result of an increase in production drilling footage.

The decrease in our international capital expenditures year-on-year was due to lower expenditures in Uzbekistan that was partially offset by the ruble devaluation.

A decrease in capital expenditures in refining segment in Russia year-on-year was due to prepayments in the previous year related to the construction of a delayed coker complex at Nizhny Novgorod refinery.

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

	Q3	Q2	Change,	9 months of		Change,
	2019	2019	%	2019	2018	%
	(millions of rubles)					
West Siberia (Yamal)	4,537	5,794	(21.7)	16,273	17,286	(5.9)
Caspian region (Projects in Russia).....	10,731	7,045	52.3	24,636	33,826	(27.2)
Timan-Pechora (Yaregskoye field)	2,440	2,253	8.3	6,587	7,421	(11.2)
Iraq (West Qurna-2 project)	4,580	6,457	(29.1)	13,757	14,018	(1.9)
Iraq (Block-10).....	573	759	(24.5)	1,975	1,310	50.8
Uzbekistan.....	744	1,018	(26.9)	8,058	18,911	(57.4)
Total	23,605	23,326	1.2	71,286	92,772	(23.2)

Financing activities

In the third quarter of 2019, net movements of short-term and long-term debt generated an outflow of 13 billion RUB, compared to an outflow of 14 billion RUB in the second quarter of 2019. In the nine months of 2019, net movements of short-term and long-term debt generated an outflow of 48 billion RUB, including 28.6 billion RUB related to the newly adopted IFRS 16, compared to an outflow of 148 billion RUB in the nine months of 2018.

In the nine months of 2019, we also recognized additional 6.4 RUB billion of interest payments under IFRS 16.

In August 2018, we announced the start of an open market buyback programme to reduce the capital of the Company. In relation to this programme, as well as a tender offer that took place in July-August 2019, a Group company spent 110,086 million RUB and 243,691 million RUB in the third quarter and the nine months of 2019.

On 20 August 2019, the Company announced the completion of the buyback programme. From its start and also taking into account a tender offer, 56.7 million ordinary shares and depositary receipts of the Company were purchased in aggregate.

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.