



**PJSC LUKOIL**

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

**for the three-month periods ended  
31 March 2021 and 2020  
and 31 December 2020**

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

---

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 March 2021 and results of its operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020 as well as significant factors that may affect its future performance. It should be read in conjunction with our International Financial Reporting Standards ("IFRS") condensed interim consolidated financial statements for the respective periods, including notes.

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

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

**Table of Contents**

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

## **Business overview**

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

LUKOIL is one of the world's largest publicly traded vertically integrated energy companies. Our proved reserves under SEC standards amounted to 15.4 billion BOE at 1 January 2021 and comprised of 11.7 billion barrels of crude oil and 22.2 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and gas in Russia and internationally. In Russia, our major oil producing regions are West Siberia, Timan-Pechora, Ural and Volga region. Our international upstream segment includes stakes in PSAs and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria, Mexico, the Republic of Congo and the UAE. Our daily hydrocarbon production in the first quarter of 2021 amounted to 2.2 million BOE, with liquid hydrocarbons representing approximately 74% of our overall production volumes.

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

We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. We also own two petrochemical plants in Russia and have petrochemical facilities at our refineries in Bulgaria and Italy. Along with our own production of refined products, we refine crude oil at third party refineries depending on market conditions and other factors. Throughput at our refineries in the first quarter of 2021 amounted to 1.2 million barrels per day, and we produced 0.3 million tonnes of petrochemicals, including olefins, polyolefins and products of organic synthesis.

We market our own and purchased crude oil and refined products through our sales channels in Russia, Europe, South-East Asia, Central and North America and other regions. We own petrol stations in 19 countries. Most of our retail networks are located close to our refineries. Our retail sales in the first quarter of 2021 amounted to 3.0 million tonnes of refined products. We also supply jet fuel to airports and bunker fuel to sea and river ports in and outside Russia.

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally. In the first quarter of 2021, our total output of commercial electrical energy was 5.2 billion kWh.

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

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

In December 2019, the emergence of a new strain of coronavirus (COVID-2019) was reported in China and has subsequently spread globally. On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Mobility restrictions, quarantines and similar lockdown measures implemented in different countries to cope with the pandemic had a significant negative impact on the global economy. Deceleration of economic activity resulted in a substantial decrease in demand for hydrocarbons leading to oversupply on the international oil market and a sharp decline in oil prices. Failure of OPEC+ countries to reach a new agreement on crude oil production quotas in the beginning of March put an incremental pressure on oil prices. As a result, the price for Brent collapsed to a 20-years minimum of \$13 per barrel in April. On 12 April 2020, OPEC+ countries entered into a new agreement to reduce their collective output by 9.7 million barrels per day starting from 1 May 2020. This coordinated production cut together with the negative impact of low oil prices on crude oil production in different countries resulted in lower supply of crude oil and reduction of surplus on the crude oil market and led to a gradual recovery of oil prices. This upward oil price trend was further supported by the gradual lifting of lockdowns in different countries, recovery in economic activity and respective growth in demand for hydrocarbons. Acceleration of COVID-19 spread in October 2020 resulted in a renewal of lockdown measures in different countries, which put some pressure on the oil price at the end of 2020. Meanwhile, continued recovery in demand for crude oil along with further coordination of production volumes by OPEC+ countries and voluntary incremental production cut by Saudi Arabia in the beginning of 2021 resulted in crude oil price growth, with the price of Brent reaching its peak of \$69 per barrel in March 2021.

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

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

From February through August 2020, we reduced production of gas at our projects in Uzbekistan to approximately 20% of the projects capacity due to lower demand for Uzbek gas from China. At the same time, since September we have recovered our gas production in Uzbekistan on the back of growing demand for gas from China. As of December 2020, production was back to the project levels and stayed at this level in the first quarter of 2021.

Due to the new OPEC+ agreement, we cut our crude oil production in Russia in May 2020 by approximately 310 thousand barrels per day, or by 19%, as compared to our daily crude oil production in Russia in the first quarter of 2020. To minimize the negative impact of this production cut on our financial performance the cut was implemented at the least profitable fields. Since May 2020, our crude oil production in Russia stepped up sequentially and in the first quarter of 2021 was on average approximately 130 thousand barrels per day higher as compared to the May 2020 level. Due to the agreement, crude oil production was also cut at some of our international projects. For example, average daily production at the West Qurna-2 project in Iraq was approximately 90 thousand barrels per day below its capacity in the first quarter of 2021.

Our refining and marketing segment was also affected as demand for jet fuel and motor fuels declined substantially, which had a negative impact on the benchmark refining margins and sales volumes. We adjusted the product slate and optimized utilization rates at our refineries starting from the second quarter of 2020 in order to efficiently react to the adverse macro changes. As a result of optimization as well as major scheduled maintenance works at several refineries, average daily refinery throughput volumes in the first quarter of 2021 were approximately 27% lower at our European refineries and approximately 7% lower at our Russian refineries as compared to the first quarter of 2020.

We also faced a steep decline in the retail sales volumes of motor fuels at our filling stations in Russia and other countries in April 2020, when volumes were 40% lower compared to April 2019 level. However, from May 2020, retail sales volumes started recovering and as of the first quarter of 2021, were approximately 2% lower compared to the first quarter of 2020.

The impact of the pandemic on the Group's financial performance in the first quarter of 2021 is discussed in detail in the below discussion and analysis. Management expects that as a result of the effects of the pandemic the macroeconomic environment in the oil and gas industry will remain volatile. Management will continue monitoring the situation closely to ensure prompt reaction to the rapidly changing environment.

Management believes that the Group is in a solid financial condition and has adequate liquidity with negative net financial debt position (excluding lease obligations) of minus 24 billion RUB at the end of the first quarter of 2021. This represents an incremental support for continuous operations and meeting all of the Group's obligations, as well as adequate financing of the investment programme.

## Key financial and operational results

|  | Q1<br>2021 | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|--|------------|------------|--------------|------------|------------|--------------|
| (millions of rubles)   |            |            |              |            |            |              |
| Sales revenue .....  | 1,876,483  | 1,530,339  | 22.6         | 1,876,483  | 1,665,985  | 12.6         |
| EBITDA <sup>1</sup> , including .....  | 314,380    | 189,612    | 65.8         | 314,380    | 150,843    | >100         |
| Exploration and production segment.....  | 223,793    | 166,567    | 34.4         | 223,793    | 109,189    | >100         |
| Refining, marketing and distribution segment .....                                       | 120,210    | 46,649     | >100         | 120,210    | 40,291     | >100         |
| EBITDA <sup>1</sup> net of West Qurna-2 project.....                                     | 302,306    | 182,496    | 65.7         | 302,306    | 139,431    | >100         |
| Profit (loss) for the period attributable to LUKOIL<br>shareholders.....                 | 157,427    | 29,435     | >100         | 157,427    | (45,960)   | -            |
| Capital expenditures .....   | 107,220    | 135,161    | (20.7)       | 107,220    | 130,211    | (17.7)       |
| Free cash flow <sup>2</sup> .....  | 163,625    | 85,482     | 91.4         | 163,625    | 55,519     | >100         |
| Free cash flow before changes in working capital .....                                   | 187,706    | 58,306     | >100         | 187,706    | 9,220      | >100         |
| (thousand BOE per day)   |            |            |              |            |            |              |
| Production of hydrocarbons, including our share in<br>associates and joint ventures..... | 2,198      | 2,099      | 4.7          | 2,198      | 2,382      | (7.7)        |
| crude oil and natural gas liquids.....   | 1,624      | 1,573      | 3.2          | 1,624      | 1,838      | (11.6)       |
| gas .....  | 574        | 526        | 9.1          | 574        | 544        | 5.5          |
| Refinery throughput at the Group refineries .....  | 1,176      | 1,047      | 12.3         | 1,176      | 1,377      | (14.6)       |

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

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

In the first quarter of 2021, compared to the previous quarter, our results were positively impacted by an increase in international hydrocarbon prices, accounting specifics of our international trading operations, higher crude oil production and refinery throughput volumes, higher positive export duty lag effect, as well as a positive inventory effect at our refineries and higher refining margins. At the same time, these positive factors were partially offset by elimination of tax incentives for high-viscous crude oil, the ruble appreciation and a seasonal decrease in retail sales volumes.

Compared to the first quarter of 2020, our results were driven up by higher crude oil prices, the ruble depreciation, change in inventory effect at our refineries, positive export duty lag effect and higher trading margins. Lower crude oil production and refinery throughput volumes and elimination of tax incentives for high-viscous crude oil were the main restraining factors.

As a result, our EBITDA increased by 65.8% and by 108.4% compared to the fourth and the first quarter of 2020, respectively.

The ruble depreciation during the first quarter of 2021 resulted in a foreign exchange loss of 1 billion RUB compared to a gain of 12 billion RUB in the fourth quarter of 2020 as a result of the ruble appreciation. The ruble depreciation during the first quarter of 2020 resulted in a foreign exchange loss of 15 billion RUB.

Compared to the fourth and the first quarter of 2020, our depreciation, depletion and amortization expenses increased by 25.6% and by 2.7%, respectively. The significant quarter-on-quarter increase was mainly due to the effect of recalculation in the fourth quarter of 2020 of depletion expenses for the full year due to an increase in proved developed hydrocarbon reserves at Group's certain fields as at the year-end.

Due to a significant deterioration in the macroeconomic environment in 2020, the Group recognized impairment loss of property, plant and equipment and other non-current assets in the total amounts of 44 billion RUB and 32 billion RUB in the first and the fourth quarter of 2020, respectively. No impairment losses were recognized in the first quarter of 2021.

In the first quarter of 2021, profit attributable to LUKOIL shareholders amounted to 157 billion RUB, compared to profit in the amount of 29 billion RUB in the fourth quarter of 2020 and loss in the amount of 46 billion RUB in the first quarter of 2020.

Our capital expenditures decreased by 28 billion RUB, or by 20.7%, compared to the fourth quarter of 2020, and by 23 billion RUB, or by 17.7%, compared to the first quarter of 2020.

Our free cash flow amounted to 164 billion RUB in the first quarter of 2021, an increase of 91.4% compared to the fourth quarter of 2020, and an increase of 194.7% compared to the first quarter of 2020. This was mainly a result of an increase in profitability of our core operations and lower capital expenditures that was restrained by the dynamics of the working capital.

**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

---

The Group's average daily hydrocarbon production increased by 4.7% compared to the fourth quarter of 2020 mainly as a result of partial lifting of external limitations on oil production due to the new OPEC+ agreement, as well as recovery of gas production in Uzbekistan, and decreased by 7.7% compared to the first quarter of 2020 mainly due to the new OPEC+ agreement.

Average daily throughput volumes at our refineries increased by 12.3% compared to the previous quarter, and decreased by 14.6% compared to the first quarter of 2020. The dynamics was attributable to scheduled maintenance works and throughput optimization at some of the refineries driven by the changes of macro environment.

**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.

During the first quarter of 2021, the price for Brent crude oil increased from \$50.0 per barrel in January to \$69.0 per barrel in the middle of March owing to gradual recovery of global demand together with the effect of the new OPEC+ agreement. As a result, average price increased by 37.5% compared to the fourth quarter of 2020, and by 20.6% compared to the first quarter of 2020.

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

|   | Q1<br>2021              | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|---|-------------------------|------------|--------------|------------|------------|--------------|
|   | (US dollars per barrel) |            |              |            |            |              |
| Brent FOB dated.....                          | 60.85                   | 44.24      | 37.5         | 60.85      | 50.45      | 20.6         |
| Urals crude (average MED and Rotterdam) ..... | 59.81                   | 44.31      | 35.0         | 59.81      | 48.38      | 23.6         |
|   | (US dollars per tonne)  |            |              |            |            |              |
| Diesel fuel 10 ppm (FOB Rotterdam) .....      | 490.66                  | 364.68     | 34.5         | 490.66     | 470.23     | 4.3          |
| High-octane gasoline (FOB Rotterdam).....     | 557.43                  | 397.03     | 40.4         | 557.43     | 469.55     | 18.7         |
| Naphtha (FOB Rotterdam) .....                 | 538.53                  | 389.10     | 38.4         | 538.53     | 409.89     | 31.4         |
| Jet fuel (FOB Rotterdam) .....                | 508.96                  | 376.52     | 35.2         | 508.96     | 481.71     | 5.7          |
| Vacuum gas oil (FOB Rotterdam).....           | 423.58                  | 311.54     | 36.0         | 423.58     | 382.08     | 10.9         |
| Marine fuel 0.5% (FOB Rotterdam).....         | 441.16                  | 326.37     | 35.2         | 441.16     | 399.28     | 10.5         |
| Fuel oil 3.5% (FOB Rotterdam) .....           | 340.71                  | 255.45     | 33.4         | 340.71     | 227.56     | 49.7         |

Source: Platts, Argus.

|   | Q1<br>2021          | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|---|---------------------|------------|--------------|------------|------------|--------------|
|   | (rubles per barrel) |            |              |            |            |              |
| Brent FOB dated.....                          | 4,524               | 3,372      | 34.2         | 4,524      | 3,349      | 35.1         |
| Urals crude (average MED and Rotterdam) ..... | 4,446               | 3,377      | 31.7         | 4,446      | 3,212      | 38.4         |
|   | (rubles per tonne)  |            |              |            |            |              |
| Diesel fuel 10 ppm (FOB Rotterdam) .....      | 36,476              | 27,797     | 31.2         | 36,476     | 31,215     | 16.9         |
| High-octane gasoline (FOB Rotterdam).....     | 41,440              | 30,263     | 36.9         | 41,440     | 31,170     | 32.9         |
| Naphtha (FOB Rotterdam) .....                 | 40,035              | 29,658     | 35.0         | 40,035     | 27,209     | 47.1         |
| Jet fuel (FOB Rotterdam) .....                | 37,837              | 28,700     | 31.8         | 37,837     | 31,977     | 18.3         |
| Vacuum gas oil (FOB Rotterdam).....           | 31,489              | 23,746     | 32.6         | 31,489     | 25,363     | 24.2         |
| Marine fuel 0.5% (FOB Rotterdam).....         | 32,796              | 24,877     | 31.8         | 32,796     | 26,505     | 23.7         |
| Fuel oil 3.5% (FOB Rotterdam) .....           | 25,329              | 19,471     | 30.1         | 25,329     | 15,106     | 67.7         |

Translated to rubles using average exchange rate for the period.

**Domestic crude oil and refined products prices**

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

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



**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

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

|                                     | Q1<br>2021 | Q4<br>2020 | Change,<br>%<br>(rubles per tonne) | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|-------------------------------------|------------|------------|------------------------------------|------------|------------|--------------|
| Diesel fuel .....                   | 41,125     | 39,226     | 4.8                                | 41,125     | 38,674     | 6.3          |
| High-octane gasoline (Regular)..... | 45,069     | 39,139     | 15.2                               | 45,069     | 38,667     | 16.6         |
| High-octane gasoline (Premium)..... | 47,375     | 40,944     | 15.7                               | 47,375     | 41,431     | 14.3         |
| Fuel oil .....                      | 20,194     | 13,889     | 45.4                               | 20,194     | 11,958     | 68.9         |

Source: InfoTEK (excluding VAT).

**Changes in ruble exchange rate and inflation**

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

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

|                                      | Q1<br>2021 | Q4<br>2020 | Q1<br>2021 | Q1<br>2020 |
|--------------------------------------|------------|------------|------------|------------|
| Ruble inflation (CPI), % .....       | 2.1        | 2.0        | 2.1        | 1.3        |
| Ruble to US dollar exchange rate     |            |            |            |            |
| Average for the period .....         | 74.3       | 76.2       | 74.3       | 66.4       |
| At the beginning of the period ..... | 73.9       | 79.7       | 73.9       | 61.9       |
| At the end of the period .....       | 75.7       | 73.9       | 75.7       | 77.7       |
| Ruble to euro exchange rate          |            |            |            |            |
| Average for the period .....         | 89.7       | 90.8       | 89.7       | 73.2       |
| At the beginning of the period ..... | 90.7       | 93.0       | 90.7       | 69.3       |
| At the end of the period .....       | 88.9       | 90.7       | 88.9       | 85.7       |

Source: CBR, Federal State Statistics Service.

**Taxation**

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

|   | Q1<br>2021 | Q4<br>2020 | Change,<br>%<br>(US dollars per tonne) | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|---|------------|------------|--|------------|------------|--------------|
| Mineral extraction tax <sup>1</sup> ..... | 211.15     | 131.34     | 60.8                                   | 211.15     | 159.22     | 32.6         |
| Export duty on crude oil .....            | 44.04      | 43.21      | 1.8                                    | 44.04      | 74.11      | (40.6)       |

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

|   | Q1<br>2021 | Q4<br>2020 | Change,<br>%<br>(rubles per tonne) | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|---|------------|------------|------------------------------------|------------|------------|--------------|
| Mineral extraction tax .....                | 15,697     | 10,011     | 56.8                               | 15,697     | 10,569     | 48.5         |
| Export duty on crude oil <sup>1</sup> ..... | 3,274      | 3,294      | (0.7)                              | 3,274      | 4,920      | (33.5)       |

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

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

**Tax manoeuvre.** The Russian Government has been implementing the so-called tax manoeuvre in the oil industry, which involves reduction of export duty rate and increase in the crude oil extraction tax and excise tax rates, as well as an introduction of a negative excise tax on refinery feedstock. From 2019, crude oil export duty rate is being gradually reduced and will be nulled in 2024. Simultaneously, the mineral extraction tax rate for crude oil is being equivalently increased. To eliminate the negative effect of export duty reduction on refining margins, a negative excise on refinery feedstock was introduced. To reduce the sensitivity of domestic prices for motor fuel to changes in international prices, a so-called damper coefficient was included into the negative excise formula, which also led to increase in mineral extraction tax rate.

## PJSC LUKOIL

### Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020

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

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

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

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

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

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

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

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

**Tax on additional income.** Starting from 2019, a tax on additional income from the crude oil and gas condensate production 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 five groups of license areas. In Group 1, LUKOIL has nineteen license areas with greenfields in the Yamal-Nenets Autonomous District, including Pyakyakhinskoye field, and a number of fields in Timan-Pechora. In Group 3, LUKOIL has eight license areas with brownfields in West Siberia that adopted TAI regime as of 1 January 2019, as well as 104 license areas with depleted reserves in different regions transferred to TAI regime since 1 January 2021. In Group 4, LUKOIL has two license areas with greenfields in West Siberia and five license areas in Timan-Pechora added in 2021. LUKOIL has license areas neither in Group 2 nor in Group 5 of the TAI regime.

**PJSC LUKOIL**

**Management’s discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

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

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

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

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

|  | <b>Q1<br/>2021</b>               | <b>Q4<br/>2020</b> | <b>Change,<br/>%</b> | <b>Q1<br/>2021</b> | <b>Q1<br/>2020</b> | <b>Change,<br/>%</b> |
|--|----------------------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|  | (US dollars per barrel)          |                    |                      |                    |                    |                      |
| Urals price (Argus).....                           | 59.81                            | 44.31              | 35.0                 | 59.81              | 48.38              | 23.6                 |
| Export duty on crude oil .....                     | 6.03                             | 5.92               | 1.9                  | 6.03               | 10.15              | (40.6)               |
| Mineral extraction tax on crude oil .....          | 28.92                            | 17.99              | 60.8                 | 28.92              | 21.81              | 32.6                 |
| Net Urals price <sup>1</sup> .....                 | 24.86                            | 20.40              | 21.9                 | 24.86              | 16.42              | 51.4                 |
| Export duty lag effect.....                        | 1.18                             | 0.61               | 93.4                 | 1.18               | (2.81)             | -                    |
| Mineral extraction tax lag effect.....             | 1.18                             | 0.31               | >100                 | 1.18               | (1.40)             | -                    |
| Net Urals price <sup>1</sup> assuming no lag ..... | 22.50                            | 19.48              | 15.5                 | 22.50              | 20.63              | 9.0                  |
|  | (rubles per barrel) <sup>2</sup> |                    |                      |                    |                    |                      |
| Urals price (Argus).....                           | 4,446                            | 3,377              | 31.7                 | 4,446              | 3,212              | 38.4                 |
| Export duty on crude oil .....                     | 448                              | 451                | (0.7)                | 448                | 674                | (33.5)               |
| Mineral extraction tax on crude oil .....          | 2,150                            | 1,371              | 56.8                 | 2,150              | 1,448              | 48.5                 |
| Net Urals price <sup>1</sup> .....                 | 1,848                            | 1,555              | 18.8                 | 1,848              | 1,090              | 69.5                 |
| Export duty lag effect.....                        | 88                               | 46                 | 91.3                 | 88                 | (187)              | -                    |
| Mineral extraction tax lag effect.....             | 88                               | 23                 | >100                 | 88                 | (93)               | -                    |
| Net Urals price <sup>1</sup> assuming no lag ..... | 1,672                            | 1,486              | 12.5                 | 1,672              | 1,370              | 22.0                 |

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

<sup>2</sup> Translated to rubles for Urals and export duty on crude oil using average exchange rate for the period.

Crude oil produced at some of our fields and license areas under special tax regimes is subject to zero export duty. In particular, a zero rate applies to crude oil of our V. Filanovsky field and other offshore greenfields located in the Caspian Sea, the offshore greenfields in the Baltic Sea as well as license areas belonging to the Group 1 of the TAI regime.

A reduced rate was applied to crude oil produced at our Yaregskoye field producing extra-viscous crude oil and our Yu. Korchagin field in the Caspian offshore. In October 2020, amendments to the Russian customs legislation were adopted, providing for the cancellation of reduced export duty rates applied to crude oil produced at these fields starting from 1 January 2021.

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

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

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

**Tax incentives**

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

|   | <b>Mineral<br/>extraction<br/>tax</b> | <b>Export duty</b>         | <b>Total</b> | <b>As %<br/>of oil price</b> |
|---|---------------------------------------|----------------------------|--------------|------------------------------|
|   |                                       | (in US dollars per barrel) |              |                              |
| <b>Under 2021 tax formulas</b>                        |                                       |                            |              |                              |
| <b>Standard</b> .....                                 | <b>23.5</b>                           | <b>5.7</b>                 | <b>29.2</b>  | <b>58.3</b>                  |
| Yu. Korchagin field .....                             | 13.2                                  | 5.7                        | 18.9         | 37.8                         |
| V. Filanovsky field .....                             | 7.5                                   | 0.0                        | 7.5          | 15.0                         |
| D41 field .....                                       | 15.0                                  | 0.0                        | 15.0         | 30.0                         |
| V. Vinogradov and Imilorskoye fields .....            | 15.2                                  | 5.7                        | 20.9         | 41.9                         |
| New fields with reserves below 5 million tonnes ..... | 17.0–23.5                             | 5.7                        | 22.7–29.2    | 45.5–58.3                    |
| Tyumen deposits .....                                 | 21.4                                  | 5.7                        | 27.1         | 54.5                         |

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

|                             | <b>Q1<br/>2021</b>                                  | <b>Q4<br/>2020</b> | <b>Change,<br/>%</b> | <b>Q1<br/>2021</b> | <b>Q1<br/>2020</b> | <b>Change,<br/>%</b> |
|-----------------------------|---|--------------------|----------------------|--------------------|--------------------|----------------------|
|                             | (US dollars per thousand cubic meters) <sup>1</sup> |                    |                      |                    |                    |                      |
| Nakhodkinskoye field .....  | 6.16  | 5.42               | 13.7                 | 6.16               | 6.04               | 2.0                  |
| Pyakyakhinskoye field ..... | 7.71  | 7.05               | 9.4                  | 7.71               | 7.19               | 7.3                  |

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

|                             | <b>Q1<br/>2021</b>                 | <b>Q4<br/>2020</b> | <b>Change,<br/>%</b> | <b>Q1<br/>2021</b> | <b>Q1<br/>2020</b> | <b>Change,<br/>%</b> |
|-----------------------------|------------------------------------|--------------------|----------------------|--------------------|--------------------|----------------------|
|                             | (rubles per thousand cubic meters) |                    |                      |                    |                    |                      |
| Nakhodkinskoye field .....  | 458                                | 413                | 10.9                 | 458                | 401                | 14.2                 |
| Pyakyakhinskoye field ..... | 573                                | 537                | 6.7                  | 573                | 477                | 20.1                 |

**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.

|   | <b>2020 and further</b> |
|---|-------------------------|
| Multiplier for:   |                         |
| Gasolines, diesel fuel and other light and middle distillates ..... | 0.30                    |
| Straight-run gasoline .....   | 0.55                    |
| Fuel oil .....  | 1.00                    |

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

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

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

Excise tax expense on straight-run gasoline used as a petrochemical feedstock is reimbursed with a coefficient of 1.7, and excise tax expense on middle distillates used as refinery feedstock, bunker fuel or fuel at power plants is reimbursed in double amount. Since 1 April 2020, the fixed excise tax rate for middle distillates was replaced with formula-based rate linked to the level of damper for diesel fuel.

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

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

|                               | Q1<br>2021         | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|-------------------------------|--------------------|------------|--------------|------------|------------|--------------|
|                               | (rubles per tonne) |            |              |            |            |              |
| Gasoline (below Euro-5) ..... | 13,624             | 13,100     | 4.0          | 13,624     | 13,100     | 4.0          |
| Gasoline (Euro-5).....        | 13,262             | 12,752     | 4.0          | 13,262     | 12,752     | 4.0          |
| Diesel fuel .....             | 9,188              | 8,835      | 4.0          | 9,188      | 8,835      | 4.0          |
| Motor oils.....               | 5,841              | 5,616      | 4.0          | 5,841      | 5,616      | 4.0          |
| Middle distillates*.....      | 12,601             | 13,766     | (8.5)        | 12,601     | 9,535      | 32.2         |

\*Excise tax rates for middle distillates after 1 April 2020 are calculated by formula.

Established excise tax rates are listed below.

|                               | 2021               | 2022   | 2023   |
|-------------------------------|--------------------|--------|--------|
|                               | (rubles per tonne) |        |        |
| Gasoline (below Euro-5) ..... | 13,624             | 14,169 | 14,736 |
| Gasoline (Euro-5).....        | 13,262             | 13,793 | 14,345 |
| Diesel fuel .....             | 9,188              | 9,556  | 9,938  |
| Motor oils.....               | 5,841              | 6,075  | 6,318  |

**Negative excise tax on refinery feedstock**

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

The negative excise tax formula also includes the damper coefficient for gasoline and diesel fuel sold on the domestic market and starting from 2021 also includes an investment factor. The damper coefficient is calculated by multiplying the corresponding Compensation Coefficients 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 investment factor is a multiplier to the negative excise tax excluding the damper, which is applicable when a special agreement is signed with the Government providing for at least 60 billion RUB of investments into development of a refinery. The amount of the multiplier depends on the refinery's geography. In March 2021, the Company signed an agreement with the Government according to which it is eligible for the investment factor in relation to the project for construction of a delayed coker unit at Nizhny Novgorod refinery. The investment factor will be applied until 1 January 2031.

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

|  | 2020                    | 2021   | 2022   | 2023   | 2024   |
|--|-------------------------|--------|--------|--------|--------|
|  | (rubles per tonne)      |        |        |        |        |
| Fixed benchmark for gasoline.....              | 53,600                  | 56,300 | 59,000 | 62,000 | 65,000 |
| Fixed benchmark for diesel fuel .....          | 48,300                  | 50,700 | 53,250 | 56,000 | 58,700 |
|  | <b>2020 and further</b> |        |        |        |        |
| Compensation coefficient for gasoline .....    | 0.68                    |        |        |        |        |
| Compensation coefficient for diesel fuel ..... | 0.65                    |        |        |        |        |

**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

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

|                   | Q1<br>2021                          | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|-------------------|-------------------------------------|------------|--------------|------------|------------|--------------|
|                   | (US dollars per tonne) <sup>1</sup> |            |              |            |            |              |
| Gasoline .....    | 48.99                               | (45.90)    | -            | 48.99      | (72.99)    | -            |
| Diesel fuel ..... | 15.87                               | (54.85)    | -            | 15.87      | (41.23)    | -            |

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

|                   | Q1<br>2021         | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|-------------------|--------------------|------------|--------------|------------|------------|--------------|
|                   | (rubles per tonne) |            |              |            |            |              |
| Gasoline .....    | 3,642              | (3,498)    | -            | 3,642      | (4,845)    | -            |
| Diesel fuel ..... | 1,180              | (4,181)    | -            | 1,180      | (2,737)    | -            |

**Income tax.** Operations in the Russian Federation are subject to a 20% income tax rate. For the period from 2017 till 2024 (inclusive) a Federal income tax rate is set as 3.0% and a regional income tax rate is set as 17.0%. Regional income tax rate may be reduced for certain categories of taxpayers by the laws of constituent entities of the Russian Federation, however certain restrictions apply on the application of the reduced regional rates.

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

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

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

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

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

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

Gas that is not sold at the wellhead is transported through the Unified Gas Supply System owned and operated by Gazprom.

Transneft, Russian Railways and Gazprom are state-controlled natural transportation infrastructure monopolies and their tariffs are regulated by the Federal Antimonopoly Service of Russia and set in rubles.

The following table sets forth the changes in the average tariffs charged by the state-controlled transportation service providers in Russia.

|   | Q1 2021 to<br>Q4 2020 | 3 months of 2021 to<br>3 months of 2020 |
|---|-----------------------|---|
| Transneft (crude oil) .....                             | 3.6%                  | 3.6%                                    |
| Russian Railways (crude oil and refined products) ..... | 3.7%                  | 3.7%                                    |

## Segments highlights

Our operations are divided into three main business segments:

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

Each of our segments is dependent on the others, with a portion of the revenues of one segment being a part of the costs of the others. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the “Domestic crude oil and refined products prices” section on p. 8, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. We present the financial data for each segment in Note 27 “Segment information” to our condensed interim consolidated financial statements.

### Exploration and production

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

|   | Q1<br>2021           | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|---|----------------------|------------|--------------|------------|------------|--------------|
|   | (millions of rubles) |            |              |            |            |              |
| EBITDA .....  | 223,793              | 166,567    | 34.4         | 223,793    | 109,189    | >100         |
| in Russia .....   | 186,970              | 147,964    | 26.4         | 186,970    | 73,570     | >100         |
| outside Russia and Iraq .....                               | 24,749               | 11,487     | >100         | 24,749     | 24,207     | 2.2          |
| in Iraq .....   | 12,074               | 7,116      | 69.7         | 12,074     | 11,412     | 5.8          |
| Hydrocarbon extraction expenses .....                       | 48,539               | 51,037     | (4.9)        | 48,539     | 51,659     | (6.0)        |
| in Russia .....   | 37,943               | 39,532     | (4.0)        | 37,943     | 41,992     | (9.6)        |
| outside Russia and Iraq .....                               | 6,392                | 6,567      | (2.7)        | 6,392      | 5,323      | 20.1         |
| in Iraq .....   | 4,204                | 4,938      | (14.9)       | 4,204      | 4,344      | (3.2)        |
|   | (rubles per BOE)     |            |              |            |            |              |
| Hydrocarbon unit extraction expenses (excluding Iraq) ..... | 235                  | 249        | (5.8)        | 235        | 229        | 2.3          |
| in Russia .....   | 240                  | 251        | (4.3)        | 240        | 233        | 2.9          |
| outside Russia and Iraq .....                               | 208                  | 240        | (13.5)       | 208        | 203        | 2.5          |
|   | (US dollars per BOE) |            |              |            |            |              |
| Hydrocarbon unit extraction expenses (excluding Iraq) ..... | 3.16                 | 3.27       | (3.4)        | 3.16       | 3.45       | (8.6)        |
| in Russia .....   | 3.23                 | 3.29       | (1.9)        | 3.23       | 3.51       | (8.1)        |
| outside Russia and Iraq .....                               | 2.80                 | 3.15       | (11.4)       | 2.80       | 3.05       | (8.5)        |

Our upstream EBITDA increased by 34.4% compared to the fourth quarter of 2020. In Russia, the increase was mainly a result of higher crude oil prices, higher positive export duty lag effect, higher crude oil production volumes and lower lifting costs, while ruble appreciation and elimination of tax incentives for high-viscous crude oil were restraining factors. Outside Russia and Iraq, our EBITDA increased mainly as a result of an increase in international crude oil prices, as well as lower expenses for expected credit losses. The growth was restrained by the ruble appreciation.

Compared to the first quarter of 2020, our upstream EBITDA increased more than two-fold. In Russia, the increase was mainly due to higher crude oil prices, the ruble depreciation and export duty lag effect that was partially offset by crude oil production cut due to the new OPEC+ agreement and elimination of tax incentives for high-viscous crude oil. Outside Russia and Iraq, our upstream EBITDA increased mainly due to higher international crude oil prices and ruble depreciation.

The dynamics of EBITDA of the West Qurna-2 project was mainly a result of changes in incurred costs and their compensation.

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

The following table summarizes our hydrocarbon production by major regions.

|  | Q1<br>2021             | Q4<br>2020   | Change,<br>% | Q1<br>2021   | Q1<br>2020   | Change,<br>%  |
|--|------------------------|--------------|--------------|--------------|--------------|---------------|
|  | (thousand BOE per day) |              |              |              |              |               |
| <b>Crude oil and natural gas liquids</b>   |                        |              |              |              |              |               |
| Consolidated subsidiaries  |                        |              |              |              |              |               |
| West Siberia .....   | 655                    | 641          | 2.2          | 655          | 760          | (13.8)        |
| Timan-Pechora .....  | 265                    | 250          | 6.0          | 265          | 318          | (16.7)        |
| Ural region .....  | 312                    | 314          | (0.6)        | 312          | 338          | (7.7)         |
| Volga region .....   | 221                    | 209          | 5.7          | 221          | 232          | (4.7)         |
| Other in Russia .....  | 28                     | 27           | 3.7          | 28           | 30           | (6.7)         |
| <b>Total in Russia .....</b>   | <b>1,481</b>           | <b>1,441</b> | <b>2.8</b>   | <b>1,481</b> | <b>1,678</b> | <b>(11.7)</b> |
| Iraq <sup>1</sup> .....  | 46                     | 34           | 35.3         | 46           | 54           | (14.8)        |
| Other outside Russia .....   | 55                     | 57           | (3.5)        | 55           | 57           | (3.5)         |
| <b>Total outside Russia .....</b>  | <b>101</b>             | <b>91</b>    | <b>11.0</b>  | <b>101</b>   | <b>111</b>   | <b>(9.0)</b>  |
| <b>Total consolidated subsidiaries .....</b>   | <b>1,582</b>           | <b>1,532</b> | <b>3.3</b>   | <b>1,582</b> | <b>1,789</b> | <b>(11.6)</b> |
| Our share in associates and joint ventures   |                        |              |              |              |              |               |
| in Russia .....  | 12                     | 11           | 9.1          | 12           | 11           | 9.1           |
| outside Russia .....   | 30                     | 30           | -            | 30           | 38           | (21.1)        |
| <b>Total share in production of associates and joint ventures .....</b>              | <b>42</b>              | <b>41</b>    | <b>2.4</b>   | <b>42</b>    | <b>49</b>    | <b>(14.3)</b> |
| <b>Total crude oil and natural gas liquids .....</b>                                 | <b>1,624</b>           | <b>1,573</b> | <b>3.2</b>   | <b>1,624</b> | <b>1,838</b> | <b>(11.6)</b> |
| <b>Natural and petroleum gas<sup>2</sup></b>   |                        |              |              |              |              |               |
| Consolidated subsidiaries  |                        |              |              |              |              |               |
| West Siberia .....   | 193                    | 194          | (0.5)        | 193          | 215          | (10.2)        |
| Timan-Pechora .....  | 29                     | 28           | 3.6          | 29           | 33           | (12.1)        |
| Ural region .....  | 27                     | 26           | 3.8          | 27           | 25           | 8.0           |
| Volga region .....   | 27                     | 25           | 8.0          | 27           | 27           | -             |
| Other in Russia .....  | 0                      | 0            | -            | 0            | 0            | -             |
| <b>Total in Russia .....</b>   | <b>276</b>             | <b>273</b>   | <b>1.1</b>   | <b>276</b>   | <b>300</b>   | <b>(8.0)</b>  |
| Uzbekistan .....   | 236                    | 191          | 23.6         | 236          | 184          | 28.3          |
| Other outside Russia .....   | 51                     | 50           | 2.0          | 51           | 48           | 6.3           |
| <b>Total outside Russia .....</b>  | <b>287</b>             | <b>241</b>   | <b>19.1</b>  | <b>287</b>   | <b>232</b>   | <b>23.7</b>   |
| <b>Total consolidated subsidiaries .....</b>   | <b>563</b>             | <b>514</b>   | <b>9.5</b>   | <b>563</b>   | <b>532</b>   | <b>5.8</b>    |
| Share in associates and joint ventures   |                        |              |              |              |              |               |
| in Russia .....  | 2                      | 2            | 5.4          | 2            | 1            | 84.6          |
| outside Russia .....   | 9                      | 10           | (5.1)        | 9            | 11           | (8.9)         |
| <b>Total share in production of associates and joint ventures .....</b>              | <b>11</b>              | <b>12</b>    | <b>(3.0)</b> | <b>11</b>    | <b>12</b>    | <b>-</b>      |
| <b>Total natural and petroleum gas .....</b>   | <b>574</b>             | <b>526</b>   | <b>9.1</b>   | <b>574</b>   | <b>544</b>   | <b>5.5</b>    |
| <b>Total daily hydrocarbon production (excluding the West Qurna-2 project) .....</b> | <b>2,152</b>           | <b>2,065</b> | <b>4.2</b>   | <b>2,152</b> | <b>2,328</b> | <b>(7.6)</b>  |
| <b>Total daily hydrocarbon production .....</b>                                      | <b>2,198</b>           | <b>2,099</b> | <b>4.7</b>   | <b>2,198</b> | <b>2,382</b> | <b>(7.7)</b>  |
| Including natural gas liquids produced at the gas processing plants .....            | 34                     | 39           | (13.3)       | 34           | 45           | (24.9)        |

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

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



**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

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

|  | Q1<br>2021            | Q4<br>2020    | Change,<br>% | Q1<br>2021    | Q1<br>2020    | Change,<br>%  |
|--|-----------------------|---------------|--------------|---------------|---------------|---------------|
|  | (thousands of tonnes) |               |              |               |               |               |
| West Siberia .....   | 7,866                 | 7,802         | 0.8          | 7,866         | 9,151         | (14.0)        |
| Timan-Pechora .....  | 3,352                 | 3,335         | 0.5          | 3,352         | 4,023         | (16.7)        |
| Ural region .....  | 3,578                 | 3,664         | (2.3)        | 3,578         | 3,906         | (8.4)         |
| Volga region.....  | 2,593                 | 2,509         | 3.3          | 2,593         | 2,760         | (6.1)         |
| Other in Russia.....   | 357                   | 353           | 1.1          | 357           | 387           | (7.8)         |
| Crude oil produced in Russia .....                                       | 17,746                | 17,663        | 0.5          | 17,746        | 20,227        | (12.3)        |
| Iraq <sup>1</sup> .....  | 609                   | 463           | 31.5         | 609           | 721           | (15.5)        |
| Other outside Russia.....  | 561                   | 605           | (7.3)        | 561           | 588           | (4.6)         |
| Crude oil produced outside Russia .....                                  | 1,170                 | 1,068         | 9.6          | 1,170         | 1,309         | (10.6)        |
| <b>Total crude oil produced by consolidated subsidiaries.....</b>        | <b>18,916</b>         | <b>18,731</b> | <b>1.0</b>   | <b>18,916</b> | <b>21,536</b> | <b>(12.2)</b> |
| <b>Our share in crude oil produced by associates and joint ventures:</b> |                       |               |              |               |               |               |
| in Russia.....   | 141                   | 138           | 2.2          | 141           | 138           | 2.2           |
| outside Russia.....  | 332                   | 349           | (4.9)        | 332           | 431           | (23.0)        |
| <b>Total crude oil produced.....</b>                                     | <b>19,389</b>         | <b>19,218</b> | <b>0.9</b>   | <b>19,389</b> | <b>22,105</b> | <b>(12.3)</b> |

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

Our main oil producing region is West Siberia where we produced 41.6% of our crude oil in the first quarter of 2021 (41.7% in the fourth quarter of 2020 and 42.5% in the first quarter of 2020). Our crude oil production increased by 0.9% compared to the fourth quarter of 2020, and decreased by 12.3% compared to the first quarter of 2020.

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

In April 2020, OPEC+ countries entered into a new agreement to reduce their collective output by 9.7 million barrels per day starting from 1 May 2020 as a response to a dramatic contraction in demand for crude oil due to the COVID-19 pandemic. The agreement expires at the end of April 2022. Initially, it provided for stepped increases in crude oil production from August 2020 and January 2021, but then this schedule has been adjusted following the market situation. Russia committed to reduce its crude oil production to 8.5 million barrels per day from May 2020 with further increases according to the agreement. Due to the agreement, from May 2020, the Group reduced its crude oil production in Russia by approximately 310 thousand barrels per day, or by 19%, as compared to the average daily crude oil production level in the first quarter of 2020. Subsequently, our crude oil production in Russia has been gradually recovering. As a result, in the first quarter of 2021 oil production by the Group in Russia was approximately 130 thousand barrels per day higher than the May 2020 level.

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

Despite external limitations on production volumes, development of the priority projects continued. In particular, in West Siberia total crude oil and gas condensate production at the V. Vinogradov, Imilorskoye, Sredne-Nazymkoye and Pyakyakhinskoye fields increased in the first quarter of 2021 by 8.3% year-on-year, to over 1.1 million tonnes.

In the first quarter of 2021, high viscosity oil production at the Yaregskoye field and Permian reservoir of the Usinskoye field increased by 4.3% year-on-year, to 1.3 million tonnes.

Implementation of drilling programmes at the V. Filanovsky and Yu. Korchagin fields in the Caspian Sea allowed to increase total crude oil and gas condensate production in the first quarter of 2021 by 1.6% year-on-year, to 1.9 million tonnes. The V. Grayfer field development continues: subsea pipelines and cable lines are being laid, shipyards are constructing topsides of the platforms.

**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

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

|  | Q1<br>2021                 | Q4<br>2020   | Change,<br>% | Q1<br>2021   | Q1<br>2020   | Change,<br>% |
|--|----------------------------|--------------|--------------|--------------|--------------|--------------|
|  | (millions of cubic meters) |              |              |              |              |              |
| West Siberia, including: .....                                     | 2,958                      | 3,038        | (2.6)        | 2,958        | 3,312        | (10.7)       |
| Nakhodkinskoye field .....   | 1,176                      | 1,296        | (9.3)        | 1,176        | 1,348        | (12.8)       |
| Pyakyakhinskoye field .....  | 847                        | 880          | (3.8)        | 847          | 963          | (12.0)       |
| Other fields.....  | 935                        | 862          | 8.5          | 935          | 1,001        | (6.6)        |
| Timan-Pechora .....  | 440                        | 434          | 1.4          | 440          | 517          | (14.9)       |
| Ural region .....  | 415                        | 407          | 2.0          | 415          | 383          | 8.4          |
| Volga region.....  | 406                        | 388          | 4.6          | 406          | 425          | (4.5)        |
| Other in Russia.....   | 3                          | 2            | 50.0         | 3            | 6            | (50.0)       |
| Gas produced in Russia.....  | 4,222                      | 4,269        | (1.1)        | 4,222        | 4,643        | (9.1)        |
| Uzbekistan.....  | 3,612                      | 2,994        | 20.6         | 3,612        | 2,839        | 27.2         |
| Other outside Russia.....  | 769                        | 765          | 0.5          | 769          | 742          | 3.6          |
| Gas produced outside Russia.....                                   | 4,381                      | 3,759        | 16.5         | 4,381        | 3,581        | 22.3         |
| <b>Total gas produced by consolidated subsidiaries..</b>           | <b>8,603</b>               | <b>8,028</b> | <b>7.2</b>   | <b>8,603</b> | <b>8,224</b> | <b>4.6</b>   |
| <b>Our share in gas produced by associates and joint ventures:</b> |                            |              |              |              |              |              |
| in Russia.....   | 41                         | 40           | 2.5          | 41           | 22           | 86.4         |
| outside Russia.....  | 145                        | 157          | (7.6)        | 145          | 166          | (12.7)       |
| <b>Total gas produced.....</b>                                     | <b>8,789</b>               | <b>8,225</b> | <b>6.9</b>   | <b>8,789</b> | <b>8,412</b> | <b>4.5</b>   |

In the first quarter of 2021, LUKOIL Group's gas production was 8.8 billion cubic meters, which was 6.9% higher quarter-on-quarter, and 4.5% higher year-on-year.

In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where gas is produced mainly from the Nakhodkinskoe and Pyakyakhinskoe fields. Our gas production in Russia decreased by 1.1% compared to the fourth quarter of 2020, and by 9.1% compared to the first quarter of 2020. Dynamics of gas production in Russia was driven by the change in associated petroleum gas production due to the external limitations on oil production. Outside Russia, the main gas production region is Uzbekistan where we have shares in two PSAs. Our international gas production (including our share in associates' production) increased by 15.6% quarter-on-quarter and by 20.8% year-on-year mainly as a result of gas production recovery in Uzbekistan after temporary decline in 2020 due to lower demand from China for gas produced in Uzbekistan amid the COVID-19 pandemic.

**West Qurna-2 project**

The West Qurna-2 field in Iraq is developed under the service contract, signed in January 2010. In May 2018, a Group company and Iraqi party signed a new field development plan, according to which, crude oil production is planned to increase to 800 thousand barrels per day. Starting from 1 May 2020, crude oil production at the field was reduced following the request from the Iraqi government due to the new OPEC+ agreement. In the first quarter of 2021, average daily production at the field was approximately 90 thousand barrels per day below its capacity.

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

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

There are two steps of revenue recognition:

- The Iraqi party, on a quarterly basis, approves invoice for cost recovery and remuneration fee for which the Group is eligible for in the reporting period. Amount of the invoice depends on crude oil production volumes during the period and amount of costs claimed for reimbursement. Approved invoice amount for the reporting quarter is recognized in crude oil sales revenue.

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

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

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

| (millions of US dollars)                  | Costs incurred <sup>1</sup> | Remuneration fee | Crude oil received | Crude oil to be received |
|---|-----------------------------|------------------|--------------------|--------------------------|
| Cumulative at 31 December 2020 .....      | 9,778                       | 675              | 9,868              | 585                      |
| Change in the first quarter of 2021 ..... | 196                         | 31               | 188                | 39                       |
| <b>Cumulative at 31 March 2021 .....</b>  | <b>9,974</b>                | <b>706</b>       | <b>10,056</b>      | <b>624</b>               |

<sup>1</sup> Including prepayments.

The West Qurna-2 project summary is presented below:

|   | Q1 2021              |                          | Q4 2020              |                          | Change, % |        |
|---|----------------------|--------------------------|----------------------|--------------------------|-----------|--------|
|   | (thousand barrels)   | (thousand tonnes)        | (thousand barrels)   | (thousand tonnes)        |           |        |
| Total production .....  | 27,675               | 4,046                    | 28,783               | 4,208                    | (3.8)     | (3.8)  |
| Production related to cost compensation and remuneration .....  | 4,166                | 609                      | 3,168                | 463                      | 31.5      | 31.5   |
| Shipment of compensation crude oil <sup>1</sup> .....   | 3,242                | 474                      | 3,726                | 545                      | (13.0)    | (13.0) |
|   | (millions of rubles) | (millions of US dollars) | (millions of rubles) | (millions of US dollars) |           |        |
| Cost compensation .....   | 14,805               | 199                      | 10,788               | 142                      | 37.2      | 40.1   |
| Remuneration fee .....  | 1,765                | 24                       | 1,894                | 25                       | (6.8)     | (4.0)  |
|   | 16,570               | 223                      | 12,682               | 167                      | 30.7      | 33.5   |
| Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) <sup>1</sup> ..... | 13,995               | 188                      | 11,994               | 157                      | 16.7      | 19.7   |
| Extraction expenses .....   | 4,204                | 57                       | 4,938                | 65                       | (14.9)    | (12.3) |
| Depreciation, depletion and amortization .....  | 10,601               | 143                      | 5,940                | 78                       | 78.5      | 83.3   |
| EBITDA .....  | 12,074               | 162                      | 7,116                | 93                       | 69.7      | 74.2   |

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

|   | Q1                   |                          |                      |                          | Change, % |        |
|---|----------------------|--------------------------|----------------------|--------------------------|-----------|--------|
|   | 2021                 |                          | 2020                 |                          |           |        |
|   | (thousand barrels)   | (thousand tonnes)        | (thousand barrels)   | (thousand tonnes)        |           |        |
| Total production .....  | 27,675               | 4,046                    | 36,688               | 5,364                    | (24.6)    | (24.6) |
| Production related to cost compensation and remuneration .....  | 4,166                | 609                      | 4,930                | 721                      | (15.5)    | (15.5) |
| Shipment of compensation crude oil <sup>1</sup> .....   | 3,242                | 474                      | 3,771                | 551                      | (14.0)    | (14.0) |
|   | (millions of rubles) | (millions of US dollars) | (millions of rubles) | (millions of US dollars) |           |        |
| Cost compensation .....   | 14,805               | 199                      | 14,087               | 212                      | 5.1       | (6.1)  |
| Remuneration fee .....  | 1,765                | 24                       | 2,103                | 32                       | (16.1)    | (25.0) |
|   | 16,570               | 223                      | 16,190               | 244                      | 2.3       | (8.6)  |
| Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) <sup>1</sup> ..... | 13,995               | 188                      | 8,300                | 125                      | 68.6      | 50.4   |
| Extraction expenses .....   | 4,204                | 57                       | 4,344                | 65                       | (3.2)     | (12.3) |
| Depreciation, depletion and amortization .....  | 10,601               | 143                      | 9,812                | 148                      | 8.0       | (3.4)  |
| EBITDA .....  | 12,074               | 162                      | 11,412               | 172                      | 5.8       | (5.8)  |

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

**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020****Refining, marketing and distribution**

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

|  | Q1<br>2021 | Q4<br>2020 | Change,<br>% | Q1<br>2021             | Q1<br>2020 | Change,<br>% |
|--|------------|------------|--------------|------------------------|------------|--------------|
|  |            |            |              | (millions of rubles)   |            |              |
| EBITDA .....   | 120,210    | 46,649     | >100         | 120,210                | 40,291     | >100         |
| in Russia .....                                      | 66,614     | 43,573     | 52.9         | 66,614                 | 61,757     | 7.9          |
| outside Russia .....                                 | 53,596     | 3,076      | >100         | 53,596                 | (21,466)   | >100         |
| Refining expenses at the Group refineries .....      | 27,375     | 25,563     | 7.1          | 27,375                 | 22,274     | 22.9         |
| in Russia .....                                      | 12,337     | 12,539     | (1.6)        | 12,337                 | 9,544      | 29.3         |
| outside Russia .....                                 | 15,038     | 13,024     | 15.5         | 15,038                 | 12,730     | 18.1         |
|  |            |            |              | (rubles per tonne)     |            |              |
| Unit refining expenses at the Group refineries ..... | 1,895      | 1,945      | (2.5)        | 1,895                  | 1,303      | 45.4         |
| in Russia .....                                      | 1,231      | 1,295      | (5.0)        | 1,231                  | 873        | 41.0         |
| outside Russia .....                                 | 3,403      | 3,760      | (9.5)        | 3,403                  | 2,069      | 64.5         |
|  |            |            |              | (US dollars per tonne) |            |              |
| Unit refining expenses at the Group refineries ..... | 25.49      | 25.51      | (0.1)        | 25.49                  | 19.63      | 29.8         |
| in Russia .....                                      | 16.55      | 16.99      | (2.6)        | 16.55                  | 13.15      | 25.9         |
| outside Russia .....                                 | 45.78      | 49.33      | (7.2)        | 45.78                  | 31.17      | 46.9         |

Our refining, marketing and distribution EBITDA was 157.7% higher than in the fourth quarter of 2020. In Russia, refining, marketing and distribution EBITDA increased by 52.9% largely due to an increase in refining margins and throughput volumes, higher positive inventory effect at our refineries, stronger results of our petrochemical business, as well as a seasonal increase in profitability of our power generation business. This growth was restrained by a decrease in results of our retail network. Outside Russia, our refining, marketing and distribution EBITDA increased significantly primarily due to the accounting specifics of our international trading operations, increased throughput volumes, higher positive inventory effect at our refineries, as well as higher refining and trading margins. The ruble appreciation partially offset these positive factors.

Compared to the first quarter of 2020, our refining, marketing and distribution EBITDA increased almost three-fold. In Russia, our downstream EBITDA increased largely due to a change in inventory effect at our refineries, higher refining margins and stronger results of petrochemical business. This was partially offset by lower refinery throughput volumes and retail sales volumes. Outside Russia, our downstream EBITDA increased significantly owing to a change in inventory effect at our refineries, stronger results of retail and trading businesses and the ruble depreciation that was partially offset by a decrease in refining margins.

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

**Refining and petrochemicals**

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

|   | Q1<br>2021    | Q4<br>2020    | Change,<br>%<br>(thousands of tonnes) | Q1<br>2021    | Q1<br>2020    | Change,<br>%  |
|---|---------------|---------------|---------------------------------------|---------------|---------------|---------------|
| Refinery throughput at the Group refineries .....   | 14,444        | 13,145        | 9.9                                   | 14,444        | 17,090        | (15.5)        |
| in Russia .....   | 10,026        | 9,682         | 3.6                                   | 10,026        | 10,937        | (8.3)         |
| outside Russia, including .....   | 4,418         | 3,463         | 27.6                                  | 4,418         | 6,153         | (28.2)        |
| crude oil .....   | 3,788         | 3,085         | 22.8                                  | 3,788         | 5,590         | (32.2)        |
| refined products.....   | 630           | 378           | 66.7                                  | 630           | 563           | 11.9          |
| Refinery throughput at third party refineries .....                                       | -             | 28            | (100.0)                               | -             | 53            | (100.0)       |
| <b>Total refinery throughput.....</b>   | <b>14,444</b> | <b>13,173</b> | <b>9.6</b>                            | <b>14,444</b> | <b>17,143</b> | <b>(15.7)</b> |
| <b>Production of the Group refineries in Russia<sup>1</sup> .....</b>                     | <b>9,468</b>  | <b>9,234</b>  | <b>2.5</b>                            | <b>9,468</b>  | <b>10,353</b> | <b>(8.5)</b>  |
| diesel fuel.....  | 3,863         | 3,760         | 2.7                                   | 3,863         | 4,326         | (10.7)        |
| motor gasoline .....  | 1,685         | 1,479         | 13.9                                  | 1,685         | 1,976         | (14.7)        |
| fuel oil.....   | 890           | 965           | (7.8)                                 | 890           | 791           | 12.5          |
| jet fuel.....   | 550           | 487           | 12.9                                  | 550           | 629           | (12.6)        |
| lubricants and components.....  | 229           | 255           | (10.2)                                | 229           | 248           | (7.7)         |
| straight-run gasoline .....   | 635           | 636           | (0.2)                                 | 635           | 736           | (13.7)        |
| vacuum gas oil.....   | 552           | 438           | 26.0                                  | 552           | -             | -             |
| bitumen.....  | 118           | 145           | (18.6)                                | 118           | 229           | (48.5)        |
| coke .....  | 306           | 257           | 19.1                                  | 306           | 297           | 3.0           |
| bunker fuel.....  | 333           | 576           | (42.2)                                | 333           | 492           | (32.3)        |
| gas products.....   | 71            | 68            | 4.4                                   | 71            | 80            | (11.3)        |
| petrochemicals.....   | 77            | 53            | 45.3                                  | 77            | 100           | (23.0)        |
| other products .....  | 159           | 115           | 38.3                                  | 159           | 449           | (64.6)        |
| <b>Production of the Group refineries outside</b>   |               |               |                                       |               |               |               |
| <b>Russia .....</b>   | <b>4,145</b>  | <b>3,163</b>  | <b>31.0</b>                           | <b>4,145</b>  | <b>5,605</b>  | <b>(26.0)</b> |
| diesel fuel.....  | 1,917         | 1,499         | 27.9                                  | 1,917         | 2,694         | (28.8)        |
| motor gasoline .....  | 646           | 608           | 6.3                                   | 646           | 1,151         | (43.9)        |
| fuel oil.....   | 187           | 171           | 9.4                                   | 187           | 339           | (44.8)        |
| jet fuel.....   | 117           | 127           | (7.9)                                 | 117           | 243           | (51.9)        |
| straight-run gasoline .....   | 648           | 449           | 44.3                                  | 648           | 561           | 15.5          |
| coke .....  | 23            | 24            | (4.2)                                 | 23            | 19            | 21.1          |
| bunker fuel.....  | 360           | 116           | >100                                  | 360           | 154           | >100          |
| gas products.....   | 105           | 88            | 19.3                                  | 105           | 141           | (25.5)        |
| petrochemicals.....   | 11            | 11            | -                                     | 11            | 12            | (8.3)         |
| other products .....  | 131           | 70            | 87.1                                  | 131           | 291           | (55.0)        |
| <b>Refined products produced by the Group.....</b>  | <b>13,613</b> | <b>12,397</b> | <b>9.8</b>                            | <b>13,613</b> | <b>15,958</b> | <b>(14.7)</b> |
| Refined products produced at third party refineries ..                                    | -             | 26            | -                                     | -             | 50            | -             |
| <b>Total refined products produced.....</b>   | <b>13,613</b> | <b>12,423</b> | <b>9.6</b>                            | <b>13,613</b> | <b>16,008</b> | <b>(15.0)</b> |
| Reference: Net of cross-supplies of refined products<br>between the Group refineries..... | 337           | 158           | >100                                  | 337           | 488           | (30.9)        |
| <b>Products produced at petrochemical plants and<br/>facilities .....</b>                 | <b>310</b>    | <b>332</b>    | <b>(6.6)</b>                          | <b>310</b>    | <b>313</b>    | <b>(1.0)</b>  |
| in Russia .....   | 233           | 253           | (7.9)                                 | 233           | 228           | 2.2           |
| outside Russia.....   | 77            | 79            | (2.5)                                 | 77            | 85            | (9.4)         |

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

In the first quarter of 2021, refinery throughput at the Group refineries was 14.4 million tonnes, which is 9.9% higher quarter-on-quarter and 15.5% lower year-on-year. The dynamics of refinery throughput volumes was attributable to scheduled maintenance works and throughput optimization at some of our refineries driven by the changes in macro environment.

In the first quarter of 2021, refinery throughput volumes increased by 3.6% quarter-on-quarter in Russia mainly due to scheduled maintenance works in the fourth quarter of 2020, and increased by 27.6% outside Russia, mainly due to scheduled maintenance works and throughput optimization at refineries in Italy and Bulgaria in the fourth quarter of 2020.

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

**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020****Marketing and trading**

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

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

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

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

|   | Q1<br>2021            | Q4<br>2020    | Change,<br>% | Q1<br>2021    | Q1<br>2020    | Change,<br>%  |
|---|-----------------------|---------------|--------------|---------------|---------------|---------------|
|   | (thousands of tonnes) |               |              |               |               |               |
| <b>Crude oil purchases</b>                                  |                       |               |              |               |               |               |
| In Russia.....  | 274                   | 245           | 11.8         | 274           | 282           | (2.8)         |
| For trading internationally.....                            | 11,136                | 10,807        | 3.0          | 11,136        | 15,498        | (28.1)        |
| For refining internationally .....                          | 3,602                 | 2,880         | 25.1         | 3,602         | 4,184         | (13.9)        |
| Shipment of the West Qurna-2 compensation<br>crude oil..... | 474                   | 545           | (13.0)       | 474           | 551           | (14.0)        |
| <b>Total crude oil purchased .....</b>                      | <b>15,486</b>         | <b>14,477</b> | <b>7.0</b>   | <b>15,486</b> | <b>20,515</b> | <b>(24.5)</b> |

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

|   | Q1<br>2021            | Q4<br>2020    | Change,<br>%  | Q1<br>2021    | Q1<br>2020    | Change,<br>% |
|---|-----------------------|---------------|---------------|---------------|---------------|--------------|
|   | (thousands of tonnes) |               |               |               |               |              |
| <b>Refined products purchases</b>                   |                       |               |               |               |               |              |
| In Russia.....                                      | 277                   | 227           | 22.0          | 277           | 290           | (4.5)        |
| For trading internationally.....                    | 11,517                | 14,820        | (22.3)        | 11,517        | 12,400        | (7.1)        |
| For refining internationally .....                  | 713                   | 266           | >100          | 713           | 634           | 12.5         |
| <b>Total refined products purchased .....</b>       | <b>12,507</b>         | <b>15,313</b> | <b>(18.3)</b> | <b>12,507</b> | <b>13,324</b> | <b>(6.1)</b> |
| <b>Petrochemical products purchases</b>             |                       |               |               |               |               |              |
| In Russia.....                                      | 41                    | 34            | 20.6          | 41            | 40            | 2.5          |
| For trading internationally.....                    | 179                   | 130           | 37.6          | 179           | 103           | 73.8         |
| For refining internationally .....                  | 40                    | 48            | (16.5)        | 40            | 41            | (2.4)        |
| <b>Total petrochemical products purchased .....</b> | <b>260</b>            | <b>212</b>    | <b>22.6</b>   | <b>260</b>    | <b>184</b>    | <b>41.3</b>  |

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

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

|   | Q1<br>2021            | Q4<br>2020     | Change,<br>% | Q1<br>2021     | Q1<br>2020     | Change,<br>%  |
|---|-----------------------|----------------|--------------|----------------|----------------|---------------|
|   | (millions of rubles)  |                |              |                |                |               |
| Exports of crude oil to Customs Union .....                                     | 15,869                | 11,675         | 35.9         | 15,869         | -              | -             |
| Exports of crude oil beyond Customs Union.....                                  | 219,885               | 170,215        | 29.2         | 219,885        | 180,087        | 22.1          |
| <b>Total crude oil exports .....</b>  | <b>235,754</b>        | <b>181,890</b> | <b>29.6</b>  | <b>235,754</b> | <b>180,087</b> | <b>30.9</b>   |
|   | (thousands of tonnes) |                |              |                |                |               |
| Exports of crude oil to Customs Union .....                                     | 568                   | 664            | (14.5)       | 568            | -              | -             |
| Exports of crude oil beyond Customs Union.....                                  | 6,785                 | 7,371          | (8.0)        | 6,785          | 9,082          | (25.3)        |
| <b>Total crude oil exports .....</b>  | <b>7,353</b>          | <b>8,035</b>   | <b>(8.5)</b> | <b>7,353</b>   | <b>9,082</b>   | <b>(19.0)</b> |
| Exports of crude oil through Transneft,<br>excluding ESPO pipeline.....         | 3,794                 | 4,675          | (18.8)       | 3,794          | 5,321          | (28.7)        |
| ESPO pipeline .....   | 680                   | 600            | 13.3         | 680            | 240            | >100          |
| CPC pipeline .....  | 1,394                 | 1,402          | (0.6)        | 1,394          | 1,252          | 11.3          |
| Exports of crude oil through the Group's<br>transportation infrastructure ..... | 1,485                 | 1,358          | 9.4          | 1,485          | 2,269          | (34.6)        |
| <b>Total crude oil exports .....</b>  | <b>7,353</b>          | <b>8,035</b>   | <b>(8.5)</b> | <b>7,353</b>   | <b>9,082</b>   | <b>(19.0)</b> |
| <b>Supply of exported crude oil to refineries .....</b>                         | <b>352</b>            | <b>239</b>     | <b>47.3</b>  | <b>352</b>     | <b>1,337</b>   | <b>(73.7)</b> |
|   | (millions of rubles)  |                |              |                |                |               |
|   | (thousands of tonnes) |                |              |                |                |               |
| <b>Refined and petrochemical products exports .....</b>                         | <b>166,805</b>        | <b>119,827</b> | <b>39.2</b>  | <b>166,805</b> | <b>135,583</b> | <b>23.0</b>   |
| <b>Refined products exports</b>   |                       |                |              |                |                |               |
| diesel fuel.....  | 2,397                 | 2,050          | 16.9         | 2,397          | 2,815          | (14.8)        |
| gasoline .....  | 72                    | 2              | >100         | 72             | 368            | (80.4)        |
| fuel oil.....   | 662                   | 744            | (11.0)       | 662            | 429            | 54.3          |
| jet fuel .....  | 6                     | 10             | (40.0)       | 6              | 6              | -             |
| lubricants and components.....  | 149                   | 167            | (10.8)       | 149            | 174            | (14.4)        |
| gas refinery products.....  | 142                   | 146            | (2.7)        | 142            | 214            | (33.6)        |
| other products .....  | 1,229                 | 1,377          | (10.7)       | 1,229          | 1,025          | 19.9          |
| <b>Total refined products exports .....</b>                                     | <b>4,657</b>          | <b>4,496</b>   | <b>3.6</b>   | <b>4,657</b>   | <b>5,031</b>   | <b>(7.4)</b>  |
| <b>Total petrochemicals exports.....</b>  | <b>110</b>            | <b>102</b>     | <b>7.8</b>   | <b>110</b>     | <b>96</b>      | <b>14.6</b>   |

The volume of our crude oil exports from Russia decreased by 8.5% compared to the fourth quarter of 2020 as a result of higher throughput at our domestic refineries, and decreased by 19.0% compared to the first quarter of 2020 due to crude oil production cut resulting from the new OPEC+ agreement. In the first quarter of 2021, we exported 41.4% of our domestic crude oil production (45.5% in the fourth quarter of 2020 and 44.9% in the first quarter of 2020).

The volume of our refined products exports increased by 3.6% compared to the fourth quarter of 2020 due to a seasonal decrease in domestic demand and higher production volumes, and decreased by 7.4% compared to the first quarter of 2020 due to lower production volumes.

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

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

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

**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

---

In the first quarter of 2021, we sold 2.1 million tonnes of motor fuels via our domestic retail network, which was 9.1% less compared to the fourth quarter of 2020, and 3.3% less compared to the first quarter of 2020. Outside Russia, retail sales decreased by 3.8% compared to the fourth quarter of 2020 and by 3.0% compared to the first quarter of 2020. The decrease in sales volumes compared to the fourth quarter of 2020 was due to seasonality factor, while the decrease compared to the first quarter of 2020 was due to lower demand because of the consequences of the COVID-19 pandemic.

In the first quarter of 2021, our jet fuel deliveries volume net of trading operations amounted to 0.5 million tonnes compared to 0.6 million tonnes in the fourth quarter of 2020 and 0.8 million tonnes in the first quarter of 2020.

In the first quarter of 2021, our bunkering volume net of trading operations amounted to 0.5 million tonnes compared to 0.5 million tonnes in the fourth quarter of 2020 and 0.8 million tonnes in the first quarter of 2020.

**Power generation.** We own commercial electricity and heat generation facilities in the Southern regions of European Russia, Romania and Italy. We also own renewable energy capacity in Russia and abroad. In the first quarter of 2021, our total output of commercial electrical energy was 5.2 billion kWh (4.4 billion kWh in the fourth quarter of 2020 and 5.5 billion kWh in the first quarter of 2020), and our total output of commercial heat energy was approximately 4.6 million Gcal (3.6 million Gcal in the fourth quarter of 2020 and 4.2 million Gcal in the first quarter of 2020).



**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020****Financial results**

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

|  | Q1<br>2021           | Q4<br>2020      | Change,<br>%   | 2021            | Q1<br>2020      | Change,<br>%   |
|--|----------------------|-----------------|----------------|-----------------|-----------------|----------------|
|  | (millions of rubles) |                 |                |                 |                 |                |
| <b>Revenues</b>  |                      |                 |                |                 |                 |                |
| Sales (including excise and export tariffs).....   | 1,876,483            | 1,530,339       | 22.6           | 1,876,483       | 1,665,985       | 12.6           |
| <b>Costs and other deductions</b>  |                      |                 |                |                 |                 |                |
| Operating expenses .....   | (116,038)            | (113,987)       | 1.8            | (116,038)       | (111,518)       | 4.1            |
| Cost of purchased crude oil, gas and products.....   | (1,029,125)          | (843,611)       | 22.0           | (1,029,125)     | (971,675)       | 5.9            |
| Transportation expenses .....  | (68,018)             | (71,893)        | (5.4)          | (68,018)        | (80,059)        | (15.0)         |
| Selling, general and administrative expenses .....   | (46,032)             | (56,018)        | (17.8)         | (46,032)        | (45,109)        | 2.0            |
| Depreciation, depletion and amortization.....  | (113,714)            | (90,558)        | 25.6           | (113,714)       | (110,718)       | 2.7            |
| Taxes other than income taxes .....  | (236,612)            | (148,479)       | 59.4           | (236,612)       | (193,708)       | 22.1           |
| Excise and export tariffs .....  | (65,865)             | (104,160)       | (36.8)         | (65,865)        | (112,679)       | (41.5)         |
| Exploration expenses.....  | (413)                | (2,579)         | (84.0)         | (413)           | (394)           | 4.8            |
| <b>Profit from operating activities .....</b>  | <b>200,666</b>       | <b>99,054</b>   | <b>&gt;100</b> | <b>200,666</b>  | <b>40,125</b>   | <b>&gt;100</b> |
| Finance income .....   | 2,164                | 1,930           | 12.1           | 2,164           | 4,811           | (55.0)         |
| Finance costs .....  | (9,351)              | (10,853)        | (13.8)         | (9,351)         | (10,249)        | (8.8)          |
| Equity share in income of associates and joint ventures .....  | 6,488                | 3,017           | >100           | 6,488           | 4,431           | 46.4           |
| Foreign exchange (loss) gain.....  | (1,145)              | 12,460          | -              | (1,145)         | (14,910)        | (92.3)         |
| Other income (expenses) .....  | 157                  | (44,790)        | -              | 157             | (46,614)        | -              |
| <b>Profit (loss) before income taxes.....</b>  | <b>198,979</b>       | <b>60,818</b>   | <b>&gt;100</b> | <b>198,979</b>  | <b>(22,406)</b> | <b>-</b>       |
| Current income taxes.....  | (36,369)             | (19,321)        | 88.2           | (36,369)        | (17,038)        | >100           |
| Deferred income taxes.....   | (4,643)              | (11,535)        | (59.7)         | (4,643)         | (6,340)         | (26.8)         |
| <b>Total income tax expense .....</b>  | <b>(41,012)</b>      | <b>(30,856)</b> | <b>32.9</b>    | <b>(41,012)</b> | <b>(23,378)</b> | <b>75.4</b>    |
| <b>Profit (loss) for the period.....</b>   | <b>157,967</b>       | <b>29,962</b>   | <b>&gt;100</b> | <b>157,967</b>  | <b>(45,784)</b> | <b>-</b>       |
| <b>Profit (loss) for the period attributable to:</b>   |                      |                 |                |                 |                 |                |
| PJSC LUKOIL shareholders .....   | 157,427              | 29,435          | >100           | 157,427         | (45,960)        | -              |
| Non-controlling interests.....   | 540                  | 527             | 2.5            | 540             | 176             | >100           |
| <b>Earnings per share</b>  |                      |                 |                |                 |                 |                |
| Profit (loss) for the period attributable to PJSC LUKOIL shareholders per share of common stock (in Russian rubles): |                      |                 |                |                 |                 |                |
| Basic .....  | 241.27               | 45.11           | >100           | 241.27          | (71.11)         | -              |
| Diluted .....  | 230.69               | 43.38           | >100           | 230.69          | (71.11)         | -              |

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

**PJSC LUKOIL**
**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**
**Sales revenues**

| Sales breakdown  | Q1<br>2021       | Q4<br>2020       | Change,<br>% | Q1<br>2021       | Q1<br>2020       | Change,<br>% |
|--|------------------|------------------|--------------|------------------|------------------|--------------|
| (millions of rubles)   |                  |                  |              |                  |                  |              |
| <b>Crude oil</b>   |                  |                  |              |                  |                  |              |
| Export and sales on international markets other than Customs Union ..... | 633,361          | 455,450          | 39.1         | 633,361          | 616,744          | 2.7          |
| Export and sales to Customs Union .....                                  | 15,864           | 11,610           | 36.6         | 15,864           | -                | -            |
| Domestic sales .....   | 13,894           | 4,031            | >100         | 13,894           | 7,494            | 85.4         |
|  | <b>663,119</b>   | <b>471,091</b>   | <b>40.8</b>  | <b>663,119</b>   | <b>624,238</b>   | <b>6.2</b>   |
| Cost compensation and remuneration at the West Qurna-2 project .....     | 16,570           | 12,682           | 30.7         | 16,570           | 16,190           | 2.3          |
|  | <b>679,689</b>   | <b>483,773</b>   | <b>40.5</b>  | <b>679,689</b>   | <b>640,428</b>   | <b>6.1</b>   |
| <b>Refined products</b>  |                  |                  |              |                  |                  |              |
| Export and sales on international markets                                |                  |                  |              |                  |                  |              |
| Wholesales .....   | 795,370          | 661,087          | 20.3         | 795,370          | 645,799          | 23.2         |
| Retail .....   | 87,111           | 82,813           | 5.2          | 87,111           | 74,488           | 16.9         |
| Domestic sales   |                  |                  |              |                  |                  |              |
| Wholesales .....   | 87,312           | 81,085           | 7.7          | 87,312           | 96,818           | (9.8)        |
| Retail .....   | 106,347          | 115,573          | (8.0)        | 106,347          | 106,686          | (0.3)        |
|  | <b>1,076,140</b> | <b>940,558</b>   | <b>14.4</b>  | <b>1,076,140</b> | <b>923,791</b>   | <b>16.5</b>  |
| <b>Petrochemicals</b>  |                  |                  |              |                  |                  |              |
| Export and sales on international markets .....                          | 24,429           | 14,921           | 63.7         | 24,429           | 15,791           | 54.7         |
| Domestic sales .....   | 12,689           | 10,474           | 21.1         | 12,689           | 10,428           | 21.7         |
|  | <b>37,118</b>    | <b>25,395</b>    | <b>46.2</b>  | <b>37,118</b>    | <b>26,219</b>    | <b>41.6</b>  |
| <b>Gas</b>   |                  |                  |              |                  |                  |              |
| Sales on international markets .....                                     | 28,158           | 30,280           | (7.0)        | 28,158           | 25,037           | 12.5         |
| Domestic sales .....   | 7,626            | 8,190            | (6.9)        | 7,626            | 8,588            | (11.2)       |
|  | <b>35,784</b>    | <b>38,470</b>    | <b>(7.0)</b> | <b>35,784</b>    | <b>33,625</b>    | <b>6.4</b>   |
| <b>Sales of energy and related services</b>                              |                  |                  |              |                  |                  |              |
| Sales on international markets .....                                     | 2,061            | 1,923            | 7.2          | 2,061            | 2,748            | (25.0)       |
| Domestic sales .....   | 19,840           | 15,903           | 24.8         | 19,840           | 17,580           | 12.9         |
|  | <b>21,901</b>    | <b>17,826</b>    | <b>22.9</b>  | <b>21,901</b>    | <b>20,328</b>    | <b>7.7</b>   |
| <b>Other</b>   |                  |                  |              |                  |                  |              |
| Export and sales on international markets .....                          | 15,541           | 13,923           | 11.6         | 15,541           | 12,275           | 26.6         |
| Domestic sales .....   | 10,310           | 10,394           | (0.8)        | 10,310           | 9,319            | 10.6         |
|  | <b>25,851</b>    | <b>24,317</b>    | <b>6.3</b>   | <b>25,851</b>    | <b>21,594</b>    | <b>19.7</b>  |
| <b>Total sales .....</b>   | <b>1,876,483</b> | <b>1,530,339</b> | <b>22.6</b>  | <b>1,876,483</b> | <b>1,665,985</b> | <b>12.6</b>  |

**PJSC LUKOIL**
**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

| Sales volumes   | Q1<br>2021    | Q4<br>2020    | Change,<br>% | Q1<br>2021    | Q1<br>2020    | Change,<br>%  |
|---|---------------|---------------|--------------|---------------|---------------|---------------|
| (thousands of tonnes)   |               |               |              |               |               |               |
| <b>Crude oil</b>  |               |               |              |               |               |               |
| Export and sales on international markets other than Customs Union .....                          | 19,637        | 18,687        | 5.1          | 19,637        | 23,905        | (17.9)        |
| Export and sales to Customs Union.....  | 568           | 669           | (15.1)       | 568           | -             | -             |
| Domestic sales.....   | 489           | 190           | >100         | 489           | 420           | 16.4          |
|   | <b>20,694</b> | <b>19,546</b> | <b>5.9</b>   | <b>20,694</b> | <b>24,325</b> | <b>(14.9)</b> |
| Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project ..... | 609           | 463           | 31.5         | 609           | 721           | (15.5)        |
|   | <b>21,303</b> | <b>20,009</b> | <b>6.5</b>   | <b>21,303</b> | <b>25,046</b> | <b>(14.9)</b> |
| <b>Refined products</b>   |               |               |              |               |               |               |
| <b>Export and sales on international markets</b>  |               |               |              |               |               |               |
| Wholesales .....  | 20,292        | 21,703        | (6.5)        | 20,292        | 20,709        | (2.0)         |
| Retail.....   | 898           | 933           | (3.8)        | 898           | 926           | (3.0)         |
| <b>Domestic sales</b>   |               |               |              |               |               |               |
| Wholesales .....  | 2,656         | 2,726         | (2.6)        | 2,656         | 3,283         | (19.1)        |
| Retail.....   | 2,116         | 2,327         | (9.1)        | 2,116         | 2,188         | (3.3)         |
|   | <b>25,962</b> | <b>27,689</b> | <b>(6.2)</b> | <b>25,962</b> | <b>27,106</b> | <b>(4.2)</b>  |
| <b>Petrochemicals</b>   |               |               |              |               |               |               |
| Export and sales on international markets .....   | 335           | 284           | 18.0         | 335           | 310           | 8.1           |
| Domestic sales.....   | 188           | 190           | (1.1)        | 188           | 212           | (11.3)        |
|   | <b>523</b>    | <b>474</b>    | <b>10.3</b>  | <b>523</b>    | <b>522</b>    | <b>0.2</b>    |
| (millions of cubic meters)  |               |               |              |               |               |               |
| <b>Gas</b>  |               |               |              |               |               |               |
| Sales on international markets.....   | 4,661         | 4,223         | 10.4         | 4,661         | 3,424         | 36.1          |
| Domestic sales.....   | 2,904         | 3,107         | (6.5)        | 2,904         | 3,392         | (14.4)        |
|   | <b>7,565</b>  | <b>7,330</b>  | <b>3.2</b>   | <b>7,565</b>  | <b>6,816</b>  | <b>11.0</b>   |

| Realized average sales prices                          |                             | Q1<br>2021 | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|--|-----------------------------|------------|------------|--------------|------------|------------|--------------|
| <b>Average realized price on international markets</b> |                             |            |            |              |            |            |              |
| Crude oil (beyond Customs Union) <sup>1</sup> ..       | (RUB/barrel)                | 4,400      | 3,325      | 32.3         | 4,400      | 3,520      | 25.0         |
| Crude oil (Customs Union) .....                        | (RUB/barrel)                | 3,810      | 2,368      | 60.9         | 3,810      | -          | -            |
| <b>Refined products</b>                                |                             |            |            |              |            |            |              |
| Wholesales.....  | (RUB/tonne)                 | 39,196     | 30,461     | 28.7         | 39,196     | 31,184     | 25.7         |
| Retail.....  | (RUB/tonne)                 | 97,006     | 88,760     | 9.3          | 97,006     | 80,441     | 20.6         |
| Petrochemicals .....                                   | (RUB/tonne)                 | 72,922     | 52,539     | 38.8         | 72,922     | 50,939     | 43.2         |
| Gas (excluding royalty).....                           | (RUB/1,000 m <sup>3</sup> ) | 6,041      | 7,170      | (15.7)       | 6,041      | 7,312      | (17.4)       |
| Crude oil (beyond Customs Union) <sup>1</sup> ..       | (\$/barrel)                 | 59.19      | 43.62      | 35.7         | 59.19      | 53.02      | 11.6         |
| Crude oil (Customs Union) .....                        | (\$/barrel)                 | 51.25      | 31.06      | 65.0         | 51.25      | -          | -            |
| <b>Refined products</b>                                |                             |            |            |              |            |            |              |
| Wholesales.....  | (\$/tonne)                  | 527        | 400        | 31.9         | 527        | 470        | 12.2         |
| Retail.....  | (\$/tonne)                  | 1,305      | 1,164      | 12.1         | 1,305      | 1,212      | 7.7          |
| Petrochemicals .....                                   | (\$/tonne)                  | 981        | 689        | 42.3         | 981        | 767        | 27.8         |
| Gas (excluding royalty).....                           | (\$/1,000 m <sup>3</sup> )  | 81         | 94         | (13.6)       | 81         | 110        | (26.2)       |
| <b>Average realized price within Russia</b>            |                             |            |            |              |            |            |              |
| Crude oil.....   | (RUB/barrel)                | 3,876      | 2,894      | 33.9         | 3,876      | 2,434      | 59.2         |
| <b>Refined products</b>                                |                             |            |            |              |            |            |              |
| Wholesales.....  | (RUB/tonne)                 | 32,873     | 29,745     | 10.5         | 32,873     | 29,491     | 11.5         |
| Retail.....  | (RUB/tonne)                 | 50,259     | 49,666     | 1.2          | 50,259     | 48,760     | 3.1          |
| Petrochemicals .....                                   | (RUB/tonne)                 | 67,495     | 55,126     | 22.4         | 67,495     | 49,189     | 37.2         |
| Gas <sup>2</sup> .....                                 | (RUB/1,000 m <sup>3</sup> ) | 2,626      | 2,636      | (0.4)        | 2,626      | 2,532      | 3.7          |

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

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

**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

Compared to the fourth quarter of 2020, our revenues were positively impacted by higher international crude oil and refined products prices, an increase in crude oil production volumes as a result of partial lifting of the external limitations under the new OPEC+ agreement, as well as an increase in crude oil trading volumes. Among main adverse factors were lower volumes of refined products trading, a seasonal decrease in retail sales volumes, and the ruble appreciation.

Compared to the first quarter of 2020, our revenues were positively impacted by an increase in international hydrocarbon prices and the ruble depreciation. This was partially offset by lower crude oil production, refinery throughput and trading volumes.

*Sales of crude oil*

Compared to the fourth quarter of 2020, our crude oil sales revenue both in and outside Russia increased by 244.7% and by 39.1%, respectively, largely as a result of an increase in crude oil prices, production volumes in Russia, and international trading volumes.

Compared to the first quarter of 2020, our international crude oil sales revenue increased by 2.7%, mainly as a result of an increase in crude oil prices by 25.0%, as well as the ruble depreciation, despite lower sales volumes. Our domestic crude oil sales revenue increased by 85.4%, owing to an increase in crude oil prices by 59.2% and sales volumes by 16.4%.

*Sales of refined products*

| Sales breakdown                           | Q1<br>2021           | Q4<br>2020     | Change,<br>% | Q1<br>2021       | Q1<br>2020     | Change,<br>% |
|---|----------------------|----------------|--------------|------------------|----------------|--------------|
|   | (millions of rubles) |                |              |                  |                |              |
| <b>Wholesales outside Russia.....</b>     | <b>795,370</b>       | <b>661,087</b> | <b>20.3</b>  | <b>795,370</b>   | <b>645,799</b> | <b>23.2</b>  |
| diesel fuel.....                          | 286,228              | 260,899        | 9.7          | 286,228          | 278,118        | 2.9          |
| motor gasoline.....                       | 145,463              | 122,540        | 18.7         | 145,463          | 123,248        | 18.0         |
| fuel oil.....                             | 120,564              | 127,681        | (5.6)        | 120,564          | 103,298        | 16.7         |
| jet fuel.....                             | 14,762               | 5,017          | >100         | 14,762           | 9,073          | 62.7         |
| lubricants and components.....            | 19,357               | 18,500         | 4.6          | 19,357           | 17,587         | 10.1         |
| gas products.....                         | 21,279               | 21,336         | (0.3)        | 21,279           | 23,341         | (8.8)        |
| others.....                               | 187,717              | 105,114        | 78.6         | 187,717          | 91,134         | >100         |
| <b>Retail outside Russia .....</b>        | <b>87,111</b>        | <b>82,813</b>  | <b>5.2</b>   | <b>87,111</b>    | <b>74,488</b>  | <b>16.9</b>  |
| <b>Wholesales in Russia .....</b>         | <b>87,312</b>        | <b>81,085</b>  | <b>7.7</b>   | <b>87,312</b>    | <b>96,818</b>  | <b>(9.8)</b> |
| diesel fuel.....                          | 27,117               | 26,104         | 3.9          | 27,117           | 27,810         | (2.5)        |
| motor gasoline.....                       | 11,689               | 10,327         | 13.2         | 11,689           | 9,996          | 16.9         |
| fuel oil.....                             | 4,267                | 2,514          | 69.7         | 4,267            | 2,734          | 56.1         |
| jet fuel.....                             | 17,412               | 16,779         | 3.8          | 17,412           | 29,293         | (40.6)       |
| lubricants and components.....            | 7,211                | 6,513          | 10.7         | 7,211            | 5,843          | 23.4         |
| gas products.....                         | 3,390                | 4,038          | (16.0)       | 3,390            | 2,301          | 47.3         |
| others.....                               | 16,226               | 14,810         | 9.6          | 16,226           | 18,841         | (13.9)       |
| <b>Retail in Russia .....</b>             | <b>106,347</b>       | <b>115,573</b> | <b>(8.0)</b> | <b>106,347</b>   | <b>106,686</b> | <b>(0.3)</b> |
| <b>Total refined products sales .....</b> | <b>1,076,140</b>     | <b>940,558</b> | <b>14.4</b>  | <b>1,076,140</b> | <b>923,791</b> | <b>16.5</b>  |

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

| Sales volumes                              | Q1<br>2021            | Q4<br>2020    | Change,<br>% | Q1<br>2021    | Q1<br>2020    | Change,<br>%  |
|--|-----------------------|---------------|--------------|---------------|---------------|---------------|
|  | (thousands of tonnes) |               |              |               |               |               |
| <b>Wholesales outside Russia .....</b>     | <b>20,292</b>         | <b>21,703</b> | <b>(6.5)</b> | <b>20,292</b> | <b>20,709</b> | <b>(2.0)</b>  |
| diesel fuel .....                          | 6,786                 | 7,795         | (12.9)       | 6,786         | 8,001         | (15.2)        |
| motor gasoline .....                       | 3,268                 | 3,648         | (10.4)       | 3,268         | 3,459         | (5.5)         |
| fuel oil .....                             | 4,135                 | 5,400         | (23.4)       | 4,135         | 4,376         | (5.5)         |
| jet fuel.....                              | 373                   | 143           | >100         | 373           | 265           | 40.8          |
| lubricants and components .....            | 214                   | 289           | (26.0)       | 214           | 296           | (27.7)        |
| gas products.....                          | 537                   | 641           | (16.2)       | 537           | 831           | (35.4)        |
| others .....                               | 4,979                 | 3,787         | 31.5         | 4,979         | 3,481         | 43.0          |
| <b>Retail outside Russia .....</b>         | <b>898</b>            | <b>933</b>    | <b>(3.8)</b> | <b>898</b>    | <b>926</b>    | <b>(3.0)</b>  |
| diesel fuel .....                          | 628                   | 645           | (2.6)        | 628           | 632           | (0.6)         |
| motor gasoline .....                       | 238                   | 251           | (5.2)        | 238           | 257           | (7.4)         |
| gas products.....                          | 32                    | 37            | (13.5)       | 32            | 37            | (13.5)        |
| <b>Wholesales in Russia .....</b>          | <b>2,656</b>          | <b>2,726</b>  | <b>(2.6)</b> | <b>2,656</b>  | <b>3,283</b>  | <b>(19.1)</b> |
| diesel fuel .....                          | 659                   | 650           | 1.4          | 659           | 657           | 0.3           |
| motor gasoline .....                       | 266                   | 256           | 3.9          | 266           | 254           | 4.7           |
| fuel oil .....                             | 226                   | 190           | 18.9         | 226           | 314           | (28.0)        |
| jet fuel.....                              | 535                   | 556           | (3.8)        | 535           | 747           | (28.4)        |
| lubricants and components .....            | 83                    | 88            | (5.7)        | 83            | 91            | (8.8)         |
| gas products.....                          | 122                   | 163           | (25.2)       | 122           | 136           | (10.3)        |
| others .....                               | 765                   | 823           | (7.0)        | 765           | 1,084         | (29.4)        |
| <b>Retail in Russia.....</b>               | <b>2,116</b>          | <b>2,327</b>  | <b>(9.1)</b> | <b>2,116</b>  | <b>2,188</b>  | <b>(3.3)</b>  |
| diesel fuel .....                          | 817                   | 905           | (9.7)        | 817           | 858           | (4.8)         |
| motor gasoline .....                       | 1,286                 | 1,408         | (8.7)        | 1,286         | 1,316         | (2.3)         |
| gas products.....                          | 13                    | 14            | (7.1)        | 13            | 14            | (7.1)         |
| <b>Total refined products volumes.....</b> | <b>25,962</b>         | <b>27,689</b> | <b>(6.2)</b> | <b>25,962</b> | <b>27,106</b> | <b>(4.2)</b>  |

Compared to the fourth and the first quarter of 2020, our refined products sales revenue was positively impacted by higher sales prices.

The first quarter of 2021 vs. the fourth quarter of 2020

- Our revenue from the wholesales of refined products outside Russia increased by 20.3% due to an increase in average realized prices by 28.7% that was partially offset by a decrease in sales volumes by 6.5%.
- International retail revenue increased by 5.2% primarily due to an increase in average realized prices by 9.3%, despite a decrease in sales volumes by 3.8% mainly as a result of a seasonality factor.
- Revenue from the wholesale sales of refined products on the domestic market increased by 7.7% that was largely price-driven.
- Revenue from the retail sales of refined products on the domestic market decreased by 8.0%, mainly as a result of a seasonal decrease in sales volumes.

The first quarter of 2021 vs. the first quarter of 2020

- Our revenue from the wholesales of refined products outside Russia increased by 23.2% as a result of an increase in average realized prices by 25.7%.
- Our international retail revenue increased by 16.9% as a result of an increase in prices, as well as the ruble depreciation.
- Our revenue from the wholesales of refined products on the domestic market decreased by 9.8% primarily as a result of a decrease in sales volumes, that was partially offset by higher average realized prices.
- Our revenue from refined products retail sales in Russia did not change significantly, a decrease in sales volumes was partially offset by an increase in our average realized prices.

**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020***Sales of petrochemical products*

Compared to the fourth quarter of 2020, our revenue from sales of petrochemical products increased by 46.2%, as a result of higher realized prices and trading volumes outside Russia.

Compared to the first quarter of 2020, our revenue from sales of petrochemical products increased by 41.6%, mainly as a result of an increase in trading sales volumes outside Russia and realized prices.

*Sales of gas*

Compared to the fourth quarter of 2020, our revenue from gas sales decreased by 7.0%, as a result of lower international realized sales prices.

A ramp up of our gas trading activities in Europe resulted in an increase in revenue by 6.4% compared to the first quarter of 2020.

*Sales of energy and related services*

Our revenue from sales of energy and related services increased by 22.9% compared to the fourth quarter of 2020, mainly due to a seasonality factor and an increase in volumes of electricity trading, and increased by 7.7% compared to the first quarter of 2020 due to an increase in volumes of electricity trading, that was partly offset by a decrease in sales volumes in Italy.

*Other sales*

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

Compared to the fourth quarter of 2020, revenue from other sales increased by 6.3% largely as a result of increased revenue from transportation services rendered outside Russia, that was partly offset by a decrease in non-petrol revenue of our retail network due to a seasonality factor in Russia and Europe.

Compared to the first quarter of 2020, revenue from other sales increased by 19.7% largely as a result of an increase in revenues from transportation services outside Russia due to higher volumes, as well as an increase in non-petrol revenue of our retail network.

**Operating expenses**

Operating expenses include the following:

|   | Q1<br>2021           | Q4<br>2020     | Change,<br>% | Q1<br>2021     | Q1<br>2020     | Change,<br>% |
|---|----------------------|----------------|--------------|----------------|----------------|--------------|
|   | (millions of rubles) |                |              |                |                |              |
| Hydrocarbon extraction expenses <sup>1</sup> .....    | 44,335               | 46,099         | (3.8)        | 44,335         | 47,315         | (6.3)        |
| Extraction expenses at the West Qurna-2 field.....    | 4,204                | 4,938          | (14.9)       | 4,204          | 4,344          | (3.2)        |
| Own refining expenses .....                           | 27,375               | 25,563         | 7.1          | 27,375         | 22,274         | 22.9         |
| Refining expenses at third-party refineries.....      | -                    | 103            | (100.0)      | -              | 186            | (100.0)      |
| Expenses for feedstock transportation to refineries.. | 11,147               | 10,715         | 4.0          | 11,147         | 15,573         | (28.4)       |
| Power generation and distribution expenses.....       | 8,252                | 8,250          | -            | 8,252          | 7,550          | 9.3          |
| Petrochemical expenses.....                           | 3,349                | 3,700          | (9.5)        | 3,349          | 2,923          | 14.6         |
| Other operating expenses .....                        | 17,376               | 14,619         | 18.9         | 17,376         | 11,353         | 53.1         |
| <b>Total operating expenses.....</b>                  | <b>116,038</b>       | <b>113,987</b> | <b>1.8</b>   | <b>116,038</b> | <b>111,518</b> | <b>4.1</b>   |

<sup>1</sup> 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 27 "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, are not divided by the type of expenses within one company and do not include adjustments related to elimination of intra-group service margin. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020***Hydrocarbon extraction expenses*

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

|   | Q1<br>2021 | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>%         |
|---|------------|------------|--------------|------------|------------|----------------------|
|   |            |            |              |            |            |                      |
|   |            |            |              |            |            | (millions of rubles) |
| Hydrocarbon extraction expenses.....      | 44,335     | 46,099     | (3.8)        | 44,335     | 47,315     | (6.3)                |
| in Russia .....                           | 37,943     | 39,532     | (4.0)        | 37,943     | 41,992     | (9.6)                |
| outside Russia <sup>1</sup> .....         | 6,392      | 6,567      | (2.7)        | 6,392      | 5,323      | 20.1                 |
|   |            |            |              |            |            | (rubles per BOE)     |
| Hydrocarbon unit extraction expenses..... | 235        | 249        | (5.8)        | 235        | 229        | 2.3                  |
| in Russia .....                           | 240        | 251        | (4.3)        | 240        | 233        | 2.9                  |
| outside Russia <sup>1</sup> .....         | 208        | 240        | (13.5)       | 208        | 203        | 2.5                  |

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

Compared to the fourth quarter of 2020, our extraction expenses in Russia decreased by 4.0% despite higher production volumes mainly due to a decrease in maintenance costs and other production costs that was partially offset by an increase in energy costs. Hydrocarbon unit extraction expenses in Russia decreased by 4.3%. Our extraction expenses outside Russia decreased by 2.7% mainly as a result of a decrease in maintenance costs at our projects in Kazakhstan. At the same time, hydrocarbon unit extraction expenses outside Russia decreased by 13.5% mainly due to higher gas production volumes in Uzbekistan and therefore higher share of gas, which has lower unit extraction expenses compared to crude oil, in our hydrocarbon production structure.

Compared to the first quarter of 2020, our extraction expenses in Russia decreased by 9.6% mainly due to lower production volumes and cost reduction programme. However, our hydrocarbon unit extraction expenses increased by 2.9% due to certain share of fixed costs. Outside Russia, our hydrocarbon extraction expenses increased by 20.1% largely as a result of higher extraction expenses in Kazakhstan due to higher payroll costs, a volume-driven increase in extraction expenses in Uzbekistan and Azerbaijan, as well as the ruble depreciation. Our hydrocarbon unit extraction expenses outside Russia increased by only 2.5% as gas has lower unit extraction expenses compared to crude oil.

*Own refining expenses*

|   | Q1<br>2021 | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>%         |
|---|------------|------------|--------------|------------|------------|----------------------|
|   |            |            |              |            |            |                      |
|   |            |            |              |            |            | (millions of rubles) |
| Refining expenses at the Group refineries.....      | 27,375     | 25,563     | 7.1          | 27,375     | 22,274     | 22.9                 |
| in Russia .....                                     | 12,337     | 12,539     | (1.6)        | 12,337     | 9,544      | 29.3                 |
| outside Russia.....                                 | 15,038     | 13,024     | 15.5         | 15,038     | 12,730     | 18.1                 |
|   |            |            |              |            |            | (rubles per tonne)   |
| Unit refining expenses at the Group refineries..... | 1,895      | 1,945      | (2.5)        | 1,895      | 1,303      | 45.4                 |
| in Russia .....                                     | 1,231      | 1,295      | (5.0)        | 1,231      | 873        | 41.0                 |
| outside Russia.....                                 | 3,403      | 3,760      | (9.5)        | 3,403      | 2,069      | 64.5                 |

Compared to the fourth quarter of 2020, refining expenses at the Group refineries increased by 7.1%. In Russia, refining expenses decreased by 1.6%, higher throughput volumes and an increase in consumption of additives were offset by a decrease in maintenance costs. Outside Russia, refining expenses increased by 15.5% as a result of higher throughput volumes, fuel and energy costs, despite the ruble appreciation.

Compared to the first quarter of 2020, expenses at our refineries increased by 22.9%. In Russia, refining expenses increased by 29.3% despite lower production volumes, mainly as a result of an increase in consumption of purchased additives to substitute lower own production, as well as an increase in fuel and energy costs. Outside Russia, despite a decrease in throughput volumes, expenses at our refineries increased by 18.1% mainly due to the ruble depreciation, and an increase in fuel costs.

*Expenses for feedstock transportation to refineries*

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

Our expenses for feedstock transportation to refineries increased by 4.0% compared to the fourth quarter of 2020 mainly due to changes in feedstock supply structure, and by 28.4% compared to the first quarter of 2020 mainly due to lower refinery throughput volumes.

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

|   | Q1<br>2021           | Q4<br>2020    | Change,<br>% | Q1<br>2021    | Q1<br>2020    | Change,<br>%  |
|---|----------------------|---------------|--------------|---------------|---------------|---------------|
|   | (millions of rubles) |               |              |               |               |               |
| Own feedstock transportation to our domestic refineries.....                  | 9,670                | 9,618         | 0.5          | 9,670         | 10,814        | (10.6)        |
| Own feedstock transportation from Russia to our international refineries..... | 253                  | 460           | (45.0)       | 253           | 2,718         | (90.7)        |
| Other feedstock transportation costs outside Russia..                         | 1,224                | 637           | 92.2         | 1,224         | 2,041         | (40.0)        |
| <b>Feedstock transportation to refineries .....</b>                           | <b>11,147</b>        | <b>10,715</b> | <b>4.0</b>   | <b>11,147</b> | <b>15,573</b> | <b>(28.4)</b> |

*Power generation and distribution expenses*

Power generation and distribution expenses did not change significantly compared to the fourth quarter of 2020, and increased by 9.3% compared to the first quarter of 2020.

*Petrochemical expenses*

In the first quarter of 2021, our petrochemical expenses decreased by 9.5%, compared to the fourth quarter of 2020, mainly due to a decrease in maintenance costs and lower production volumes in Russia, and increased by 14.6% compared to the first quarter of 2020 as a result of higher costs of raw materials.

*Other operating expenses*

Other operating expenses include expenses of the Group's upstream and downstream entities that do not relate to their core activities, namely transportation and extraction services, costs of other services provided and goods sold by our production and marketing companies, and of non-core businesses of the Group.

Our other operating expenses increased by 18.9% and by 53.1% compared to the fourth and the first quarter of 2020 that was largely a result of higher volumes of transportation services rendered. Moreover, year-on-year, an increase in expenses was also driven by higher cost of non-petrol goods sold via our retail network.

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

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

|   | Q1<br>2021           | Q4<br>2020     | Change,<br>% | Q1<br>2021       | Q1<br>2020     | Change,<br>%  |
|---|----------------------|----------------|--------------|------------------|----------------|---------------|
|   | (millions of rubles) |                |              |                  |                |               |
| Cost of purchased crude oil in Russia .....                     | 8,356                | 5,354          | 56.1         | 8,356            | 4,873          | 71.5          |
| Cost of purchased crude oil outside Russia .....                | 454,838              | 331,310        | 37.3         | 454,838          | 518,915        | (12.3)        |
| Compensation crude oil related to West Qurna-2 project.....     | 13,995               | 11,994         | 16.7         | 13,995           | 8,300          | 68.6          |
| <b>Cost of purchased crude oil .....</b>                        | <b>477,189</b>       | <b>348,658</b> | <b>36.9</b>  | <b>477,189</b>   | <b>532,088</b> | <b>(10.3)</b> |
| Cost of purchased refined products in Russia.....               | 10,469               | 9,846          | 6.3          | 10,469           | 10,920         | (4.1)         |
| Cost of purchased refined products outside Russia ...           | 491,279              | 457,157        | 7.5          | 491,279          | 380,305        | 29.2          |
| <b>Cost of purchased refined products .....</b>                 | <b>501,748</b>       | <b>467,003</b> | <b>7.4</b>   | <b>501,748</b>   | <b>391,225</b> | <b>28.3</b>   |
| Other purchases .....   | 30,148               | 24,380         | 23.7         | 30,148           | 16,494         | 82.8          |
| Net loss/(gain) from hedging of trading operations...           | 47,303               | 38,224         | 23.8         | 47,303           | (129,641)      | -             |
| Change in crude oil and petroleum products inventory .....      | (27,263)             | (34,654)       | (21.3)       | (27,263)         | 161,509        | -             |
| <b>Total cost of purchased crude oil, gas and products.....</b> | <b>1,029,125</b>     | <b>843,611</b> | <b>22.0</b>  | <b>1,029,125</b> | <b>971,675</b> | <b>5.9</b>    |

In the first quarter of 2021, cost of purchased crude oil, gas and products increased by 22.0% quarter-on-quarter and by 5.9% year-on-year.

An increase in crude oil and refined products purchases compared to the previous quarter was mostly due to higher hydrocarbon prices and higher crude oil trading volumes that was partially offset by lower volumes of international refined products trading.



**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

A year-on-year decrease in crude oil purchases was mostly driven by lower trading volumes that was partially offset by higher crude oil prices. At the same time, an increase in refined products purchases was mainly due to the dynamics in prices. An increase in other purchases compared to the first quarter of 2020 was mostly related to a growth of gas trading activities in Europe. Moreover, year-on-year dynamics of cost of purchased crude oil, gas and products were impacted by the ruble depreciation. In the first quarter of 2020, the Group recognized an inventory valuation provision in the amount of 92 billion RUB, 58 billion RUB of which was related to our trading operations and was offset by the hedging gain.

**Transportation expenses**

|  | Q1<br>2021           | Q4<br>2020    | Change,<br>% | Q1<br>2021    | Q1<br>2020    | Change,<br>%  |
|--|----------------------|---------------|--------------|---------------|---------------|---------------|
|  | (millions of rubles) |               |              |               |               |               |
| Crude oil transportation expenses.....         | 21,939               | 23,260        | (5.7)        | 21,939        | 29,273        | (25.1)        |
| in Russia .....                                | 10,739               | 11,387        | (5.7)        | 10,739        | 11,811        | (9.1)         |
| outside Russia .....                           | 11,200               | 11,873        | (5.7)        | 11,200        | 17,462        | (35.9)        |
| Refined products transportation expenses ..... | 39,533               | 41,205        | (4.1)        | 39,533        | 46,814        | (15.6)        |
| in Russia .....                                | 18,543               | 19,385        | (4.3)        | 18,543        | 22,529        | (17.7)        |
| outside Russia .....                           | 20,990               | 21,820        | (3.8)        | 20,990        | 24,285        | (13.6)        |
| Other transportation expenses .....            | 6,546                | 7,428         | (11.9)       | 6,546         | 3,972         | 64.8          |
| in Russia .....                                | 707                  | 836           | (15.4)       | 707           | 515           | 37.3          |
| outside Russia .....                           | 5,839                | 6,592         | (11.4)       | 5,839         | 3,457         | 68.9          |
| <b>Total transportation expenses .....</b>     | <b>68,018</b>        | <b>71,893</b> | <b>(5.4)</b> | <b>68,018</b> | <b>80,059</b> | <b>(15.0)</b> |

Compared to the fourth quarter of 2020, our expenses for transportation of crude oil and refined products decreased by 5.7% and 4.1%, respectively. In Russia, our expenses for transportation of crude oil decreased mainly as a result of lower export volumes, while a decrease in refined products transportation expenses mainly resulted from an inventory effect. Outside Russia, a decrease in crude oil transportation expenses was due to a decrease in freight rates and a decrease in refined products transportation expenses was generally in line with dynamics of sales volumes.

Compared to the first quarter of 2020, our expenses for transportation of crude oil and refined products decreased by 25.1% and 15.6%, respectively. In Russia, our expenses for transportation of crude oil decreased as a result of lower export volumes that was partly offset by tariffs indexation. Our expenses for transportation of refined products in Russia decreased as a result of lower domestic and export supplies, inventory effect, despite tariffs indexation. Outside Russia, our expenses for transportation of crude oil and refined products decreased mainly as a result of lower sales volumes and a decrease in freight rates that was partially offset by the ruble depreciation.

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

**Selling, general and administrative expenses**

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

|   | Q1<br>2021           | Q4<br>2020    | Change,<br>%  | Q1<br>2021    | Q1<br>2020    | Change,<br>% |
|---|----------------------|---------------|---------------|---------------|---------------|--------------|
|   | (millions of rubles) |               |               |               |               |              |
| Payroll costs included in selling, general and administrative expenses..... | 15,954               | 18,563        | (14.1)        | 15,954        | 15,004        | 6.3          |
| Other selling, general and administrative expenses...                       | 21,512               | 22,991        | (6.4)         | 21,512        | 21,258        | 1.2          |
| Share-based compensation .....  | 7,842                | 7,841         | -             | 7,842         | 7,842         | -            |
| Expenses on allowance for expected credit losses.....                       | 724                  | 6,623         | (89.1)        | 724           | 1,005         | (28.0)       |
| <b>Total selling, general and administrative expenses.....</b>              | <b>46,032</b>        | <b>56,018</b> | <b>(17.8)</b> | <b>46,032</b> | <b>45,109</b> | <b>2.0</b>   |

Our selling, general and administrative expenses decreased by 17.8% compared to the fourth quarter of 2020 mainly as a result of a change in an allowance for expected credit losses, as well as a decrease in payroll costs.

Compared to the first quarter of 2020, our selling, general and administrative expenses increased by 2.0%.

**PJSC LUKOIL****Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020****Depreciation, depletion and amortization**

Compared to the fourth quarter of 2020, our depreciation, depletion and amortization expenses increased by 25.6% mainly owing to recalculation of depletion of fixed assets for the full year in the fourth quarter of 2020 due to an increase in proved developed hydrocarbon reserves at Group's certain fields as at the year-end.

Compared to the fourth quarter of 2020, our depreciation, depletion and amortization expenses increased by 2.7%.

**Equity share in income of associates and joint ventures**

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

In the first quarter of 2021, our share in income of associates and joint ventures increased by 115.0% and by 46.4%, compared to the fourth and the first quarter of 2020, respectively, mainly due to an increase in hydrocarbon prices.

**Taxes other than income taxes**

|   | Q1<br>2021           | Q4<br>2020     | Change,<br>%  | Q1<br>2021     | Q1<br>2020     | Change,<br>% |
|---|----------------------|----------------|---------------|----------------|----------------|--------------|
|   | (millions of rubles) |                |               |                |                |              |
| <b>In Russia</b>                                |                      |                |               |                |                |              |
| Mineral extraction taxes.....                   | 191,441              | 129,118        | 48.3          | 191,441        | 174,539        | 9.7          |
| Tax on additional income .....                  | 27,715               | 2,985          | >100          | 27,715         | 2,211          | >100         |
| Social security taxes and contributions .....   | 7,481                | 6,471          | 15.6          | 7,481          | 7,569          | (1.2)        |
| Property tax .....                              | 6,512                | 6,189          | 5.2           | 6,512          | 6,408          | 1.6          |
| Other taxes.....                                | 590                  | 491            | 20.2          | 590            | 481            | 22.7         |
| <b>Total in Russia .....</b>                    | <b>233,739</b>       | <b>145,254</b> | <b>60.9</b>   | <b>233,739</b> | <b>191,208</b> | <b>22.2</b>  |
| <b>International</b>                            |                      |                |               |                |                |              |
| Mineral extraction taxes.....                   | 6                    | 4              | 50.0          | 6              | 6              | -            |
| Social security taxes and contributions .....   | 1,742                | 1,849          | (5.8)         | 1,742          | 1,450          | 20.1         |
| Property tax .....                              | 295                  | 331            | (10.9)        | 295            | 205            | 43.9         |
| Other taxes.....                                | 830                  | 1,041          | (20.3)        | 830            | 839            | (1.1)        |
| <b>Total internationally .....</b>              | <b>2,873</b>         | <b>3,225</b>   | <b>(10.9)</b> | <b>2,873</b>   | <b>2,500</b>   | <b>14.9</b>  |
| <b>Total taxes other than income taxes.....</b> | <b>236,612</b>       | <b>148,479</b> | <b>59.4</b>   | <b>236,612</b> | <b>193,708</b> | <b>22.1</b>  |

Our taxes other than income taxes increased by 59.4% and by 22.1% compared to the fourth and the first quarter of 2020, respectively, mainly as a result of an increase in mineral extraction tax expense on the back of an increase in the tax rate by 56.8% and by 48.5%, respectively, due to higher crude oil prices and ongoing tax manoeuvre and also as a result of elimination of tax incentives for high-viscous crude oil. This was partially compensated by inventory effect and time lag effect. In the first quarter of 2021, the increase in mineral extraction tax expense was also partially offset by lower crude oil extraction volumes compared to the first quarter of 2020.

TAI expenses increased due to transfer of license areas with depleted reserves to TAI regime since 1 January 2021 and higher crude oil prices.

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).

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

|  | Q1<br>2021            | Q4<br>2020    | Change,<br>%  | Q1<br>2021   | Q1<br>2020    | Change,<br>%  |
|--|-----------------------|---------------|---------------|--------------|---------------|---------------|
|  | (millions of rubles)  |               |               |              |               |               |
| <b>Decrease in extraction taxes from application of reduced rates for crude oil production .....</b> | <b>7,944</b>          | <b>23,235</b> | <b>(65.8)</b> | <b>7,944</b> | <b>24,284</b> | <b>(67.3)</b> |
|  | (thousands of tonnes) |               |               |              |               |               |
| Volume of crude oil production subject to:   |                       |               |               |              |               |               |
| reduced rates (ultra-high viscosity).....  | -                     | 599           | (100.0)       | -            | 601           | (100.0)       |
| reduced rates (tax holidays for specific regions).....   | 302                   | 1,146         | (73.6)        | 302          | 1,053         | (71.3)        |
| reduced rates (low permeability deposits).....   | 512                   | 434           | 18.0          | 512          | 384           | 33.3          |
| reduced rates (Tyumen deposits) .....  | 132                   | 174           | (24.1)        | 132          | 211           | (37.4)        |
| reduced rates (depleted fields) .....  | -                     | 4,358         | (100.0)       | -            | 5,156         | (100.0)       |
| reduced rates (other) .....  | 695                   | 595           | 16.8          | 695          | 690           | 0.7           |
| <b>Total volume of production subject to reduced rates .....</b>                                     | <b>1,641</b>          | <b>7,306</b>  | <b>(77.5)</b> | <b>1,641</b> | <b>8,095</b>  | <b>(79.7)</b> |

A special tax regime is applied for crude oil production at certain Group's offshore fields and deposits. In the first quarter of 2021, volumes of production subject to such regimes amounted to 1,598 thousand tonnes (compared to 1,533 thousand tonnes in the fourth quarter of 2020 and 1,587 thousand tonnes in the first quarter of 2020).

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

|  | Q1<br>2021            | Q4<br>2020   | Change,<br>%   | Q1<br>2021    | Q1<br>2020   | Change,<br>%   |
|--|-----------------------|--------------|----------------|---------------|--------------|----------------|
|  | (millions of rubles)  |              |                |               |              |                |
| <b>Mineral extraction tax for crude oil and gas condensate on license areas under TAI.....</b>       | <b>38,898</b>         | <b>5,483</b> | <b>&gt;100</b> | <b>38,898</b> | <b>4,470</b> | <b>&gt;100</b> |
|  | (thousands of tonnes) |              |                |               |              |                |
| Group 1.....   | 560                   | 496          | 12.9           | 560           | 536          | 4.5            |
| Group 3.....   | 4,012                 | 748          | >100           | 4,012         | 768          | >100           |
| Group 4.....   | 24                    | 23           | 4.3            | 24            | 23           | 4.3            |
| <b>Total volume of crude oil and gas condensate production at license areas subject to TAI .....</b> | <b>4,596</b>          | <b>1,267</b> | <b>&gt;100</b> | <b>4,596</b>  | <b>1,327</b> | <b>&gt;100</b> |

**Excise and export tariffs**

|   | Q1<br>2021           | Q4<br>2020     | Change,<br>%  | Q1<br>2021    | Q1<br>2020     | Change,<br>%  |
|---|----------------------|----------------|---------------|---------------|----------------|---------------|
|   | (millions of rubles) |                |               |               |                |               |
| <b>In Russia</b>                                      |                      |                |               |               |                |               |
| Excise tax on refined products.....                   | 32,344               | 31,438         | 2.9           | 32,344        | 32,084         | 0.8           |
| Excise tax on oil feedstock (excluding damper) .....  | (23,662)             | (9,781)        | >100          | (23,662)      | (11,221)       | >100          |
| Damper .....  | (7,976)              | 11,807         | -             | (7,976)       | 12,524         | -             |
| Crude oil export tariffs.....                         | 12,398               | 14,895         | (16.8)        | 12,398        | 32,151         | (61.4)        |
| Refined products export tariffs .....                 | 6,447                | 7,781          | (17.1)        | 6,447         | 9,187          | (29.8)        |
| <b>Total in Russia .....</b>                          | <b>19,551</b>        | <b>56,140</b>  | <b>(65.2)</b> | <b>19,551</b> | <b>74,725</b>  | <b>(73.8)</b> |
| <b>International</b>                                  |                      |                |               |               |                |               |
| Excise tax and sales taxes on refined products .....  | 46,302               | 47,875         | (3.3)         | 46,302        | 37,934         | 22.1          |
| Crude oil export tariffs.....                         | 20                   | 15             | 33.3          | 20            | 13             | 53.8          |
| Refined products export and import tariffs, net ..... | (8)                  | 130            | -             | (8)           | 7              | -             |
| <b>Total internationally .....</b>                    | <b>46,314</b>        | <b>48,020</b>  | <b>(3.6)</b>  | <b>46,314</b> | <b>37,954</b>  | <b>22.0</b>   |
| <b>Total excise and export tariffs .....</b>          | <b>65,865</b>        | <b>104,160</b> | <b>(36.8)</b> | <b>65,865</b> | <b>112,679</b> | <b>(41.5)</b> |

Compared to the fourth quarter of 2020, crude oil and refined products export tariffs decreased mainly due to inventory effect and export duty lag effect, a decrease in crude oil export volumes beyond Customs Union and also due to a decrease in export duty rates as a result of ongoing tax manoeuvre, which was almost offset by higher crude oil prices.

In the first quarter of 2021, excise tax on refined products in Russia increased compared to the previous quarter mainly due to higher excise taxes rates. Internationally, excise tax expenses decreased due to lower sales volumes and the ruble appreciation.

Compared to the first quarter of 2020, crude oil and refined products export tariffs declined mainly due to export duty lag effect and inventory effect, as well as a decrease in crude oil and refined products export volumes beyond Customs Union. The decrease in refined products export tariffs was partially offset by an increase in the share of exports of heavy refined products with a higher export duty rate.

Compared to the first quarter of 2020, excise tax in Russia did not change significantly, because higher excise taxes rates were offset by lower sales volumes. Internationally, excise tax expenses increase was due to the ruble depreciation and an increase in excise taxes rates in some jurisdictions.

Proceeds from excise tax on feedstock, excluding damper, increased by 141.9% and 110.9% compared to the fourth and the first quarter of 2020, respectively, as a result of excise tax rates increase due to ongoing tax manoeuvre and higher crude oil prices and as a result of improvements in refined products slate. Compared to the first quarter of 2020, the excise tax on feedstock was positively affected by the ruble depreciation, while compared to the fourth quarter of 2020, the excise tax on feedstock was negatively affected by the ruble appreciation. Compared to the first quarter of 2020, positive factors were partially offset by a decrease in refinery throughput volumes.

In the first quarter of 2021, the damper became positive as a result of an increase in export netbacks for gasoline and diesel fuel above respective fixed benchmarks.

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

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

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

In the first quarter of 2021, the Group's net monetary position in other currencies was quite balanced that resulted in relatively insignificant exchange loss on the back of the ruble depreciation during the period. A less balanced negative net monetary position in other currencies and a sizeable ruble appreciation led to a foreign exchange gain of 12 billion RUB in the fourth quarter of 2020. A sharp ruble depreciation in March 2020 resulted in a foreign exchange loss of 15 billion RUB in the first quarter of 2020.

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

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

In the fourth quarter of 2020, the Group recognized an impairment loss for its exploration and production assets in Russia in the amount of 3.0 billion RUB and abroad in the amount of 0.1 billion RUB. The Group also recognized an impairment loss for its refining, marketing and distribution assets in Russia and abroad in the amount of 7.7 billion RUB and 21.6 billion RUB, respectively.

In the first quarter of 2020, the Group recognized an impairment loss for its exploration and production assets in Russia and abroad in the amount of 8 billion RUB, as well as fixed assets and other non-current assets for its refining, marketing and distribution assets outside Russia in the amount of 36 billion RUB.

### **Income taxes**

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

Our total income tax expense increased by 10 billion RUB, or by 32.9%, compared to the fourth quarter of 2020, and increased by 18 billion RUB, or by 75.4%, compared to the first quarter of 2020.

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

**Non-GAAP items reconciliation****EBITDA reconciliation**

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

|   | Q1<br>2021           | Q4<br>2020      | Q1<br>2021      | Q1<br>2020      |
|---|----------------------|-----------------|-----------------|-----------------|
|   | (millions of rubles) |                 |                 |                 |
| <b>Profit (loss) for the period attributable to PJSC LUKOIL shareholders ....</b> | <b>157,427</b>       | <b>29,435</b>   | <b>157,427</b>  | <b>(45,960)</b> |
| Add back  |                      |                 |                 |                 |
| Profit for the period attributable to non-controlling interests .....             | 540                  | 527             | 540             | 176             |
| Income tax expense .....  | 41,012               | 30,856          | 41,012          | 23,378          |
| Financial income .....  | (2,164)              | (1,930)         | (2,164)         | (4,811)         |
| Financial costs .....   | 9,351                | 10,853          | 9,351           | 10,249          |
| Foreign exchange loss (gain) .....  | 1,145                | (12,460)        | 1,145           | 14,910          |
| Equity share in income of associates and joint ventures .....                     | (6,488)              | (3,017)         | (6,488)         | (4,431)         |
| Other expenses .....  | (157)                | 44,790          | (157)           | 46,614          |
| Depreciation, depletion and amortization .....                                    | 113,714              | 90,558          | 113,714         | 110,718         |
| <b>EBITDA .....</b>   | <b>314,380</b>       | <b>189,612</b>  | <b>314,380</b>  | <b>150,843</b>  |
| <b>EBITDA by operating segments</b>   |                      |                 |                 |                 |
| <b>Exploration and production segment</b>   |                      |                 |                 |                 |
| Revenues and other operating income .....   | 598,949              | 448,851         | 598,949         | 437,851         |
| Operating expenses .....  | (65,341)             | (65,934)        | (65,341)        | (70,069)        |
| Cost of purchased crude oil, gas and products .....                               | (35,951)             | (12,546)        | (35,951)        | (19,480)        |
| Transportation expenses .....   | (18,823)             | (19,893)        | (18,823)        | (16,165)        |
| Selling, general and administrative expenses .....                                | (11,519)             | (16,297)        | (11,519)        | (12,986)        |
| Taxes other than income taxes .....   | (228,670)            | (149,506)       | (228,670)       | (179,099)       |
| Excise and export tariffs .....   | (14,439)             | (15,529)        | (14,439)        | (30,482)        |
| Exploration expenses .....  | (413)                | (2,579)         | (413)           | (381)           |
| <b>EBITDA of Exploration and production segment .....</b>                         | <b>223,793</b>       | <b>166,567</b>  | <b>223,793</b>  | <b>109,189</b>  |
| <b>Refining, marketing and distribution segment</b>                               |                      |                 |                 |                 |
| Revenues and other operating income .....   | 1,824,219            | 1,491,819       | 1,824,219       | 1,628,374       |
| Operating expenses .....  | (58,015)             | (55,063)        | (58,015)        | (48,977)        |
| Cost of purchased crude oil, gas and products .....                               | (1,497,515)          | (1,203,280)     | (1,497,515)     | (1,352,377)     |
| Transportation expenses .....   | (58,021)             | (60,222)        | (58,021)        | (73,318)        |
| Selling, general and administrative expenses .....                                | (29,842)             | (31,593)        | (29,842)        | (27,176)        |
| Taxes other than income taxes .....   | (6,644)              | (6,508)         | (6,644)         | (6,351)         |
| Excise and export tariffs .....   | (53,972)             | (88,504)        | (53,972)        | (79,884)        |
| <b>EBITDA of Refining, marketing and distribution segment .....</b>               | <b>120,210</b>       | <b>46,649</b>   | <b>120,210</b>  | <b>40,291</b>   |
| <b>EBITDA of Corporate and other segment .....</b>                                | <b>(11,009)</b>      | <b>(10,629)</b> | <b>(11,009)</b> | <b>(10,689)</b> |
| <b>Elimination .....</b>  | <b>(18,614)</b>      | <b>(12,975)</b> | <b>(18,614)</b> | <b>12,052</b>   |
| <b>EBITDA .....</b>   | <b>314,380</b>       | <b>189,612</b>  | <b>314,380</b>  | <b>150,843</b>  |

**Free cash flow reconciliation**

|   | Q1<br>2021           | Q4<br>2020    | Q1<br>2021     | Q1<br>2020    |
|---|----------------------|---------------|----------------|---------------|
|   | (millions of rubles) |               |                |               |
| Net cash provided by operating activities ..... | 270,845              | 220,643       | 270,845        | 185,730       |
| Capital expenditures .....                      | (107,220)            | (135,161)     | (107,220)      | (130,211)     |
| <b>Free cash flow .....</b>                     | <b>163,625</b>       | <b>85,482</b> | <b>163,625</b> | <b>55,519</b> |

**Liquidity and capital resources**

|   | Q1<br>2021           | Q4<br>2020 | Change,<br>% | Q1<br>2021 | Q1<br>2020 | Change,<br>% |
|---|----------------------|------------|--------------|------------|------------|--------------|
|   | (millions of rubles) |            |              |            |            |              |
| Net cash provided by operating activities.....      | 270,845              | 220,643    | 22.8         | 270,845    | 185,730    | 45.8         |
| including (increase) decrease in working capital .. | (24,081)             | 27,176     | -            | (24,081)   | 46,299     | -            |
| Net cash used in investing activities .....         | (104,692)            | (139,024)  | (24.7)       | (104,692)  | (129,718)  | (19.3)       |
| Net cash used in financing activities .....         | (29,890)             | (156,988)  | (81.0)       | (29,890)   | (151,630)  | (80.3)       |

Changes in operating assets and liabilities:

|   | Q1<br>2021           | Q4<br>2020    | Change,<br>% | Q1<br>2021      | Q1<br>2020    | Change,<br>% |
|---|----------------------|---------------|--------------|-----------------|---------------|--------------|
|   | (millions of rubles) |               |              |                 |               |              |
| (Increase) decrease in accounts receivable .....                      | (66,253)             | 33,137        | -            | (66,253)        | 71,465        | -            |
| (Increase) decrease in inventory .....                                | (62,014)             | (48,398)      | 28.1         | (62,014)        | 164,663       | -            |
| Increase (decrease) in accounts payable .....                         | 104,591              | 57,014        | 83.4         | 104,591         | (164,651)     | -            |
| Increase (decrease) in net taxes other than on<br>income payable..... | 47,601               | (9,639)       | -            | 47,601          | (13,347)      | -            |
| Change in other current assets and liabilities.....                   | (48,006)             | (4,938)       | >100         | (48,006)        | (11,831)      | >100         |
| <b>Total (increase) decrease in working capital .....</b>             | <b>(24,081)</b>      | <b>27,176</b> | <b>-</b>     | <b>(24,081)</b> | <b>46,299</b> | <b>-</b>     |

**Operating activities**

Our primary source of cash flow are funds generated from our operations. Our cash generated from operations increased by 22.8% and by 45.8% compared to the fourth and the first quarter of 2020, respectively, as a result of an increase in profitability of our core operations that was partially offset by an increase in working capital.

**Investing activities**

Compared to the fourth and the first quarter of 2020, our cash used in investing activities decreased by 24.7% and by 19.3%, respectively, largely as a result of a decrease in capital expenditures.

Our capital expenditures decreased by 20.7% and by 17.7% compared to the fourth and the first quarter of 2020, respectively.

**PJSC LUKOIL**

**Management's discussion and analysis of financial condition and results of operations for the three-month periods ended 31 March 2021 and 2020 and 31 December 2020**

|  | Q1<br>2021     | Q4<br>2020     | Change,<br>%  | Q1<br>2021     | Q1<br>2020     | Change,<br>%  |
|--|----------------|----------------|---------------|----------------|----------------|---------------|
| (millions of rubles)                                   |                |                |               |                |                |               |
| <b>Capital expenditures</b>                            |                |                |               |                |                |               |
| Exploration and production                             |                |                |               |                |                |               |
| West Siberia.....                                      | 25,840         | 31,921         | (19.1)        | 25,840         | 45,824         | (43.6)        |
| Timan-Pechora.....                                     | 15,820         | 19,103         | (17.2)        | 15,820         | 19,002         | (16.7)        |
| Ural region.....                                       | 7,471          | 9,280          | (19.5)        | 7,471          | 11,418         | (34.6)        |
| Volga region.....                                      | 9,152          | 25,974         | (64.8)        | 9,152          | 10,175         | (10.1)        |
| Other in Russia.....                                   | 2,380          | 2,803          | (15.1)        | 2,380          | 2,604          | (8.6)         |
| <b>Total in Russia.....</b>                            | <b>60,663</b>  | <b>89,081</b>  | <b>(31.9)</b> | <b>60,663</b>  | <b>89,023</b>  | <b>(31.9)</b> |
| Iraq.....  | 12,836         | 6,565          | 95.5          | 12,836         | 9,885          | 29.9          |
| Other outside Russia.....                              | 4,793          | 6,732          | (28.8)        | 4,793          | 10,673         | (55.1)        |
| <b>Total outside Russia.....</b>                       | <b>17,629</b>  | <b>13,297</b>  | <b>32.6</b>   | <b>17,629</b>  | <b>20,558</b>  | <b>(14.2)</b> |
| <b>Total exploration and production.....</b>           | <b>78,292</b>  | <b>102,378</b> | <b>(23.5)</b> | <b>78,292</b>  | <b>109,581</b> | <b>(28.6)</b> |
| Refining, marketing and distribution                   |                |                |               |                |                |               |
| Russia.....  | 17,034         | 25,277         | (32.6)        | 17,034         | 16,319         | 4.4           |
| refining.....  | 10,287         | 16,152         | (36.3)        | 10,287         | 11,639         | (11.6)        |
| retail.....  | 1,968          | 1,883          | 4.5           | 1,968          | 1,311          | 50.1          |
| other.....   | 4,779          | 7,242          | (34.0)        | 4,779          | 3,369          | 41.9          |
| International.....                                     | 11,153         | 6,298          | 77.1          | 11,153         | 3,731          | >100          |
| refining.....  | 9,876          | 4,753          | >100          | 9,876          | 2,752          | >100          |
| retail.....  | 1,179          | 1,216          | (3.0)         | 1,179          | 957            | 23.2          |
| other.....   | 98             | 329            | (70.2)        | 98             | 22             | >100          |
| <b>Total refining, marketing and distribution.....</b> | <b>28,187</b>  | <b>31,575</b>  | <b>(10.7)</b> | <b>28,187</b>  | <b>20,050</b>  | <b>40.6</b>   |
| Corporate and other.....                               | 741            | 1,208          | (38.7)        | 741            | 580            | 27.8          |
| <b>Total capital expenditures.....</b>                 | <b>107,220</b> | <b>135,161</b> | <b>(20.7)</b> | <b>107,220</b> | <b>130,211</b> | <b>(17.7)</b> |

Compared to the fourth quarter of 2020, a decrease in our upstream capital expenditures in Russia was mainly defined by construction and drilling schedule at our fields in the Caspian Sea, a decrease in production drilling footage due to the new OPEC+ agreement, as well as uneven payment schedule. Quarter-on-quarter dynamics of capital expenditures of our refining and marketing segment were mainly defined by construction schedule of delayed coker unit at our refinery in Nizhny Novgorod, general turn-around works at our international refineries, as well as uneven payment schedule.

Year-on-year decrease in exploration and production capital expenditures in Russia was mainly due to crude oil production cut due to the new OPEC+ agreement that was partially offset by higher capital expenditures of our refining and marketing segment outside Russia due to general turn-around works at our refineries.

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

|  | Q1<br>2021    | Q4<br>2020    | Change,<br>%  | Q1<br>2021    | Q1<br>2020    | Change,<br>%  |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| (millions of rubles)                     |               |               |               |               |               |               |
| West Siberia (Yamal).....                | 2,964         | 3,547         | (16.4)        | 2,964         | 6,627         | (55.3)        |
| Caspian region (Projects in Russia)..... | 6,853         | 24,265        | (71.8)        | 6,853         | 8,431         | (18.7)        |
| Timan-Pechora (Yaregskoye field).....    | 1,069         | 390           | >100          | 1,069         | 2,688         | (60.2)        |
| Iraq (West Qurna-2 project).....         | 12,607        | 6,028         | >100          | 12,607        | 9,268         | 36.0          |
| Iraq (Block-10).....                     | 229           | 537           | (57.4)        | 229           | 617           | (62.9)        |
| Uzbekistan.....                          | 157           | 1,126         | (86.1)        | 157           | 1,439         | (89.1)        |
| <b>Total.....</b>                        | <b>23,879</b> | <b>35,893</b> | <b>(33.5)</b> | <b>23,879</b> | <b>29,070</b> | <b>(17.9)</b> |

**Financing activities**

In the first quarter of 2021, net movements of short-term and long-term debt generated an outflow of 25 billion RUB, compared to an outflow of 108 billion RUB in the fourth quarter of 2020 and an outflow of 11 billion RUB in the first quarter of 2020.

## **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.