



ANNUAL REPORT 2018



A YEAR OF ACHIEVEMENTS

UNLOCKING POTENTIAL, CREATING VALUE

OUR MISSION IS TO SERVE THE INTERESTS OF MANKIND THROUGH THE ENERGY OF NATURAL RESOURCES

LUKOIL is one of the largest publicly traded, vertically integrated oil and gas companies in the world. Each day we improve the quality of life for millions of consumers in over 100 countries around the globe through the supply of our products, power, and heat. We employ over 100,000 people who join their efforts and expertise to ensure the Company's sustainable development.

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References to "PJSC LUKOIL," "LUKOIL Group," "the Group," "LUKOIL," "the Company," "we," and "our" throughout this document are all equivalent for the purposes of this Report and refer to LUKOIL Group, PJSC LUKOIL, and/or its subsidiaries depending upon the context in which the terms are used.





A YEAR OF ACHIEVEMENTS

UNLOCKING POTENTIAL, CREATING VALUE

WE ACHIEVED ALL OF OUR INTERMEDIATE GOALS DURING THE FIRST YEAR OF DELIVERING ON OUR NEW LONG-TERM STRATEGY, AND IN SOME AREAS OUR ACTUAL RESULTS SUBSTANTIALLY EXCEEDED OUR PLANS.

4%

KPI hydrocarbon production growth in 2018¹
2% in 2017

555

RUB billion

KPI free cash flow in 2018
RUB 247 billion in 2017

101%

KPI proved reserves replacement
ratio for liquids
38% in 2017

KPI – key performance indicators of the Group, which define the level of achievement of strategic targets.
For more details on the strategy and KPIs, see page 13, 36.
¹Excluding the West Qurna-2 project



LUKOIL

TODAY

> 30

countries

> 60

Russian regions

1%

of global proved oil reserves

2%

of global oil production

HIGHLIGHTS OF THE YEAR

THE BALTIC SEA

Drilling of the first well at the D41 field.

MOSCOW

Launch of jet refueling complex at Moscow Sheremetyevo airport.

NIZHNY NOVGOROD

Start of construction works at the delayed coker and isomerization units at Nizhny Novgorod Refinery.

TIMAN-PECHORA

Launch of new steam-generation facilities at the Yaregskoye and Usinskoye high-viscosity oil fields.

WEST SIBERIA

Intensive development of low-permeability reservoirs. Increase in the plateau production level at the Imilorskoye field.



MEXICO

Expansion of exploration portfolio in the shallow-waters of the Gulf of Mexico.

IRAQ

Signing of a new development plan for the West Qurna-2 field. Drilling of appraisal wells at the Eridu field (Block 10).

THE CASPIAN SEA

Launch of Phase 2 of the V. Filanovsky field and production ramp up to designed capacity, construction of Phase 3. Launch of Phase 2 of the Yu. Korchagin field. Start of construction works within the Rakushechnoye field development project.

UZBEKISTAN

Launch of Phase 2 of the Kandym Gas Processing Complex. Gas production ramp up to designed capacity.



15.9

billion boe

proved hydrocarbon reserves as at December 31, 2018

2.3

million boe per day

hydrocarbon production in 2018



1.4

million barrels per day

refinery throughput in 2018

15.1

million tonnes

retail sales of petroleum products in 2018



1,115

KPI

RUB billion

EBITDA in 2018

250

KPI

RUB

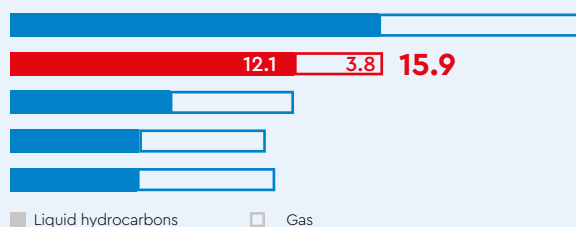
dividend per share in 2018¹

Key performance indicators of the Group, which define the level of achievement of strategic targets. For more details on KPIs, see **page 36**.

STRONG COMPETITIVE ADVANTAGES

Proved hydrocarbon reserves as at December 31, 2018

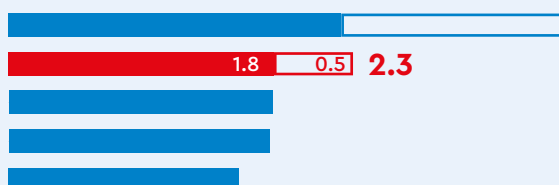
billion boe



■ Liquid hydrocarbons □ Gas

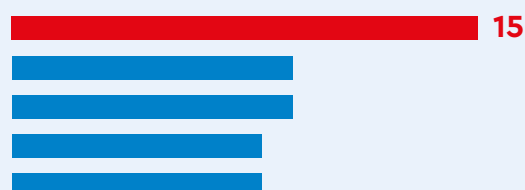
Hydrocarbon production in 2018

million boe per day



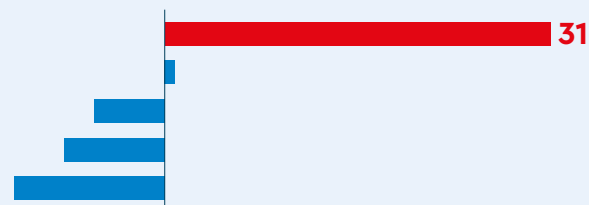
ROACE in 2018

%



TSR (\$) in 2018

%



■ LUKOIL

■ The world's largest international oil companies

¹ Total dividend per share recommended by the Board of Directors for 2018.

PRESIDENT'S LETTER

IN 2018, WE ACHIEVED ALL OF OUR INTERMEDIATE GOALS DURING THE YEAR, AND IN SOME AREAS OUR ACTUAL RESULTS SUBSTANTIALLY EXCEEDED OUR PLANS. BY LEVERAGING OUR STRONG OPERATIONAL PERFORMANCE AND DUE TO IMPROVED MARKET CONDITIONS, WE ACHIEVED RECORD HIGH FINANCIAL RESULTS.

Dear Shareholders,

The year two thousand eighteen, the first year of delivering on our new long-term strategy, became [A YEAR OF ACHIEVEMENTS](#) for LUKOIL. This excellent start has provided us with even greater confidence in successful delivery on our strategic goals.

I am pleased to note that we achieved all of our intermediate goals during the year, and in some areas our actual results substantially exceeded our plans. Hydrocarbon production grew by 4%, we continued to improve our production mix and petroleum product slate while significantly enhancing our focus on optimizing costs, developing technologies, and [UNLOCKING POTENTIAL FOR ORGANIC GROWTH](#).

The macroeconomic environment improved as compared to 2017, although price volatility and uncertainty

remained high in the oil market. In such an environment, our flexible business model, based on a conservative approach to planning and a high level of vertical integration, has once again proved its effectiveness. By leveraging our strong operational performance and due to improved market conditions, we achieved [RECORD HIGH FINANCIAL RESULTS](#).

Our relentless [FOCUS ON CAPITAL ALLOCATION DISCIPLINE](#) and enhancing efficiency contributed to increasing return on average capital employed to 15%. This is an important strategic indicator serving as a performance metric for us.

We successfully develop each of our businesses in full alignment with the approved strategy. In the Upstream segment we not only achieved

15%

ROACE in 2018

+4 p.p.



RECORD HIGH PRODUCTION GROWTH, but also fully replaced our proved liquids reserves in 2018. I would like to specifically emphasize our achievements at our key projects.

We managed to ramp up crude oil production at our flagship Vladimir Filanovsky field in the Caspian Sea to designed capacity **IN RECORD SHORT TIME** by launching the second production platform and using cutting-edge drilling and completion technologies. Production at the field grew by 32% year-on-year, contributing 7% to LUKOIL's total oil output.

The second production platform was put into operation at the Yuri Korchagin field, another Caspian Sea project, resulting in daily crude oil output growth. Final investment decision on the Rakushechnoye field

was **AN IMPORTANT STEP** towards further development of our North Caspian resources. Start of commercial production at the field is planned for 2023.

Our **STRONG TECHNOLOGICAL CAPABILITIES** helped us attain impressive growth rates in high-viscosity oil production in Timan-Pechora and tight oil reservoirs in West Siberia. High-viscosity oil output at the Yaregskoye field and at the Permian reservoir of the Usinskoye field was up 25% year-on-year. Tight oil production at the Vladimir Vinogradov and Imilorskoye fields grew by more than 25%.

We are proud of the successful delivery on our gas projects in Uzbekistan. We launched and ramped up the 8-billion-cubic-meter Kandym gas processing

complex to its designed capacity **SUBSTANTIALLY AHEAD OF SCHEDULE**. This world-class project involved 9 thousand workers at the peak phase of its construction. With the complex coming on stream, our daily gas production in Uzbekistan reached designed capacity and the total gas output increased by 67% year-on-year.

I would like to make a special note on our achievements in managing production at our mature fields. **EFFICIENCY IMPROVEMENTS** helped us reduce production decline in West Siberia to 3% without increasing production drilling rates and the number of well interventions.

We put significant effort during the year into optimizing our cost base in the Upstream segment. Our lifting costs were down 2%, while our per

meter drilling costs in Russia decreased by 5%. We developed and launched targeted cost optimization and efficiency improvement programs.

Our Downstream segment also posted strong performance. An important achievement was the continuing **DECLINE IN THE FUEL OIL OUTPUT**. The share of fuel oil in our petroleum product slate was down to 11% and its total output was reduced by 0.8 million tonnes.

We started construction of a delayed coker complex at our Nizhny Novgorod Refinery. Its launch in 2021 will help reduce our total output of fuel oil by more than 2.5 times. Importantly, our refineries are already well prepared for the potential impact of global IMO-2020 requirements on bunker fuel.

Our achievements in **LOGISTICS OPTIMIZATION** were outstanding. The volume of highly efficient transportation of petroleum products via pipeline grew by 79% year-on-year as the share of railroad transportation decreased. We considerably increased supply volume of our gasoline from Nizhny Novgorod Refinery via pipeline to the Moscow region, as well as pipeline supply of diesel fuel from Volgograd Refinery to the port of Novorossiysk for further exports. These changes allow us to significantly improve marketing efficiency for our products.

We continued to successfully develop our **PRIORITY DISTRIBUTION CHANNELS**. In order to cut costs, we have optimized our retail network management system in Russia. We also

555
RUB billion
Free cash flow in 2018

+125%

continued the modernization program at our filling stations. Gross profit from sales of non-fuel goods and services at filling stations was up 20% year-on-year, while sales of branded ECTO fuels grew by 12%. The launch of the jet refueling complex at the Sheremetyevo Airport in Moscow boosted our high-margin into-plane jet fuel sales by 17%.

RESPONSIBLE BUSINESS CONDUCT

and commitment to sustainable development principles are important priorities in our business activity. We aim at minimizing the environmental impact of our production activities and in the reporting year we were able to improve our performance against all key environmental metrics. For example, as a result of delivering on a range of initiatives, we increased associated petroleum gas use rate to above 97%. This increase became the main contributor to the reduction in our direct greenhouse gas emissions. We delivered full reclamation of the industrial waste generated in 2018 and reduced by 6% the volume of water consumption for our own needs. We also enhanced wastewater purity through modernizing wastewater treatment facilities and decommissioning outdated equipment.

Environmental and industrial safety technologies and standards that we use are in some cases **SUPERIOR TO INTERNATIONAL PRACTICE**.

In particular, when working at our offshore fields, we apply the "zero discharge" principle, which means that all waste without exception is reclaimed onshore. With regard to industrial safety we managed to maintain low injury rates through the adherence to top-tier standards, ongoing personnel training, and effective contractor engagement. We strongly believe that our sustainability efforts are an important factor in creating shareholder value in the long term.

Our financial results for the year reflect our success. We reached an **ALL-TIME HIGH EBITDA** of RUB 1,115 billion. Our net income rose by 1.5 times to

RUB 619 billion. Our free cash flow doubled to RUB 555 billion. The Board of Directors recommended the Annual General Shareholders Meeting to approve total dividends for 2018 in the amount of RUB 250 per share, up 16% year-on-year, which is 12 percentage points above the inflation rate. Our dividends have now been growing for more than twenty consecutive years. The favorable macro environment during the reporting year enabled us to start additional distributions to shareholders via a share buy-back program in line with our new financial policy.

We will not be complacent and will continue to develop the Company in line with the approved strategy. **CREATING SHAREHOLDER VALUE** is our top priority.

ROACE

%

**Dividend per share**

RUB


Vagit Alekperov

President, Chairman of the Management
Committee of PJSC LUKOIL

¹ Total dividend per share for 2018 recommended by the Board of Directors.

CREATING VALUE

CAPITALS



FINANCIAL

We use our own cash flow as well as borrowed funds to finance business development for continuous value creation.

OPERATIONAL

We continuously improve our production capacities to facilitate the conversion of hydrocarbon resources into high value-added products.

INTELLECTUAL

Advanced technologies, patents, and business process automation and digitalization form our competitive advantages.

NATURAL

Our business relies on natural resources: hydrocarbons, air, water, and land.

HUMAN

We invest in developing the skills and talent of over 100 thousand of our professional employees to ensure efficient business growth and asset management.

SOCIAL

Our commitment to sustainability principles, significant contributions to the development of the regions where we operate, and our reputation create a favorable environment for our business.

PROCESSES AND RESULTS

EXPLORATION AND PRODUCTION

Our upstream operations cover 12 countries and are mostly concentrated in Russia, Central Asia, and the Middle East.

REFINING

Our refineries and petrochemical plants are located in close proximity to our key markets in Russia and four European countries. We produce top-grade lubricants in six countries.

MARKETING

We market our products through our own wholesale and retail channels, including an extensive filling station network in 18 countries, vessel bunkering infrastructure in four countries, and aircraft into-plane refueling facilities at 33 airports in Russia. Our trading operations cover all major international markets.

POWER GENERATION

We own power generation and distribution facilities in Bulgaria, Romania, and the south of Russia. Our assets include both gas-fired power plants and renewable energy facilities.

WIDE PRODUCT RANGE

OIL AND GAS

Urals light sour crude oil; light sweet crude oil: Siberian Light oil, Varandey Blend, ESPO Blend, CPC Blend; marketable gas

MOTOR FUEL

Gasoline with octane grades from 92 to 100, diesel fuel, ECTO-branded premium fuels

LUBRICANTS AND BITUMEN

Over 700 lubricant types with various performance properties; bitumen

WE ARE ABLE TO CREATE VALUE FOR A WIDE RANGE OF OUR STAKEHOLDERS THROUGH THE HIGH LEVEL OF EFFICIENCY AND OPERATIONS ACROSS ALL ELEMENTS OF THE VALUE CHAIN, FROM EXPLORATION TO PREMIUM PRODUCT SALES TO END CONSUMERS. OUR PRODUCTS ARE CHARACTERIZED BY HIGH PERFORMANCE. WE ARE A LARGE EMPLOYER AND TAXPAYER, WE INVEST IN SOCIAL PROJECTS, AND ARE CONSTANTLY INCREASING PAYMENTS TO SHAREHOLDERS.

452

RUB billion
CAPEX

1,115

RUB billion
EBITDA



VALUE ALLOCATION IN 2018

EMPLOYEES

218

RUB billion

personnel expenses,
including social expenses

SOCIETY

9

RUB billion

charity
expenses

STATE

1.6

RUB trillion

taxes and duties¹

SHAREHOLDERS

5.7%

dividend yield²

63

RUB billion

share buyback

¹ Excluding VAT.

² The dividend yield for 2018 is a total dividend amount of RUB 250 per share as recommended by the Board of Directors for 2018, divided by the average share price on MOEX in 2018.

BUNKER AND JET FUEL

Fuels for marine and river bunkering,
as well as jet fuel for aircraft refueling

PETROCHEMICAL PRODUCTS

Pyrolysis products, organic chemicals,
fuel fractions, and polymers

ENERGY

Electricity and heat, renewable energy

BUSINESS MODEL



EXPLORATION AND PRODUCTION

EXPLORATION

Unlocking resource potential and building up commercial reserves.

DEVELOPMENT

Field development and construction of supporting infrastructure.

PRODUCTION

Drilling and hydrocarbon production.



REFINING

OIL REFINING

Creating added value by processing crude oil into various petroleum products at eight refineries.

GAS PROCESSING

Efficient use of associated petroleum gas at five gas processing plants and production facilities within oil refineries.

PETROCHEMICALS

Deep conversion of hydrocarbon feedstock into complex petrochemicals at four plants and production facilities within oil refineries.

15.9

billion boe

proved reserves
as at December 31, 2018

26%

share of high-margin projects
in total production

84.6

million tonnes per year

refining capacity as
at December 31, 2018

71%

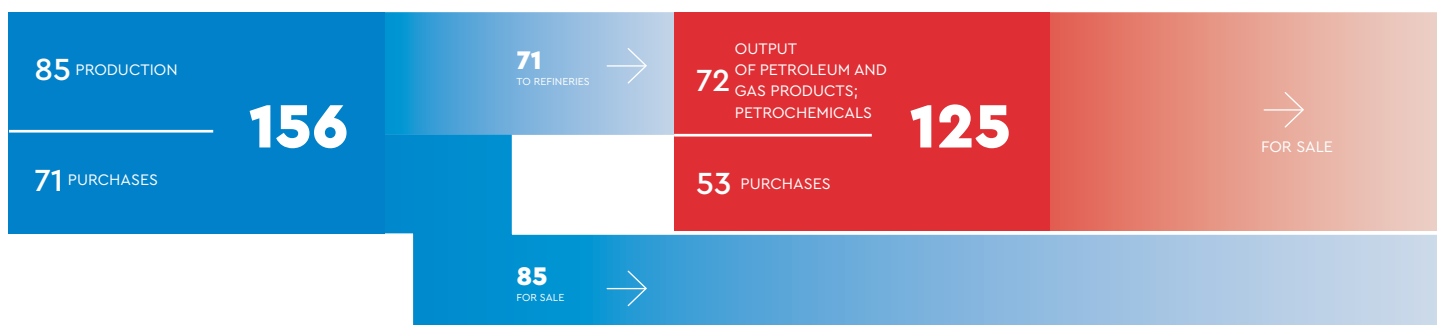
light product yield

CRUDE OIL

million tonnes

PETROLEUM PRODUCTS

million tonnes



OUR BUSINESS MODEL IS BASED ON THE PRINCIPLE OF MAXIMUM VERTICAL INTEGRATION IN ORDER TO CREATE ADDED VALUE AND FURTHER REINFORCE THE HIGH RESILIENCE OF OUR BUSINESS TO THE CHANGING MACROECONOMIC ENVIRONMENT THROUGH RISK DIVERSIFICATION.



INTERNATIONAL TRADING

The most efficient wholesale marketing of our crude oil and petroleum products; supplies to our own refineries and retail networks in Europe. Incremental value added from trading third-party hydrocarbons.

RETAIL

Access to end consumers across various regions, incremental value added from premium fuel sales, additional diversification through non-fuel sales.

LUBRICANT PRODUCTION AND MARKETING

34 production facilities, a priority channel, wide product range, and access to end consumers.

MARINE AND RIVER BUNKERING

A priority premium sales channel with access to end consumers in 20 ports both in Russia and abroad.

AIRCRAFT REFUELING

A priority high-margin channel with access to end consumers, into-plane refueling in 33 airports in Russia.

POWER GENERATION

Heat energy and electric power generation using natural gas, efficient use of associated petroleum gas, supplies of our own production facilities by low-cost energy, access to end consumers.

RENEWABLES

Electric power and heat energy generated from sunlight, wind, and water.

5.2 thousand filling stations as at December 31, 2018

3.2 million tonnes jet fuel sales

6.4 GW commercial and supporting generation capacity as at December 31, 2018

63% share of ECTO-branded fuels in total retail sales volume

70% share of into-plane sales in jet fuel sales

395 MW total capacity of renewable generation as at December 31, 2018

REVENUE

RUB trillion

5.0 PETROLEUM AND GAS PRODUCTS; PETROCHEMICALS

2.7 CRUDE OIL

0.3 OTHER

8

Our product balance reflects key product flows for the Group's crude oil, petroleum and gas products, and petrochemicals, excluding affiliates, heavy product purchases for refining abroad, consumption for operational needs, production losses, changes in inventories, and other items.

LUKOIL's corporate governance structure is presented **on page 82**

Due to rounding, sums of inflows and outflows may differ. Other sales, totaling RUB 0.3 trillion, include non-fuel revenue from filling stations, oil production services, transportation services, leases, and other revenue from non-core operations.

Detailed list of key subsidiaries is presented **on page 134**

FUNDAMENTAL FACTORS

- Growth in global demand for energy due to the increasing world population and growth in GDP per capita
- Evolution of electric vehicles and renewable power generation
- Deteriorating quality of the resource base and depletion of conventional reserves
- Advancements in upstream technology

COMPETITIVE ADVANTAGES

- Vast resource base of liquid hydrocarbons and natural gas
- Low production costs
- Extensive expertise in delivering large projects
- Strong technological expertise

UNLOCKING POTENTIAL



STRATEGY
18–27



PERFORMANCE
IN 2018

MATURE FIELDS

Efficiency improvement, cost reduction



Per barrel lifting costs down 2%, per meter drilling costs in Russia down 5%

Accelerated involvement of hard-to-recover reserves into production



Rapid growth in high-viscosity oil and tight oil production

GREEN FIELDS

Efficient delivery of new projects



Rapid production growth at priority projects

RESOURCE BASE

100% – proved reserves replacement ratio for liquids



101% – proved reserves replacement ratio for liquids

For the list of key performance indicators of the Group, which define the level of achievement of strategic targets see **page 36**



For more details on strategic risks, see Appendix 2: Risks



EXPLORATION AND PRODUCTION STRATEGY

REFINING, MARKETING, AND DISTRIBUTION STRATEGY

FUNDAMENTAL FACTORS

- New global limits on the sulfur content in bunker fuels (MARPOL¹)
- Growing demand for lubricants and petrochemicals
- Growing competition in retail

COMPETITIVE ADVANTAGES

- High complexity of refineries, high-quality petroleum product slate
- Favorable location of refineries and proximity to key markets
- Extensive retail network and premium sales channels

IMPROVING EFFICIENCY



STRATEGY
18–27



PERFORMANCE
IN 2018

EXISTING REFINERIES POST A LARGE-SCALE UPGRADE PROGRAM

Continuous enhancement of operating efficiency of refineries and optimization of maintenance CAPEX



Over 340 optimization measures in 2018

ORGANIC GROWTH PROJECTS

Selective projects at our Russian refineries to enhance our petroleum product slate



Launched construction of a delayed coker complex and an isomerization unit at Nizhny Novgorod Refinery

FILLING STATION NETWORK

Efficiency improvement and sales growth



Operating cost reduction in real terms, sales growth

AIRCRAFT REFUELING AND MARINE BUNKERING

Maintaining a high market share



Maintaining a high market share

ORGANIC GROWTH PROJECTS: LUBRICANTS AND BITUMEN

Focused sales growth and launch of new products



Product range expansion
Maintaining market leadership

¹ IMO's new global sulfur cap for bunker fuels beginning in 2020.

RECORD HIGH PRODUCTION GROWTH

EXPLORATION AND PRODUCTION

4%

hydrocarbon production growth in 2018

26%

share of high-margin projects in total production in 2018

32%

share of complex wells in Russia in 2018



2018 RESULTS

The launch of Phase 2 of the V. Filanovsky field in the Caspian Sea enabled LUKOIL to ramp up oil production at the field to designed capacity. As a result the field produced 6.1 million tonnes of crude oil in 2018. Jackets were installed in the sea for a wellhead platform as part of Phase 3 of the field development. A wellhead platform was commissioned at the Yu. Korchagin field and drilling was commenced as part of Phase 2 of the field development.

In Timan-Pechora the development of the Yaregskoye field and the Permian reservoir of the Usinskoye field, including the launch of new steam-generating facilities, enabled a 24.8% year-on-year growth in high-viscosity oil production, which increased to 4.3 million tonnes.

Oil and gas condensate production at the Pyakyakhinskoye field in the Bolshekhetskaya Depression grew by 4.4% to 1.6 million tonnes, with gas production up 38.5% to 3.9 billion cubic meters.

The first long-reach horizontal well with a step-out of almost 7 km was drilled to completion at the D41 field in the Baltic Sea.

In Uzbekistan, Phase 2 of the Kandym Gas Processing Complex was commissioned ahead of schedule and as a result the average daily gas production reached designed capacity. In 2018, gas production in Uzbekistan amounted to 13.4 billion cubic meters (LUKOIL's share), up 66.7% year-on-year.

Improving efficiency and managing production in core regions

As a result of efficiency improvements made across all operations, the production decline in West Siberia slowed down to 3%, with production drilling volumes and the number of well interventions remaining practically unchanged.

Targeted efficiency improvement programs were developed. Per barrel hydrocarbon lifting costs were down 2%, and drilling costs in Russia were down 5%.

Reserve replacement

Proved reserves replacement ratio for liquids totaled 101%.

Due to application of advanced geological exploration methods, an 86% success rate was achieved in prospecting and exploration drilling and six new fields and 43 deposits were discovered.

Enhancing the technological edge

Active work continued on involving complex reserves into production. The share of horizontal wells in the total number of wells commissioned in 2018 grew by 4 percentage points to 32%.

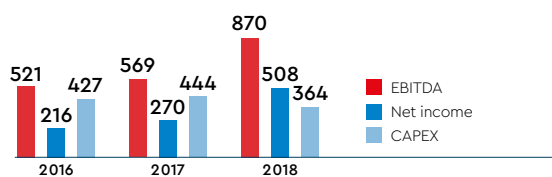
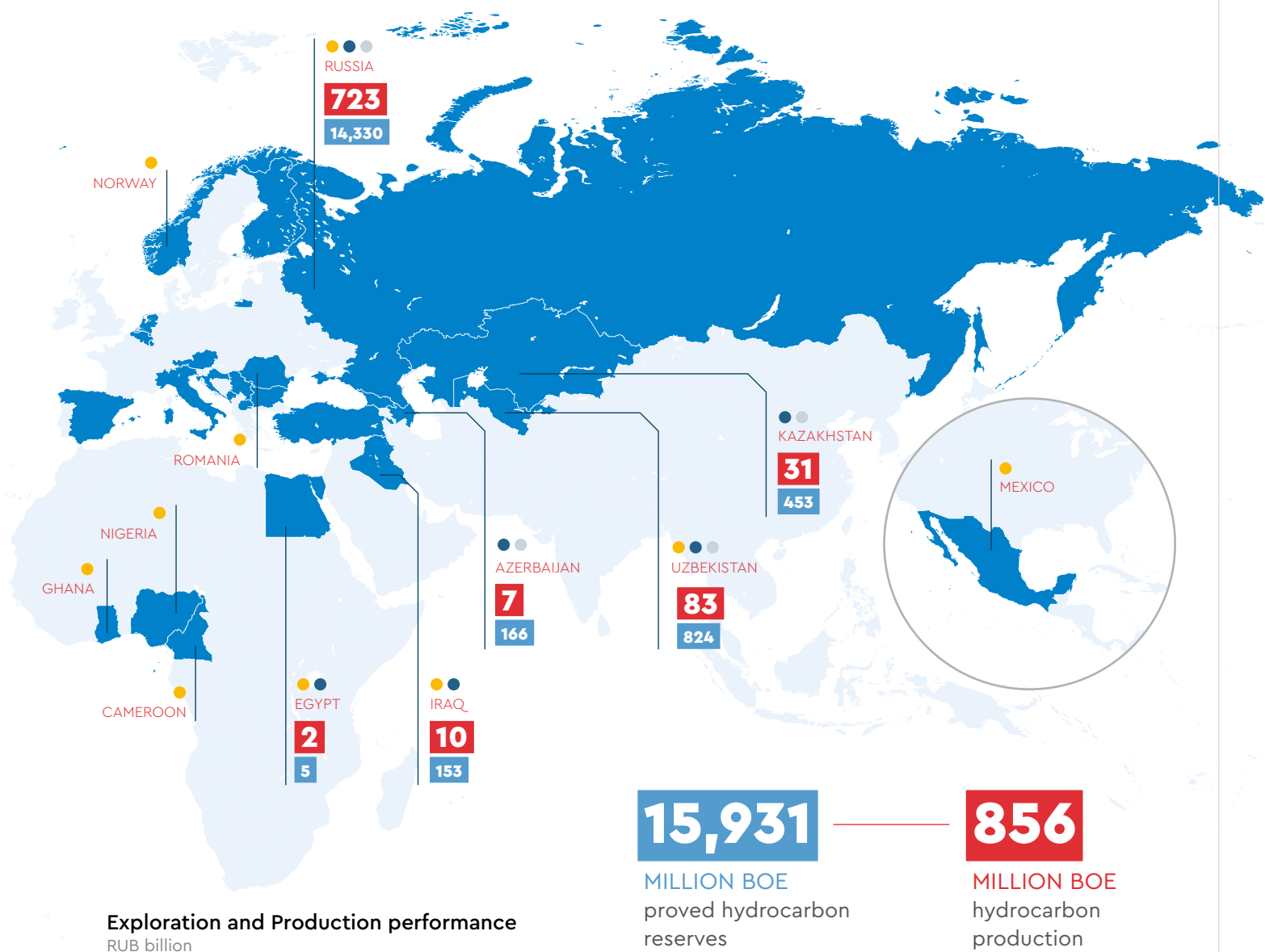
Driven by the use of innovative technology, oil production at the Imilorskoye field increased by 31% to 0.8 million tonnes. The final stage of pilot testing was implemented at the V. Vinogradov field, with production at the field up 15% to 0.4 million tonnes.

Digital programs were built to increase production, improve efficiency, and reduce operating expenses.



2019 AND MID-TERM PRIORITIES

- Exploration works near existing fields and in promising regions to support reserve replacement
- Focus on growth projects: increase in high-viscosity and tight oil production; development of new fields in the Caspian and Baltic seas; implementation of new production plans at mature fields under the EPT; maintaining production at plateau at previously commissioned large fields. Reduction in production decline rates at mature fields
- Implementation of efficiency improvement programs and building up technological expertise in complex reserves development

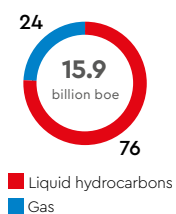


● Exploration
● Oil production
● Gas production

The Group's major Exploration and Production assets as at December 31, 2018.

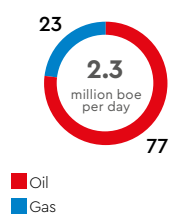
Proved hydrocarbon reserves as at December 31, 2018

%



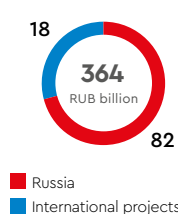
Hydrocarbon production in 2018

%



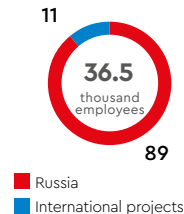
Exploration and Production CAPEX in 2018

%



Average headcount in Exploration and Production in 2018

%



LARGE-SCALE PROJECTS

THE CASPIAN SEA



We continue successful development of large-scale projects in the Caspian Sea to unlock the full potential of the region's resource base. We ramped up our flagship V. Filanovsky field to designed capacity within record short time following the launch of the second production platform in 2018. Jackets were installed in the sea for a wellhead platform as part of Phase 3 of the field development. The second production platform was

commissioned at the Yu. Korchagin field to tap reserves in the eastern part of the reservoir; this resulted in the growth of daily crude oil production at the field. The final investment decision was made and construction works commenced at the Rakushechnoye field development project. We plan to launch the field into commercial production in 2023.





1

**YU. KORCHAGIN
FIELD****DRILLING AT PHASE 2
COMMENCED****20**

thousand barrels per day
production in December 2018

+15%
year-
on-year

2

**V. FILANOVSKY
FIELD****RAMP-UP TO FULL
CAPACITY****6.1**

million tonnes
production in 2018

3

**RAKUSHECHNOYE
FIELD****CONSTRUCTION WORKS
COMMENCED****1.2**

million tonnes of crude oil
production plateau

TECHNOLOGICAL COMPETENCIES

HARD-TO-RECOVER RESERVES



By applying high-impact cutting-edge technologies we attained impressive growth rates in both high-viscosity oil production in Timan-Pechora and tight oil production in West Siberia. To recover high-viscosity oil, we employ and continuously improve unique development and thermal stimulation

techniques, including horizontal drilling. To develop low-permeability reservoirs, we started utilizing horizontal drilling with multi-zone hydro fracturing not only at production well, but also at the injection well stock to build up most efficient reservoir pressure maintenance systems.



**YAREGSKOYE
FIELD****STEAM-GENERATING
CAPACITIES EXPANSION****+51%****1.6**

million tonnes

oil production in 2018

**PERMIAN RESERVOIR
AT THE USINSKOYE FIELD****COMMISSIONING NEW
WELLS, OPTIMIZING
CYCLIC STEAM
INJECTION TECHNOLOGY****+13%****2.6**

million tonnes

oil production in 2018

**IMILORSKOYE
FIELD****USING MZHF;
INCREASING THE DESIGN
PLATEAU PRODUCTION
LEVEL****+31%****0.8**

million tonnes

oil production in 2018

**V. VINOGRADOV
FIELD****FINAL STAGE OF PILOT
TESTING, PREPARATIONS
TO START COMMERCIAL
DEVELOPMENT OF THE
FIELD****+15%****0.4**

million tonnes

oil production in 2018

AHEAD OF SCHEDULE

UZBEKISTAN



We launched Phase 2 of the Kandym Gas Processing Complex (GPC) in Uzbekistan, which is one of the largest in Central Asia, almost six months ahead of schedule. This is a major achievement for a project of such scale and complexity, made possible through application of integrated project approach, as well as a long and robust track record in the region paired with our highly professional

team on site. The GPC capacity is 8 billion cubic meters per year. The complex consists of the first and second process lines, a gas production and gathering system, and an export gas pipeline, external power and water supply facilities and other facilities. Its early launch helped us ramp up the average daily gas production in Uzbekistan to its designed capacity.





1

GISSAR**MAINTAINING DAILY PRODUCTION
PLATEAU LEVEL****4.3**

billion cubic meters

LUKOIL production share in 2018

+32%

2

KANDYM**RAMP-UP TO FULL
CAPACITY****9.1**

billion cubic meters

LUKOIL production share in 2018

+91%

LOWER FUEL OIL YIELD

REFINING, MARKETING, AND DISTRIBUTION

11%

fuel oil yield in 2018

-1 p.p.

9.6

million tonnes

ECTO-branded fuel sales
in 2018

+12%

2.2

million tonnes

into-plane jet fuel sales
in 2018

+17%



2018 RESULTS

Improved petroleum product slate

Fuel oil production by LUKOIL Group's refineries continued to decline and fell by 0.8 million tonnes year-on-year. The fuel oil yield in the total petroleum product slate went down from 12% to 11%. As a result, refining depth increased to 88% in 2018, up 1 percentage point year-on-year.

We continued to work on selective projects in Russia to improve the product slate. In particular, construction of a delayed coker complex began at Nizhny Novgorod Refinery. Its launch is scheduled for 2021 and will considerably reduce the fuel oil output at this refinery. Construction of an isomerization unit also began at Nizhny Novgorod Refinery which will result in higher output of motor gasoline.

Efficiency improvements at the refineries

We have been continuously working on reducing costs and streamlining our processes. All our refineries have annually-updated three-year roadmaps to improve their operational efficiency. The roadmaps provide for a range of capex-free operational improvements and quick-win investments.

Efficiency improvements in logistics

New pipeline capacity launched by Transneft increased our lower-cost pipeline transportation of petroleum products by 78% year-on-year.

Improving sales efficiency and developing premium sales channels

Higher demand and effective marketing fostered a 6% growth in average daily sales per filling station to 10.7 tonnes per day, including an increase to 13.8 tonnes per day at our stations in Russia.

Sales of ECTO-branded premium fuels in Russia were up 12.3% year-on-year and amounted to 9.6 million tonnes.

We continued working on improving the performance of our filling stations through growing non-fuel sales. The gross profit from non-fuel sales grew by 20% year-on-year to RUB 14 billion. The coverage of the expenses of our Russian filling stations by gross profit from non-fuel sales increased by 6 percentage points year-on-year to 39%.

We completed restructuring the management system for our Russian filling station network by grouping eight managing companies into four to improve control and cut costs.

Our into-plane sales increased by 17% to 2.2 million tonnes following the launch of a jet refueling complex at the Moscow Sheremetyevo airport.

Sales of LUKOIL-branded lubricants rose by 2% to 594 thousand tonnes as a result of expanding the product range.



2019 AND MID-TERM PRIORITIES

- Improvement of the product slate through streamlined processes utilization, stronger inter-plant integration, and construction of the delayed coker at Nizhny Novgorod Refinery
- Delivering on our roadmaps for refinery efficiency improvement
- Upgrading and increasing the efficiency of our retail network; delivering on focused growth in the non-fuel segment
- Retaining our high market share in aircraft refueling and marine bunkering
- Ensuring focused growth and launching new products in the lubricants and bitumen segments

RUSSIA

Oil refining

Mini-refineries in Uray
and Kogalym
Nizhny Novgorod Refinery
Perm Refinery
Ukhta Refinery
Volgograd Refinery

Gas processing plants

Korobkovsky GPP
Lokosovsky GPP
Perm Refinery and gas
processing facilities
Stavrolen
Usinsky GPP

Petrochemical plants

Saratovorgsintez
Stavrolen

Power generation

L Astrakhanenergo
L Ecoenergo
L Kubanenergo
L Rostovenergo
L Stavropolenergo
L Volgogradenergo

Lubricant plants

Perm Refinery
Volgograd Refinery

1 AUSTRIA

2 AZERBAIJAN

3 BELARUS

4 BELGIUM

5 BULGARIA

6 GEORGIA

7 SPAIN

8 ITALY

9 LUXEMBOURG

10 MACEDONIA

11 MOLDOVA

12 NETHERLANDS

13 ROMANIA

14 SERBIA

15 TURKEY

16 FINLAND

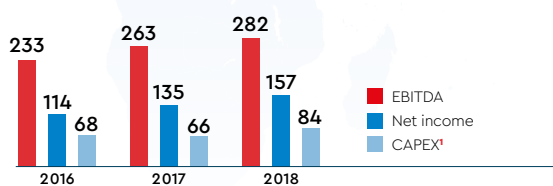
17 CROATIA

18 MONTENEGRO

19 USA

Refining, Marketing, and Distribution performance

RUB billion



* Including non-cash items.

Oil refining

Gas processing

Petrochemicals

Distribution

Power generation

Transshipment

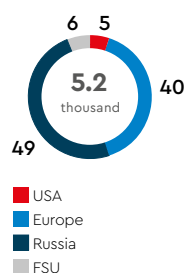
Aircraft refueling

Lubricants

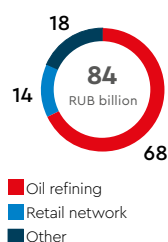
The Group's major Refining, Marketing, and Distribution production assets as at December 31, 2018.
L – LUKOIL.

Retail network² as at December 31, 2018

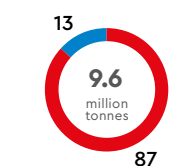
%

**Refining, Marketing, and Distribution CAPEX in 2018**

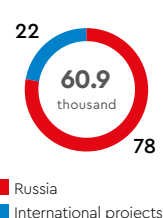
%

**Sales of premium ECTO-branded fuels in 2018**

%

**Average headcount in Refining, Marketing, and Distribution in 2018**

%

² Including owned, leased, and franchised stations.

SELECTIVE PROJECTS

NIZHNY NOVGOROD REFINERY



In 2018, we launched several selective projects aimed at improving our product slate. The largest project is the construction of a delayed coker unit at our Nizhny Novgorod Refinery, which we plan to launch in 2021. It will be the main contributor to reducing LUKOIL Group's total output of fuel oil by two and a half times. The complex will use heavy residues from the refining process as feedstock

and produce mainly diesel fuel, straight-run gasoline, and gas fractions, as well as heavy products such as vacuum gas oil and coke. This project will drive our competitive edge amid the new global limits on the sulfur content in bunker fuel. The construction of an isomerization unit at Nizhny Novgorod Refinery is another selective project aimed at ramping up our output of motor gasoline.





DELAYED COKER COMPLEX

CONSTRUCTION STARTED

2.1

million tonnes

feedstock throughput capacity

ISOMERIZATION UNIT

CONSTRUCTION STARTED

0.8

million tonnes

total capacity of isomerization processes
at Nizhny Novgorod Refinery after the launch
of new unit

ADDED VALUE

PREMIUM SALES CHANNELS



We continued successful development of our premium sales channels, which allow us to maximize the added value of our products. In order to increase efficiency and cut costs, we streamlined our retail network management system in Russia and continued the program for upgrading our filling stations. We

achieved great results in developing our non-fuel sales at filling stations. Sales volumes of premium ECTO-branded motor fuels increased substantially, and we also expanded our oils and lubricants product mix, as well as started to actively develop the polymer bitumen segment.





NON-FUEL GOODS AND SERVICES

20%

growth in gross profit from sales of non-fuel goods and services year-on-year

LUBRICANTS

2%

growth of LUKOIL-branded lubricant sales volumes year-on-year

BUNKERING

4%

growth of bunker fuel sales volumes year-on-year

DOUBLE-DIGIT GROWTH

AIRCRAFT REFUELING

In 2018, our premium into-plane jet fuel sales volumes grew by 17%, while the total volume of jet fuel sales remained almost flat. This impressive growth was primarily driven by the launch of a refueling complex at the Moscow Sheremetyevo airport.

The complex is one of the most technologically advanced in Russia and equipped with an automated process control system as well as a fuel quality testing lab. Developed infrastructure, a fuel farm, and a hydrant system for centralized refueling enable the complex to refuel aircrafts at 27 parking stands.





INTO-PLANE REFUELING

17%

growth of into-plane jet fuel sales
year-on-year

70%

share of into-plane refueling in the
total volume of jet fuel sales

+25 p.p.
over 5 years

SHEREMETYEVO REFUELING COMPLEX

1.2

million tonnes
capacity

HIGH RESPONSIBILITY

IN CONDUCTING OUR BUSINESS WE ADHERE TO THE SUSTAINABILITY PRINCIPLES AND SEEK TO STRIKE A BALANCE BETWEEN THE SOCIETY, THE ECONOMY, AND THE ENVIRONMENT.

102.5

thousand employees

the average headcount at
LUKOIL in 2018

WE SHARE THE PRINCIPLES

OF THE UNITED NATIONS GLOBAL COMPACT AND THE SOCIAL CHARTER OF RUSSIAN BUSINESS, AND ARE COMMITTED TO DELIVERING THE HIGHEST STANDARDS IN ENVIRONMENTAL PROTECTION AND INDUSTRIAL SAFETY.



2018 RESULTS

Reducing our environmental impact

Our key sustainability achievement in 2018 was the increase in the efficient APG (associated petroleum gas) use rate to a record high of 97.4% across the Group, driven by our sustained efforts in upgrading and commissioning new efficient APG use facilities. Air pollutant emissions by the Group's Russian entities were reduced by 14% to 433 thousand tonnes and direct GHG (greenhouse gas) emissions were reduced by 4% to 29.99 million tonnes of CO₂ equivalent. Water consumption for operational needs was reduced by 6%, and failures per 1 km of pipeline system at the Group's Russian entities declined from 0.12 in 2017 to 0.09.

Ensuring industrial safety

In 2018, work-related injury rates remained low across the LUKOIL Group, with the lost-time accident frequency rate at 0.2. The number of fatalities was also lowered (from 4 to 1 year-on-year), and the number of work-related injuries of contractors' employees at LUKOIL's facilities were significantly reduced.

Due to strengthened accountability for HSE compliance, comprehensive training, and higher requirements to our contractors, no accidents occurred at our hazardous production facilities.

HR management

The LUKOIL Group's Set of KPIs was adjusted, enhancing incentives for management to achieve the Company's strategic goals. A number of digital employee performance management projects was developed. The number of employees who completed training courses reached 73% of the average employee headcount, and the number of completed online training courses increased by 30%.

In 2018, PJSC LUKOIL adopted its new Code of Business Conduct and Ethics based on the highest international standards and best practices. The Code also includes social responsibility provisions set out by the conventions of the UN and International Labor Organization.

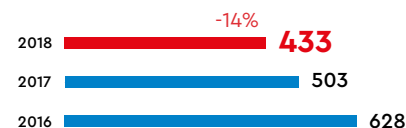


2019 AND MID-TERM PRIORITIES

- Reducing environmental impact
- Supporting social and economic development in regions of operation
- Improving working conditions and the quality of staff education, hands-on training, and employee skills assessments, delivering on digitalization programs
- Leveraging talent pool, improving job rotation

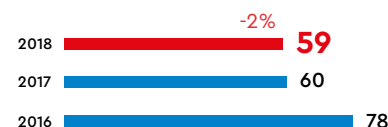
Air pollution emissions by the Group's Russian entities

thousand tonnes



Oil-contaminated land across the Group's Russian entities as at December 31, 2018

hectares



Group's efficient APG use

%



Direct greenhouse gas emissions by the Group's Russian entities

million tonnes of CO₂ equivalent



CORPORATE GOVERNANCE

GENERAL SHAREHOLDERS MEETING

The General Shareholders Meeting is the Company's supreme governance body. The Annual General Shareholders Meeting is held every year in the form of joint attendance.

Two Extraordinary General Shareholders Meetings were also held in 2018 in the form of absentee voting.

BOARD OF DIRECTORS

The Board of Directors is responsible for the general management of the Company's operations for the benefit of its shareholders.

BOARD OF DIRECTORS COMPOSITION

% Executive Directors

% Non-executive Directors

% Independent Directors

Share in the Company's charter capital as at December 31, 2018.

* Percentage of the Company shares which the person directly owns and in which they have a beneficial economic interest.

VALERY GRAYFER

Born in 1929

- Chairman of the Board of Directors
- Non-Executive Director



0.01%

RAVIL MAGANOV

Born in 1954

- Deputy Chairman of the Board of Directors
- Executive Director
- First Executive Vice President (Exploration and Production)
- Member of the Strategy and Investment Committee



0.44%

VAGIT ALEKPEROV

Born in 1950

- President of PJSC LUKOIL
- Executive Director
- Chairman of the Management Committee



26.07%*

VICTOR BLAZHEEV

Born in 1961

- Independent Director
- Chairman of the Audit Committee
- Member of the HR and Compensation Committee

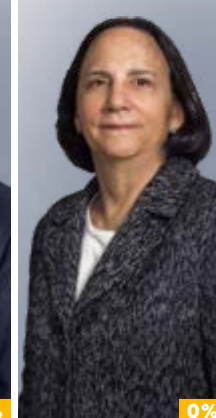


0%

TOBY TRISTER GATI

Born in 1946

- Independent Director
- Member of the Strategy and Investment Committee



0%

GOVERNANCE STRUCTURE

GENERAL SHAREHOLDERS MEETING

CHAIRMAN OF THE BOARD OF DIRECTORS, BOARD OF DIRECTORS

PRESIDENT (CHAIRMAN OF THE MANAGEMENT COMMITTEE), MANAGEMENT COMMITTEE

EXPLORATION AND PRODUCTION REFINING, MARKETING AND DISTRIBUTION ECONOMICS AND FINANCE OTHER DIVISIONS

- External Auditor
- Audit Commission

- Corporate Secretary
- Head of Internal Audit Service

BOARD COMMITTEES:

- Audit Committee
- Strategy and Investment Committee¹
- HR and Compensation Committee

CORE COMMITTEES:

- Risk Committee
- Health, Safety, and Environmental Committee
- LUKOIL Group Investment and Coordination Committee
- Tender Committee of PJSC LUKOIL
- Major E&P Projects Committee

For more details on the governance structure, see page 82

¹ The Strategy, Investment, and Sustainability Committee since March 2019 (Resolution of the Board of Directors dated March 6, 2019, Minutes No. 4).

45%

of the Board members are independent

18%

of the Board members are women

Composition of the Board of Directors' Committees

STRATEGY AND INVESTMENT COMMITTEE



AUDIT COMMITTEE

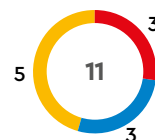


HR AND COMPENSATION COMMITTEE



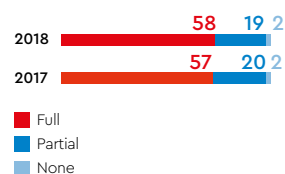
For more details on the Board of Directors, see page 87

Director status



Executive Directors²
Non-executive Directors
Independent Directors²

Compliance with the Corporate Governance Code (the "Code")²



73.4%

full compliance with the Code

+1.2 p.p.

IGOR IVANOV

Born in 1945

- Independent Director
- Chairman of the Strategy and Investment Committee
- Member of the Audit Committee



0%

ROGER MUNNINGS

Born in 1950

- Independent Director
- Chairman of the HR and Compensation Committee

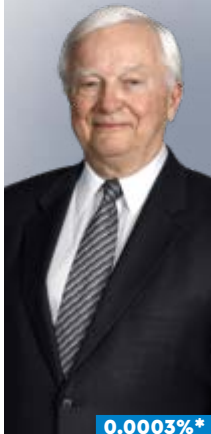


0%

RICHARD MATZKE

Born in 1937

- Non-Executive Director
- Member of the HR and Compensation Committee



0.0003%*

LYUBOV KHOBA

Born in 1957

- Non-Executive Director



0.41%

IVAN PICTET

Born in 1944

- Independent Director
- Member of the Audit Committee

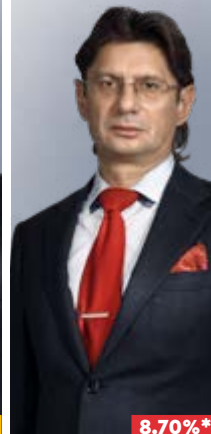


0%

LEONID FEDUN

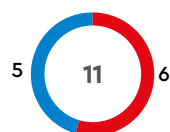
Born in 1956

- Executive Director
- Vice President for Strategic Development
- Member of the Strategy and Investment Committee



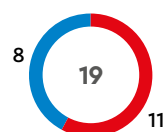
8.70%*

Length of service on the Board



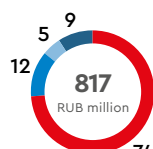
Over 7 years
1 to 7 years

Board meetings in 2018



In absentia
In person

Directors' remuneration⁵ in 2018, %



Bonuses
Remunerations
Salaries
Other payments

² Statistics are provided based on the Corporate Governance Code Compliance Report prepared in line with the recommendations set out in the relevant letter by the Bank of Russia.

³ Members of the Company's executive bodies and persons employed by the Company.

⁴ Recognized as independent directors as defined in the Listing Rules of the Moscow Exchange and recommendations set out in the Corporate Governance Code. Victor Blazhev and Igor Ivanov were determined to be independent by the Resolution of the Board of Directors of PJSC LUKOIL (Minutes No. 8 dated June 21, 2018).

⁵ For Directors who concurrently sit on the Management Committee, remuneration includes only payments related to performing their duties as Directors.

EXECUTIVE BODIES

PRESIDENT

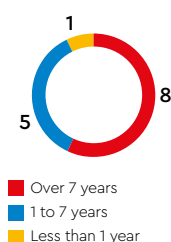
The President is the Company's sole executive body and also serves as the Chairman of the Management Committee. The President is responsible for operational management of the Company as prescribed by the Charter of PJSC LUKOIL.

MANAGEMENT COMMITTEE

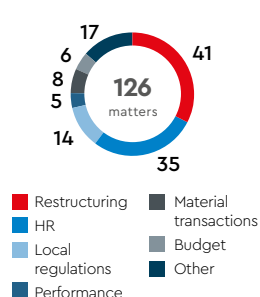
The Management Committee is a collective executive body supervised by the Chairman of the Management Committee. It is in charge of the Company's day-to-day operations.

Following the President's proposals, the Board of Directors appoints members of the Management Committee each year. In 2018, the Management Committee consisted of 14 persons.

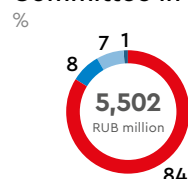
Length of service on the Management Committee



Matters considered by the Management Committee in 2018



Payments¹ to the Members of the Management Committee in 2018



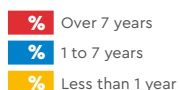
¹ Including the remuneration of the President of PJSC LUKOIL.

CHANGES TO THE MANAGEMENT COMMITTEE:

- **Early termination of tenure** of Vladimir Nekrasov
- Denis Dolgov **was elected**

For more details on the Management Committee, see page 103

MANAGEMENT COMMITTEE COMPOSITION



Length of service on the Management Committee and share in the Company's charter capital as at December 31, 2018.

* Percentage of the Company shares which the person directly owns and in which they have a beneficial economic interest.

The composition of the Management Committee as at December 31, 2018.

VAGIT ALEKPEROV

Born in 1950

- President of PJSC LUKOIL
- Executive Director
- Chairman of the Management Committee



26.07%*

RAVIL MAGANOV

Born in 1954

- Deputy Chairman of the Board of Directors
- Executive Director
- First Executive Vice President (Exploration and Production)
- Member of the Strategy and Investment Committee



0.44%

ALEXANDER MATYTSYN

Born in 1961

- First Vice President (Economics and Finance)



0.35%

VADIM VOROBYEV

Born in 1961

- First Vice President (Refining, Marketing and Distribution)



0.02%

26

meetings in 2018

126

matters considered in 2018

**OLEG
PASHAEV**

Born in 1967

- Senior Vice President for Sales and Supplies



0.008%

**AZAT
SHAMSUAROV**

Born in 1963

- Senior Vice President for Oil and Gas Production



0.008%

**DENIS
DOLGOV**

Born in 1974

- Vice President for Power Generation



0.04%

**ILYA
MANDRIK**

Born in 1960

- Vice President for Geological Exploration and Development

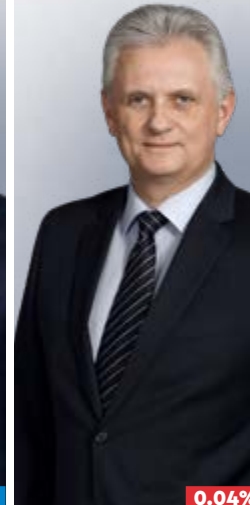


0.02%

**IVAN
MASLYAEV**

Born in 1958

- Vice President – General Counsel



0.04%

**ANATOLY
MOSKALENKO**

Born in 1959

- Vice President for Human Resources Management and Corporate Structure Development



0.02%

**STANISLAV
NIKITIN**

Born in 1959

- Vice President – Treasurer



0.02%

**DENIS
ROGACHEV**

Born in 1977

- Vice President for Procurement



0.004%

**GENNADY
FEDOTOV**

Born in 1970

- Vice President for Economics and Planning

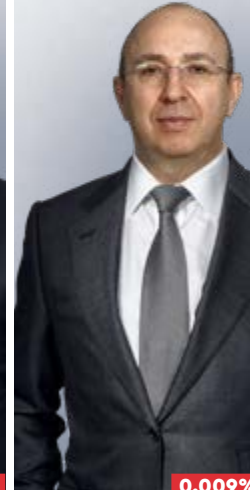


0.01%

**EVGENY
KHAYKIN**

Born in 1964

- Vice President – Chief of Staff of PJSC LUKOIL



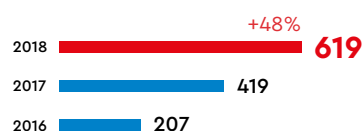
0.009%

RECORD RESULTS

FINANCIAL PERFORMANCE

Net income

RUB billion

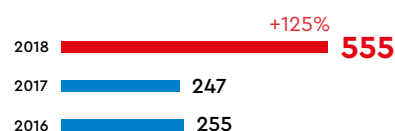


Key financial result; an accounting source for dividend payouts

Substantial net income growth due to higher hydrocarbon prices, weaker ruble, production growth and changes in production structure

Free cash flow

RUB billion

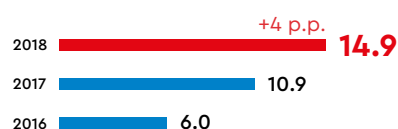


Key metric to assess the Company's value; a cash source for dividend payouts

The Company's free cash flow more than doubled following a rise in operating income and a reduction in capital expenditures

ROACE

%

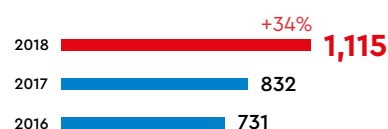


Key indicator of the efficient use of capital employed. Used for benchmarking performance across oil and gas industry

ROACE rose by 4.0 p.p. due to a considerable increase in net income, lower leverage, and a share buyback

EBITDA

RUB billion



Financial result of core operations, a key analytical metric used to calculate multiples for peer comparisons

EBITDA reached a historic high in 2018, mainly due to higher hydrocarbon prices, weaker ruble, production growth and change in production structure

OPERATIONAL PERFORMANCE

Exploration and Production

Hydrocarbon production¹

million boe per day



Key operational indicator

¹ Excluding the West Qurna-2 project.

Despite the external production limitations in Russia driven by the OPEC+ agreement, hydrocarbon production increased by 4% due to developing gas projects in Uzbekistan. The share of high-margin projects in total production increased substantially

Refining, Marketing and Distribution

Light products yield

%



Reflects the quality of the petroleum product slate at the Company's refineries and directly impacts refining margins

Despite large-scale maintenance works at our refineries, we managed to keep our light product yield unchanged due to increasing the utilization of the most complex refineries in Perm and Volgograd

FINANCIAL STABILITY

Net debt / EBITDA

%

-30 p.p.

2018 **4**2017 **34**2016 **60**

Reflects the level of debt burden

Low leverage results from conservative financial policy and supports strong financial position in the environment of volatile hydrocarbon price and foreign exchange rate

OPTIMAL BALANCE

CAPEX

RUB billion

2018 **452**2017 **511**2016 **497**

KPI

Investment into maintenance and growth of the Company's business operations

The lower capex in 2018 was mainly due to the completion of our large-scale construction projects in Uzbekistan

Dividend per share

RUB

2018 **250**2017 **215**2016 **195**

KPI

Cash distributions to shareholders in line with the Dividend Policy

The size of the dividend reflects LUKOIL's 2018 performance, as well as development prospects under a conservative oil price scenario taking into account the progressive nature of the Company's dividend policy

HIGH CORPORATE RESPONSIBILITY

Efficient APG use

%

2018 **97.4**2017 **95.4**2016 **92.1**

KPI



Influences direct emissions into the atmosphere and is used to calculate the HSE Compliance KPI. In addition, wastewater discharge and waste disposal rates are also used to calculate this KPI

In 2018, the indicator for efficient APG use increased in each region where the Company operates. The bulk of the increase came from the Timan-Pechora and Volga regions

Lost-time accident frequency rate

2018 **0.2**2017 **0.2**2016 **0.2**

KPI



One of the key indicators used to calculate the HSE Compliance KPI

The lost-time accident frequency rate for several years remains at a consistently low level.

KPI – key performance indicators of the Group, which define the level of achievement of strategic targets.



Incentive KPI – is factored in when calculating the annual bonus payable to top managers.

CHAIRMAN'S LETTER

ONE OF THE KEY PRIORITIES FOR THE BOARD OF DIRECTORS IS ENSURING THE COMPANY'S SUSTAINABLE DEVELOPMENT. THUS, WE PAY CLOSE ATTENTION TO DEVELOPING LUKOIL'S STRATEGY AND FOLLOWING UP ON ITS IMPLEMENTATION.

Dear Shareholders,

2018 became a year of successful development and strengthening of LUKOIL's competitive positions. In the reporting year the Company achieved all intermediate goals and made significant progress in delivering on key projects and strategic initiatives.

One of the key priorities for the Board of Directors is ensuring the Company's sustainable development. Thus, we pay close attention to developing LUKOIL's strategy and following up on its implementation. As part of this work, the IT Strategy of LUKOIL Group was approved in 2018. The strategy covers a range of digitization initiatives developed to improve the effectiveness of LUKOIL's business processes and ensure smooth operation of the Company's systems. Given the significance of information technology in building up competitive advantages for the business, the IT Strategy has become a crucial addition to our business strategy.

We have also approved amendments to the Regulations on PJSC LUKOIL's Management Remuneration and Incentive System, and to the Regulations on the Long-Term Incentive Program for Key Employees of LUKOIL Group for 2018–2022. These amendments are important for enhancing motivation of the Company's managers and key employees to deliver on the strategic goals.



As part of our efforts to improve the corporate governance practices, major part of PJSC LUKOIL treasury shares were cancelled, thus reducing the Company's charter capital to 750 million shares. In August 2018 a share buyback program was announced to implement our shareholder distribution policy.

As part of LUKOIL's agenda on improving our corporate culture and strengthening our corporate values, we approved the new Code of Business Conduct and Ethics of PJSC LUKOIL.

The Code sets out key principles of business conduct and ethics to be followed by the members of LUKOIL's governance bodies and its employees. Our partners and other stakeholders are also expected to comply with the Code.

Important amendments were made in 2018 to the Federal Law On Joint-Stock Companies and, accordingly, to the Charter of PJSC LUKOIL. The amendments authorize the Board of Directors to nominate at its own discretion the candidates for

election to the Board of Directors. I expect that these amendments will support enhancing the professional competencies of the Board of Directors and ensuring we have an appropriate number of independent directors on the Board.

LUKOIL is looking into the future with confidence, maintaining its commitment to the highest international standards and corporate best practices. Amid the highly volatile external environment, LUKOIL's sustainable development is secured by its flexible and highly effective governance system, a conservative approach to planning and investment decision-making, as well as a high investment discipline.

On behalf of the Board of Directors, I would like to thank all our shareholders for their unwavering trust in LUKOIL, and present the Board of Directors Report on the Results of the Priority Business Directions Development of PJSC LUKOIL in 2018.



Valery Grayfer,

Chairman of the Board of Directors
of PJSC LUKOIL



In 2018, we focused on the implementation of the Strategic Development Program of LUKOIL Group for 2018–2027. We reviewed matters related to enhancing operational efficiency and recommended that the Board of Directors approves the IT Strategy of LUKOIL Group, which is an important tool for enhancing efficiency and a competitive edge for the Company. The Committee laid a special focus on improving the sustainability management system and non-financial disclosure. In early 2019, the decision was made to expand the Committee's functions and rename it the Strategy, Investment, and Sustainability Committee.



IGOR IVANOV

Chairman of the Strategy and Investment Committee¹



In 2018, the HR and Compensation Committee concentrated primarily on improving our personnel management and remuneration systems to drive achievement of the Strategic Development Program of LUKOIL Group for 2018–2027. The Committee recommended to amend the Regulations on the System of Compensation and Incentives for Management Personnel of PJSC "LUKOIL" in order to improve the methodology of bonus calculation based on corporate and individual performance. Twice over the year, we assessed independence, professional qualifications and experience of the Board members/candidates. We believe that amendments to the Charter approved in 2018 will enhance the role of our Committee in succession planning for the Board of Directors and will, therefore, add to the quality of corporate governance.



ROGER MUNNINGS

Chairman of the HR and Compensation Committee



In 2018, we continued to enhance the internal audit system and improve the effectiveness and reliability of the risk management and internal control system.

In 2018, the Board of Directors became legally responsible for setting policies and approaches toward risk management, internal control, and internal audit. The responsibilities of the Board of Directors were supplemented by approving the corporate documents governing risk management and internal control policies.

These regulatory changes underline the significance of internal audits as an element of the corporate governance framework and the essential role of the Committee in ensuring an independent internal audit function.



VICTOR BLAZHEEV

Chairman of the Audit Committee

¹ The Strategy, Investment, and Sustainability Committee since March 2019 (Resolution of the Board of Directors dated March 6, 2019, Minutes No. 4).

BOARD OF DIRECTORS REPORT

ON THE RESULTS OF THE PRIORITY BUSINESS DIRECTIONS DEVELOPMENT

FINANCIAL PERFORMANCE

In 2018, LUKOIL Group posted record-high financial results supported by a favorable macroeconomic environment and strong operating performance.

Revenue was RUB 8,036 billion in 2018, up 35.4% year-on-year. This growth was due to a rise in hydrocarbon prices, the ruble depreciation, and an increase in oil trading volumes and gas sales volumes.

EBITDA grew to RUB 1,115 billion, up 34.1% year-on-year. As well as due to the favorable market environment, EBITDA growth was driven by the growing share of high-margin volumes in our overall oil production, a gas production increase in Uzbekistan, increased oil production in Russia in the second half of 2018, a decline in per boe hydrocarbon lifting costs, and an increase in sales volumes via premium sales channels. EBITDA per boe of production grew by 19.7% to \$21.3 (or by 29.0% to RUB 1,336).

In 2018, **profit for the year** attributable to PJSC LUKOIL shareholders was RUB 619 billion, up 47.8% year-on-year. Apart from changes in EBITDA, our profit for the year was influenced by three factors: foreign exchange gains and losses, gain on sale of our diamond business in 2017, and higher depreciation, depletion and amortization. The ruble appreciation in 2017 resulted in foreign exchange losses, while its depreciation in 2018 resulted in foreign exchange gains. The increase in depreciation, depletion and amortization in 2018 was caused by launch of new production capacities, particularly in the Caspian region and Uzbekistan.

In 2018, our **capital expenditures** were RUB 451.5 billion, down 11.7% year-on-year. The decline was mainly due to lower investments in gas projects in

IFRS consolidated financial results

RUB billion

	2016	2017	2018	Change, 2018/2017, %
Revenue	5,227	5,937	8,036	35.4
EBITDA	731	832	1,115	34.1
Free cash flow	255	247	555	124.8
Profit attributable to PJSC LUKOIL shareholders	207	419	619	47.8

EBITDA structure in 2018

RUB billion

EBITDA	1 115
Exploration and Production in Russia	717
Exploration and Production outside Russia	153
Refining, Marketing and Distribution in Russia	232
Refining, Marketing and Distribution outside Russia	50
Corporate and other	-37

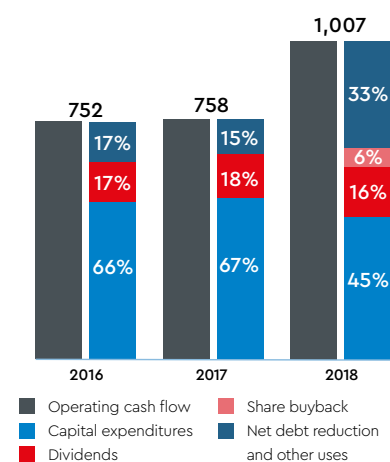
For more details on the financial performance of LUKOIL Group, see Appendix 5: Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Uzbekistan following the completion of main construction works, and was partially offset by the capital expenditures increase in refining and distribution, with the delayed coker's construction having commenced at Nizhny Novgorod Refinery.

In 2018, our **free cash flow** was RUB 555 billion, up 124.8% year-on-year. The growth was due to an increase in operating cash flow before changes in working capital and a decrease in capital expenditures.

Cash sources and uses

RUB billion



EXPLORATION AND PRODUCTION

MACROECONOMIC OVERVIEW

Oil prices were highly volatile in 2018. In October, Brent prices hit a four-year high of \$86 per barrel due to a decline in oil production in Iran, Venezuela, and OPEC+ countries, among other factors. Oil prices fell to \$50 per barrel in December due to concerns regarding a slowdown in oil demand growth, continuing rapid oil production in

the US, and mounting production in OPEC+ countries.

In 2018, Urals crude oil prices averaged \$69.7 per barrel, up 31.4% year-on-year. However, the net price of Urals (net of MET and export duty) only grew by 12.6% due to the negative time lag effect of export duty and the

progressive formula used to calculate the MET and export duty rates.

The ruble depreciated against the US dollar by 7.5% on average to RUB/USD 62.7, having a positive impact on ruble-denominated Urals prices, which were up 41.2% year-on-year. The ruble-denominated net price grew by 21.0%.

Russian oil exporter's revenue breakdown

	2016	2017	2018	Change, 2018/2017, %
	\$ per barrel			
Urals crude price	41.7	53.1	69.7	31.4
Mineral extraction tax (MET)	11.8	19.1	27.2	42.7
Export duty	10.4	11.9	17.6	48.3
Net oil price	19.5	22.1	24.9	12.6
	RUB per barrel			
Urals crude price	2,795	3,098	4,374	41.2
MET	792	1,114	1,708	53.3
Export duty	695	693	1,104	59.3
Net oil price	1,308	1,291	1,562	21.0

RESERVES

LUKOIL Group has proved hydrocarbon reserves in six countries. The majority of the proved reserves are conventional, providing the Company a significant competitive advantage that ensures lower development and production costs per barrel. Moreover, LUKOIL is one of the leading international and Russian companies in terms of proved liquid hydrocarbon reserves life and volume.

As at the end of 2018, the Group's SEC proved hydrocarbon reserves amounted to 15.9 billion barrels of oil equivalent, 76% of which were liquid hydrocarbons. The Company's reserves life is 19 years, in comparison to the average of 12 years for the world's largest private international oil and gas companies.

Concentrated mainly in West Siberia, 90% of the Group's proved hydrocarbon reserves are located in Russia. Offshore fields and high-viscosity oil account

for approximately 14% of the proved reserves. Half of LUKOIL's international proved reserves are in Uzbekistan, where the Company actively develops its gas projects.

61% of the Company's proved hydrocarbon reserves have been classified as developed, in that they can be extracted from existing wells using currently available technologies and equipment.

In 2018 the LUKOIL Group proved reserves replacement ratio for liquids totaled 101% and in Russia reached 127%. In 2018, LUKOIL added 576 million barrels of oil equivalent to its proved reserves through geological exploration and production drilling, with the largest addition from production drilling in West Siberia and Timan-Pechora.

An upward revision of proved reserves in the amount of 297 million barrels of

oil equivalent resulted from the average annual oil price growth, optimization of development systems and well intervention programs at existing fields, the conversion of contingent resources into reserves (following the final investment decision on the Rakushechnoye field in the Caspian Sea), and the introduction of the profit based tax for some fields. The revision of reserves from international projects implemented under product sharing agreements (PSAs) and service contracts had a negative impact on our reserves due to the growth of the average annual oil price as well as changes in the West Qurna-2 project development plan.

Hydrocarbon reserves as at December 31¹

million boe

	2016	2017	2018	Change, 2018/2017, %
Total proved reserves	16,398	16,018	15,931	-0.5
Liquid hydrocarbons	12,482	12,077	12,082	0.0
Gas	3,916	3,941	3,849	-2.3
Developed	9,421	9,560	9,768	2.2
Undeveloped	6,977	6,458	6,163	-4.6
Russia	14,370	14,158	14,330	1.2
International projects	2,028	1,860	1,601	-13.9
Probable reserves	6,684	6,409	6,424	0.2
Possible reserves	2,981	3,087	3,242	5.0

¹ An independent audit of LUKOIL's proved reserves was carried out by Miller and Lents for the entire economic life of the fields.

LICENSES

Pursuant to the Russian legislation, hydrocarbon exploration and production operations require a subsoil license. LUKOIL continuously works to obtain subsoil rights, monitor objects of subsoil use, apply for new licenses, and have existing licenses extended.

At the end of 2018, the Group held 528 licenses in Russia, with 91% of them granting either hydrocarbon exploration and production rights or hydrocarbon prospecting, exploration, and production rights. The average remaining validity of these licenses is 30 years. Some of the licenses are entirely unique in terms of use. For example, the license for the Imilorskoye field in West Siberia is of federal significance (primary importance for the national economy) and is valid until 2127, and the license for the Pyakyakhinskoye field in the Bolshekhetskaya Depression is valid until 2170. The remaining 9% of the Company's licenses grant the right

to prospect, explore, and appraise hydrocarbon deposits, with an average remaining validity of about three years.

In the reporting period, six new licenses in our core producing regions of West Siberia, Timan-Pechora, and Volga were added to LUKOIL's portfolio. New licenses in regions with a well-developed infrastructure enable maximum synergies with the existing assets, reduce exploration and production costs, and speed up production launch.

In the reporting period, the Group obtained 51 amendments to its existing subsoil licenses, had one license renewed, registered 33 license extensions, and returned one license upon its expiry.

In 2018, the Group increased its international portfolio by acquiring new licenses in Mexico.

As a result of Licensing Round 3.1, LUKOIL was granted a subsoil use license for exploration Block 28 in consortium with Italian Eni (LUKOIL holding 25% and Eni as operator – 75%). The block is situated in the southern Gulf of Mexico. Its area is 807 square km, with sea depths between 60 to 600 meters. The Group has also entered into a farmout agreement with Eni on Blocks 10, 12, and 14. After the deal is closed, the ownership structure will be:

- Block 10: LUKOIL – 20%, Eni – 80%
- Block 12: LUKOIL as operator – 60%, Eni – 40%
- Block 14: LUKOIL – 20%, Eni – 40%, Citla Energy – 40%.

This deal will expand LUKOIL's prospect portfolio, diversify our risks, and build up our expertise in exploration.

Number of LUKOIL Group's licenses as at December 31

	2016	2017	2018
Total	514	523	528
Exploration and production	361	365	366
Prospecting and appraisal	47	46	49
Geological survey, exploration and production	106	112	113

EXPLORATION



2018 RESULTS

- Six fields and 43 deposits discovered
- An 86% success rate of exploration



2019 PRIORITIES

- Further exploration of existing fields
- Drill exploration wells on Block 10 in Mexico, Block 30 in Romania, and Block 10 in Iraq
- Preparations for drilling prospecting wells on the Khazri and Titonskaya structures in the Caspian Sea

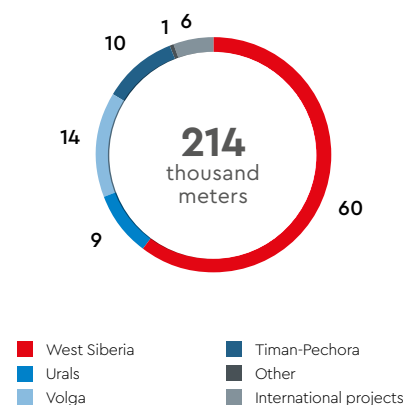
LUKOIL Group is carrying out exploration in ten countries, concentrated mostly in Russia. Internationally, we participate in exploration projects in Mexico, Iraq, the Gulf of Guinea, the Black Sea, and the Norwegian shelf in the Barents Sea.

Our exploration activities have consistently been delivering good results. In 2018, LUKOIL completed 64 prospecting wells with an 86% overall success rate, and a 100% success rate for the Bolshekhetskaya Depression, the Caspian Sea, the Urals and Komi regions, as well as in international projects. Six fields and 43 deposits were discovered. Our high efficiency is driven by advanced exploration techniques and selection of the most promising areas based on research results.

Our 3D seismic surveys covered 8,632 square km, up 32% year-on-year, mainly driven by an increase in surveys updating our geological models on field boundaries in West Siberia. 2D seismic works decreased by 37% year-on-year to 2,050 km due to a lower volume of seismic surveys being conducted in Russia. The scope of our international seismic surveys increased due to growth at Block 10 in Iraq, with international projects accounting for 58% of all our 2D seismic surveys.

Exploration drilling in 2018

%



During the year, we completed 214 thousand meters of exploration drilling, down 5% after a significant rise in 2017. In West Siberia, our core operating region, exploration drilling grew by 12% to 129 thousand meters, while our international drilling doubled to 12 thousand meters due to increased drilling in Cameroon, Ghana, and Mexico.

LUKOIL's 2018 exploration costs totaled RUB 29.4 billion.

Exploration

	2016	2017	2018	Change, 2018/2017, %
2D seismic surveys, km	2,371	3,245	2,050	-36.8
3D seismic surveys, square km	6,332	6,522	8,632	32.3
Exploration drilling, km	191	225	214	-4.9
Exploration costs [†] , RUB million	36,295	33,506	29,355	-12.4

[†] Including non-cash items.

Key Exploration Projects In 2018

Caspian Sea

One of LUKOIL's priorities is further exploration in the Caspian Sea, given the potential synergies with the prior major field discoveries in the region.

In 2018, we started building a seismic model for the key prospective horizons of the Yuzhnaya structure based on comprehensive interpretation of seismic data as well as data from well No. 1, drilled in 2017.

3D seismic surveys covering 772 square km were conducted at the Khazri, Titonskaya and Druzhba structures to more precisely define their geology and identify prospects. Following 3D seismic interpretation, the resource base is planned to be estimated to finalize exploration well placement point on the Khazri structure.

West Siberia and Timan-Pechora

In West Siberia, we focused on exploring the Tyumen formation and Achimov deposits to identify

hydrocarbons in stratigraphic traps. 3D seismic surveys were conducted to update our geological models of field boundaries as well as further hydrocarbon exploration to prepare sites for production drilling. Low-permeability reservoirs were also explored.

In Timan-Pechora, exploration focused mainly on the Denisovskaya Depression, where two highly productive oil fields (Verkhne-Ipatskoye and Prokhorovskoye) were discovered during the year. The new fields confirmed positive outlooks on further exploration within the Denisovskaya Depression.

International projects

Most of our international exploration activities in 2018 were concentrated at Block 10 in Iraq (LUKOIL holding 60% as project operator and INPEX CORPORATION holding 40%). 3D seismic surveys were conducted at Block 10 within the approved exploration program, with a fourth

well drilled to completion at the large discovered Eridu field, producing a commercial flow of dry crude oil. The surveys confirmed the field's current geological model and expanded the oil-bearing area in the Mishrif Formation. In the medium term, several more appraisal wells are planned for drilling and testing, along with more 3D seismic surveys to finalize the field's reserves estimate. 2D seismic surveys are planned to be completed within the remaining area of Block 10 to determine further targets for exploration.

Two prospecting wells were drilled and completed, producing an oil flow and further delineating the reservoir area at the Etinde project offshore Cameroon in West Africa (LUKOIL – 30%, New Age as operator – 30%, EurOil – 20%, and Société Nationale des Hydrocarbures, the National Hydrocarbon Company of Cameroon – 20%). The field's geological model was also updated and its reserves estimated.

DEVELOPMENT AND PRODUCTION

2018 RESULTS

- Launched production at three new fields in Russia
- Ramped up production at the V. Filanovsky field and projects in Uzbekistan to designed capacity
- Commenced drilling on Phase 2 of the Yu. Korchagin field in the Caspian Sea
- Increased high-viscosity oil production in Timan-Pechora by 24.8%
- Launched an efficiency improvement program
- Production decline rates slowed in West Siberia
- Commenced production drilling in the Baltic Sea

LUKOIL Group produces oil and gas in six countries. Our core operations are concentrated in five federal districts of the Russian Federation, specifically in the North-Western Federal District (the Nenets Autonomous Area, the Komi Republic, and the Kaliningrad Region), the Volga Federal District (the Perm Territory and the Republic of Tatarstan), the Urals Federal District (the Yamal-Nenets Autonomous Area and the Khanty-Mansi Autonomous Area – Yugra), and the Southern Federal District (the Volgograd Region, the Astrakhan Region, and the Republic of Kalmykia).

Hydrocarbon production in 2018 totaled 2.3 million barrels of oil equivalent per day, with liquid hydrocarbons accounting for 77% of the total, and natural and associated gas accounting for the remaining 23%. Excluding the West Qurna-2 project, LUKOIL's hydrocarbon production increased by 3.8% year-on-year despite external limitations, following the Group's development of gas projects in Uzbekistan.

Capital expenditures for oil and gas development and production, including non-cash items, decreased by 21.1% year-on-year to RUB 338.6 billion in 2018.

Crude oil

Excluding the West Qurna-2 project, our oil production was flat year-on-year in 2018, totaling 85.6 million tonnes.

In 2017 and 2018, the volume and dynamics of LUKOIL Group's daily oil production were mainly influenced by external production limitations under the agreement between Russia and OPEC. After the limitations had been changed in the second half of 2018, LUKOIL quickly ramped up its oil production in Russia through effective production management at its mature fields.

In 2018, LUKOIL produced 82.0 million tonnes of crude oil in Russia, in line with the 2017 levels and accounting for 14.8% of Russia's total production, as reported by CDU TEK.

Given the limited total volume of oil production, we continued to ramp up our production at large, highly productive fields as planned while further reducing production at our mature fields in West Siberia and Timan-Pechora.

In particular, we ramped up the highly productive V. Filanovsky

2019 PRIORITIES

- The V. Filanovsky field in the Caspian Sea – complete construction works at the wellhead platform within Phase 3; the Rakushechnoye field – perform construction works
- The Baltic Sea – commission the D41 field
- Timan-Pechora – drive further growth in high-viscosity oil production
- The Bolshekhetskaya Depression – prepare the Yuzhno-Messoyakhskoye field for test production
- Iraq, West Qurna-2 – activities within second development stage
- Implementation of the efficiency improvement program

Hydrocarbon production

thousand boe per day

	2016	2017	2018	Change, 2018/2017, %
Total hydrocarbons	2,276	2,269	2,347	3.4
Liquid hydrocarbons	1,875	1,804	1,806	0.1
Gas	401	465	541	16.2
Total hydrocarbons, excluding the West Qurna-2 project	2,181	2,235	2,319	3.8

and Pyakyakhinskoye fields to their designed capacity, launched Phase 2 at the Yu. Korchagin field, and increased high-viscosity oil production at the Yaregskoye and Usinskoye fields in Timan-Pechora. As a result, the share of these highly productive fields in the total production of LUKOIL Group, excluding the West Qurna-2 project, totaled 15% in 2018, up 3 percentage points year-on-year. Oil production was launched at three new fields in the Timan-Pechora and Volga regions during the year.

Our international oil production, excluding the West Qurna-2 project, was 3.6 million tonnes in 2018, down 4.0% year-on-year. The production was mainly affected by reduced volumes of

compensatory oil from projects under PSAs and service contracts due to the growth in the average annual oil price.

During the year, the Group completed 3,149 thousand meters of exploration drilling, down 2% after a significant rise in 2017. In Russia, our exploration drilling rose by 1.2%, mainly through increased exploration activities in the Bolshekhetskaya Depression (West Siberia) and in the Caspian Sea. Total of 944 new production wells were commissioned, including 870 in Russia with 32% share of horizontal wells. A total of 30 thousand oil production wells were in operation at the end of the reporting year.

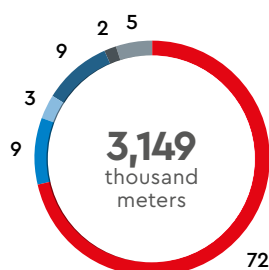
Gas

In 2018, gas production increased by 16.2% year-on-year to 33.5 billion cubic meters as our projects in Uzbekistan ramped up to designed capacity.

Our overall gas production in Russia decreased by 2.0% year-on-year to 17.8 billion cubic meters. Gas production from our international projects increased by 47.3% to 15.7 billion cubic meters and provided 46.9% of LUKOIL's total gas production, up 9.9 percentage points year-on-year.

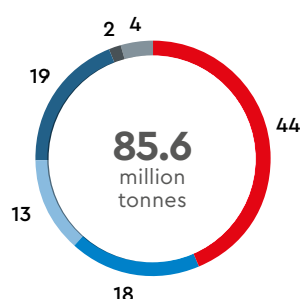
Production drilling in 2018

%



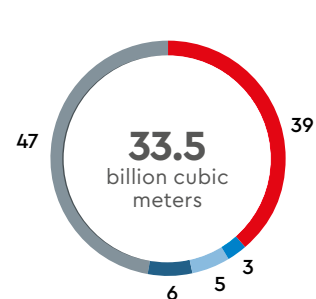
Oil production structure in 2018, excluding the West Qurna-2 project

%



Gas production structure in 2018

%



■ West Siberia

■ Urals

■ Volga

■ Timan-Pechora

■ Other

■ International projects

GROWTH PROJECTS

With its vast resource base, LUKOIL is especially focused on developing new projects to ramp up production. The new projects include both developing green fields and boosting recovery at mature fields through advanced technologies, increased production drilling, and a higher number of EOR operations.

North Caspian

LUKOIL has pioneered the development of the Russian sector of the Caspian Sea bed, its efforts resulting in the discovery of ten fields in the region with combined initial recoverable reserves of 1 billion tonnes of oil equivalent (7 billion barrels of oil equivalent).

V. Filanovsky field

The V. Filanovsky field, discovered in 2005, is the largest oil field in the Russian sector of the Caspian Sea bed. In 2018, production at the field reached an annual plateau level of 6 million tonnes of crude oil. The field's development comprises three phases.

Phase 1 infrastructure includes a riser block, an ice-resistant fixed platform, a central processing platform, a living quarters platform, and head onshore facilities.

Phase 2 construction comprises an ice-resistant fixed platform and a living quarters platform.

Phase 3 construction comprises a wellhead platform (mini-platform).

The field has a unique geology, with highly permeable collectors yielding record-high initial flow rates.

In 2018, as part of Phase 2 construction, an ice-resistant fixed platform was launched, from which five production wells were drilled and commissioned. Three of these were intelligent TAML Level-5 bilateral wells. The average depth for drilled wells exceeds 3 thousand meters, while the length of each horizontal section is over 1 thousand meters.

The average initial flow rate was about 2.4 thousand tonnes per day for single bore production wells and 3 thousand tonnes per day for bilateral wells, which is 70 times higher than the average initial flow rates of other new LUKOIL wells.

The field produced 6.1 million tonnes of oil in 2018, up 32% year-on-year. At the end of 2018, 14 wells (12 production and 2 injection wells) have been drilled at the field.

As part of Phase 3 construction in 2018, jackets for a wellhead platform were installed in the sea, while the topside construction works of the wellhead platform were carried out at a shipbuilding facility in Astrakhan. Mounting the topside on the support base and the commencement of drilling operations have both been scheduled for 2019.

The V. Filanovsky field's infrastructure generates considerable synergies for our other Caspian projects. For example, the Rakushechnoye field output is planned to be delivered for treatment to the V. Filanovsky field's central processing platform and then exported via the CPC pipeline system. The Yu. Kuvykin field could also benefit from the V. Filanovsky field's transportation infrastructure.

Yu. Korchagin field

The Yu. Korchagin field was discovered in 2000 and became the first field in the Caspian put on stream by LUKOIL. Production at the field began in 2010.

The field's development comprises two phases. The Phase 1 infrastructure comprises an ice-resistant fixed platform with drilling facilities, a living quarters platform, and an offshore transshipment facility which was used to ship all crude oil output prior to the infrastructure launch at the V. Filanovsky field. We commenced additional drilling within Phase 1 field development in 2018, which included drilling and commissioning one production well and two sidetracks.

Phase 2 construction comprises a wellhead platform which was commissioned in the reporting year. Within Phase 2, two production wells were drilled and commissioned.

Drilling commencement within Phase 2 of the field development and the additional drilling program has driven an increase in average daily production since Q2 2018.

Rakushechnoye field

The Rakushechnoye field was discovered in 2001 and became LUKOIL's third field under development in the Caspian region. Commercial oil production is scheduled for 2023 with a projected plateau rate of 1.2 million tonnes per year.

We made a final investment decision in 2018 to develop the Rakushechnoye field. The project will use the existing infrastructure of the V. Filanovsky field for hydrocarbons treatment, thereby driving considerable capital expenditures savings. In 2018, the main contractor was selected, the development of detailed design documentation began, tenders were held for the supply of equipment and materials, and manufacturing of support bases and metal topsides commenced.

The Baltic Sea

LUKOIL has unparalleled expertise in the Baltic Sea operations. Our first offshore field, Kravtsovskoye, was put on stream in the Baltic in 2004. New fields in the Baltic Sea were discovered in 2015, opening up new prospects for the region's development.

D41 field

In 2018, production drilling commenced at the D41 field situated near the coastline. The first long-reach horizontal well with a reach of almost seven kilometers was drilled to completion from the shore. Production launch has been scheduled for 2019.

D33 field

We have begun developing detailed design documentation for the D33 field

and an update of the Exploration and Development Concept for the Baltic Sea in 2018 to speed up the commissioning of this field.

Bolshekhetskaya Depression (Northern Part of West Siberia)

The Bolshekhetskaya Depression fields are LUKOIL's key gas producing assets in Russia. Our largest gas field, Nakhodkinskoye, put on stream in 2005, produced 5.4 billion cubic meters of gas in 2018, while the Pyakyakhinskoye field, put on stream in 2016, produced 1.6 million tonnes of oil and gas condensate and 3.9 billion cubic meters of gas. In 2018, we began preparing the Yuzhno-Messoyahskoye field for commercial production launch.

Pyakyakhinskoye Field

The Pyakyakhinskoye field has a challenging geology complicated by gas caps and oil rims, therefore its core assets are developed through horizontal drilling and multi-hole wells. The oil reservoir development method of using both multi-hole production wells and horizontal injection wells is unique for Russia and protected by the Company's patent.

Four well pads were constructed at the field in 2018, one of which is for oil production. A total 19 oil production wells and 3 gas condensate wells were commissioned. In late 2018, 31 gas wells and 80 oil wells were in operation at the field. The average daily flow rate of a single gas well at the Pyakyakhinskoye field is more than 300 thousand cubic meters, while that of an oil well is over 50 tonnes.

Timan-Pechora

The Timan-Pechora oil and gas province has strong potential for high-viscosity oil production growth. High-viscosity crude oil accounts for 5.9% of the Group's proved hydrocarbon reserves, which are predominantly located in the Yaregskoye and Usinskoye fields. The development of these reserves has been stimulated by special tax rates.

Yaregskoye field

The Group's largest source of high-viscosity oil is located at the Yaregskoye field, which is comprised of two main producing structures: the Yaregskoye structure, developed by underground mining techniques and thermal steam treatment methods; and the Lyael structure, where oil is produced using counter steam-assisted gravity drainage (SAGD) technology. In 2018, the field's output grew by 50.7% to 1,630 thousand tonnes.

LUKOIL develops the Yaregskoye structure using underground mining techniques. Our commercial use of underground low-angle upward boreholes of up to 800 meters in length has significantly reduced the scope and cost of mining operations while speeding up reserves development. In 2018, 162 underground boreholes were commissioned at this field. Within Phase 3 of the Yaregskoye structure development, LUKOIL began holding tenders to select equipment suppliers and construction and assembly contractors.

LUKOIL is developing the Lyael structure using SAGD technology in a horizontal production and injection well system with a bore length of up to one thousand meters. In 2018, 21 SAGD production wells were commissioned.

The 75 MW Yarega power generating center has been operating at the field since 2017, providing the Yaregskoye field production facilities with an independent source of power supply. In 2018, LUKOIL continued to expand its steam-generating facilities by commissioning two steam generators with a combined capacity of 175 tonnes of steam per hour.

Usinskoye field

The Permian reservoir at the Usinskoye field has high-viscosity oil and is developed using thermal recovery methods. In 2018, the reservoir produced 2,648 thousand tonnes of crude oil, up 12.9% year-on-year, due to the commissioning of 68 production

wells, the optimization of cyclic steam injection technology, and efficient tapping of the reserves on the margins of the deposit.

The introduction of day rate contracts helped achieve record commercial drilling speeds, with an increase of over 30%. New small-diameter well designs demonstrated good drilling efficiency and delivered cost savings of over 10%. A full-scale rollout of this technology will yield significant capital expenditures savings due to the high number of wells planned for drilling at the field.

Commissioned in 2016, the 100 MW Usa power generating center operates at the Usinskoye field, providing an independent source of power supply to production facilities and Denisovskaya Depression fields. In 2018, three steam generators with a combined capacity of 60 tonnes of steam per hour were commissioned at the field.

In line with the roadmap for developing the Permian Reservoir of the Usinskoye field, two waste heat recovery boilers with a combined heat capacity of 63 Gcal per hour were constructed in 2018. The boilers are scheduled for commission in 2019. Main construction of the working fluid (hot water) treatment unit was completed at the Usa power generating center to meet its needs for a heat-transfer medium. The commissioning of this unit will help enhance oil recovery due to reservoir pressure stabilization and further recovery.

West Siberia (excluding the Bolshekhetskaya Depression)

West Siberia is LUKOIL's core oil producing region, accounting for 41.1% of LUKOIL Group's crude oil output, and its core resource base constituting 49.1% of LUKOIL Group's proved crude oil reserves.

Imilorskoye field

The Imilorskoye field has considerable geological potential, and its

proximity to existing, well-developed infrastructure supported the field's preparation for commercial development within a brief period of about three years. The classification of over 70% of the field's reserves as hard-to-recover (with a permeability of less than 2 millidarcy) was substantiated, making the project eligible for special tax rates. Considering the field's complex multilayer structure, a wide range of advanced well construction and completion technologies are applied in its development.

We were able to increase the designed oil production level to 2.5 million tonnes per year through cost optimization initiatives and the use of modern approaches to developing hard-to-recover reserves efficiently. Crude oil output from the field grew by 31% to 783 thousand tonnes in 2018 following 67 production wells and 26 injection wells being put on stream.

V. Vinogradov field

The V. Vinogradov field is located within two license areas, Bolshoy and Olkhovsky. Consisting mostly of low-permeability reservoirs, the field has

a complex geology and is therefore developed using unique technologies while receiving special tax rates to stimulate its development. In 2018, crude oil output from the field grew by 15% to 352 thousand tonnes while 20 production wells and 6 injection wells were commissioned.

In 2018, the final stage of pilot testing a system unique for Russia was conducted at the field. This system is designed to drill horizontal wells using MSHF for both oil production and reservoir pressure maintenance. Actual results have proven the solution effectiveness, and we have subsequently launched preparations to move the field into commercial development.

International Projects

Uzbekistan

In 2018, Uzbekistan accounted for 39.5% of the gas produced by LUKOIL Group and 84.3% of the Group's overall gas production from international projects. The Group's production in Uzbekistan increased by 66.6% year-on-year to 13.4 billion cubic meters of gas. We

are developing two gas projects in Uzbekistan: Kandym and Gissar.

In 2018, almost six months ahead of schedule, LUKOIL launched the Kandym gas processing complex (GPC), with a capacity of 8 billion cubic meters. It is one of the largest in Central Asia. The early launch of the complex ramped up our average daily gas production in Uzbekistan to designed capacity in the second half of 2018, equivalent to about 14.5 billion cubic meters per year in LUKOIL's production share. The GPC converts high-sulfur gas into marketable gas, stable gas condensate, and marketable sulfur. The plant consists of the first and second process lines, external power and water supply facilities, a gas production and gathering system, and an export gas pipeline, as well as a field camp, a fire station, and other facilities.

Gas production at the Gissar project was maintained at the plateau annual production level of 4.3 billion cubic meters in LUKOIL's production share achieved in 2017 following the commissioning of the main production facilities.

TECHNOLOGIES

LUKOIL has been actively developing and deploying advanced technologies to maximize hydrocarbon recovery and streamline its operations and technological solutions. These efforts help improve our operational efficiency, reduce costs, bring new reserves into production, increase oil recovery ratios, and develop new products. We have been pursuing our R&D program, which is focused on innovative development through the deployment of cutting-edge technologies and solutions. Using the latest technologies has a major positive effect on our oil recovery and production rates as well as on the commercial development of high-viscosity, tight, and hard-to-recover oil reserves at mature fields.

Hi-tech drilling

In 2018, across the Company's fields we commissioned 275 horizontal wells with an average daily flow rate of 66 tonnes, 125 of which are MZHF wells. Horizontal wells accounted for 32% of total wells put into operation across the Group's Russian assets in 2018, up 4 percentage points year-on-year. Over 70% of horizontal wells were drilled in West Siberia.

Enhanced oil recovery

In 2018, 27% of LUKOIL's oil in Russia was produced through enhanced oil recovery (EOR) projects implemented during the reporting year or in previous years. LUKOIL uses physical, chemical, hydrodynamic, and thermal techniques to stimulate productive formations. EOR methods were used at 9.7 thousand wells in 2018, up 12.7% year-on-year. Mechanical methods were the biggest contributor to the Group's incremental production growth (13.2 million tonnes).

Sidetracking is a highly efficient EOR method, and the Group continued to rely heavily on this technique in 2018. LUKOIL drilled a total of 210 sidetracks in Russia in 2018, which brought incremental production to 5.7 million tonnes of crude, including production from sidetracks drilled in previous years. The high efficiency of this technique is primarily due to robust R&D mini-

projects based on hydrodynamic modeling and more accurate forecasting of geology and reserves where sidetracks are drilled.

Small-diameter wells

The small-diameter well (SDW) construction technique, first successfully applied in the Urals, was tested in West Siberia and the Republic of Komi, where nine SDWs were drilled and completed. A total of 24 small-diameter wells were drilled in the Volga region and in Tatarstan in 2018. A total of 48 small-diameter wells were drilled by the Group in Russia in 2018. Small-diameter wells speed up construction, enabling more

oil reserves to be brought on stream. The average savings exceeded 30% of standard well costs, while some wells reached savings of as high as 50%. Another advantage of small-diameter wells is the reduced well pad costs. The technology has huge potential, and we plan to considerably increase the number of small diameter wells in the next few years.

During the year, we successfully tested small-diameter wells of simplified design in the Perm Territory as part of our efforts to enhance oil recovery. Four wells were drilled to completion, while the use of simplified technology increased the average commercial drilling speed by 10%.

Three-string wells

We have been successfully applying three-string horizontal well construction technology in West Siberia, which has accelerated construction by 40% on average (or by 50% in some cases) and reduced costs by approximately 15% as compared to the standard four-string design of horizontal wells.

In 2018, we drilled a three-string horizontal well in West Siberia in a record short time of 8.7 days.

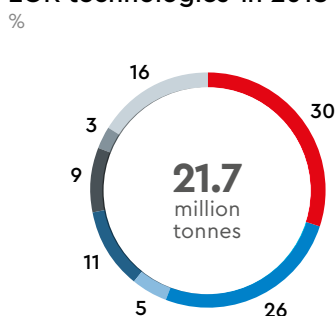
A total of 43 three-string horizontal wells were drilled in 2018, and the number of such wells is planned to be substantially increased in the medium term.

Three multi-hole three-string wells with three horizontal branches were drilled in 2018 using this design. The full drilling and cementing cycle for a single multi-hole well took 14.4 days.

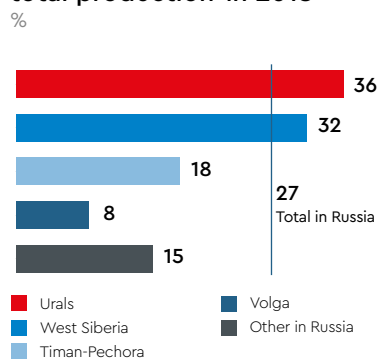
Hard-to-recover reserves

We continued consistent efforts in 2018 to identify and deploy the best technologies for developing hard-to-recover reserves, primarily in West Siberia. A good example of progress in this area is the Imilorskoye field, where LUKOIL began commercializing development technologies such as drilling multi-hole horizontal wells with MZHF. Crude oil output from the field grew by 31% in 2018.

Incremental production from EOR technologies¹ in 2018



Share of incremental production from EOR technologies in each region's total production¹ in 2018



¹ Including carry-overs.

Pilot plots development was completed at the V. Vinogradov field by drilling a number of horizontal production and injection wells with various placement and completion options. The field was the first in Russia to successfully test and adopt a horizontal drilling technique using a unique method for completing horizontal boreholes reaching over 2 thousand meters and with up to 16 fracturing ports.

High-viscosity oil

LUKOIL actively applies advanced technologies to recover high-viscosity oil. Most of our expertise in recovering high-viscosity oil reserves comes from Timan-Pechora, where LUKOIL develops the Yaregskoye field and the Permian reservoir of the Usinskoye field. In 2018, LUKOIL used thermal EOR techniques at both fields to recover 4.3 million tonnes of high-viscosity oil, up 25% year-on-year. Thermal EOR techniques are used in production.

In 2018, a number of projects were delivered at the Permian reservoir of the Usinskoye field to improve technologies such as cyclic steam injection for wells on the margins of the deposit, which was first tested in 2017. The Usinskoye field was also the first to successfully test SDW drilling technology in 2018.

Research and development

LUKOIL's Research and Development (R&D) Program is focused on methodological support and the Company's innovative development through deploying cutting-edge technologies and solutions as well as adopting international best practices and lessons learned in developing hard-to-recover reserves.

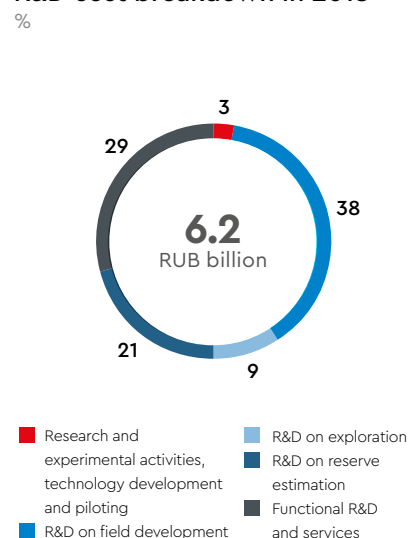
At refineries operated by the Group, research efforts are focused on achieving enhanced energy and economic performance. Our R&D program also benefits from partnerships with field-specific universities.

The Company has major segment-specific R&D centers – three in Exploration and Production and one in Refining and Distribution:

- VolgogradNIPImorneft – the Group's general designer for the construction of offshore oil and gas fields
- KogalymNIPIneft is a leading research and project center in Russia, engaged in well construction design and responsible for the R&D support of LUKOIL's operations in West Siberia
- PermNIPIneft provides R&D support for the Group in the Urals and Timan-Pechora, specializing in high-viscosity oil production technology
- LUKOIL-Nizhegorodniinefteproyekt is the Group's general designer in Refining and Distribution

Projects implemented in 2018 under the R&D program for Exploration and Production focused on drilling enhancement, field development, enhanced oil recovery, and hard-to-recover reserves, while the R&D projects in Refining and Distribution focused on developing advanced lubricants and petrochemicals such as motor oils, additives, solvents, and cleaners, modernizing bitumen production processes, and optimizing the operating modes of hydrocarbon treatment units to mitigate their environmental impact.

R&D cost breakdown in 2018



DIGITALIZATION

Technological advances and business process automation are increasingly driven by digital data enablement which offers considerable competitive advantages in a dynamic external environment.

In 2018, the Board of Directors approved the IT Strategy of LUKOIL Group, a functional program focused on digitizing the Company's business processes to improve efficiency. The IT Strategy forms an essential part of our long-term Strategic Development Program for 2018–2027 and includes close to 100 initiatives.

LUKOIL focused on building digital programs across its business segments in 2018 as part of the IT Strategy.

Digitalization in Exploration and Production business segment

Our digital programs in Exploration and Production business segment are mainly focused on enhancing oil recovery, reducing operating expenses, and increasing the efficiency of field development.

Successful examples of digitalization in 2018 include testing neural networks to control flooding at pilot plots of mature oil fields in West Siberia. The test results have confirmed the effectiveness of this technology.

Adoption of the intelligent field concept is an important digital project for LUKOIL.

Intelligent field

The intelligent field concept (LIFE-Field) integrates field management processes based on automated computer systems and high-tech data collection systems. The concept covers the entire

project development cycle from prospecting and exploration through to decommissioning, and includes integrated modeling, integrated planning, integrated operations center, and other modules. The concept has strong potential for operational process optimization aimed at boosting production and cutting costs. The key source of this optimization is identifying bottlenecks and developing methods of their efficient elimination. Specifically, enhancing alignment between geological modeling and modeling of the field's infrastructure enables considerable savings.

By the end of 2018, 29 integrated models had been built for fields across the Company's operating regions in Russia. These fields produced 29% of the Group's total hydrocarbon output in 2018.

The intelligent field concept can also be highly effective when applied to greenfields. The V. Filanovsky field is an example of a greenfield where an integrated model was built to efficiently adjust the existing solutions for placing and designing production wells at the implementation stage. As a result, the field was ramped up to designed capacity in a record time of less than two years.

Intelligent field technology has been used at the Yu. Korchagin field in the Caspian Sea since 2015. Based on the results of the technology in 2018 in addition to the hydraulic systems of well completion we applied a state-of-the-art electric system for the first time to support the existing hydraulic intelligent completion systems. The new solution enables more flexible flow control across individual well zones, including the ability to quickly stop potential gas leaks from the field's gas cap.

The advantages provided by these leading-edge intelligent completions open up a wide range of opportunities for development control, including previously unavailable proactive reservoir drainage control based on production tests run in real time for each completion interval.

Digitalization in Refining, Marketing and Distribution business segment

Digital programs in Refining, Marketing and Distribution business segment primarily aim to enhance equipment efficiency and reliability, improve control over the environmental impact of operations, and provide better customer service.

We ran a series of successful digital initiatives in Refining, Marketing and Distribution business segment in 2018, including the adoption of a solution streamlining the distribution of energy flows for improved energy efficiency at Perm Refinery.

Digitalization in Corporate business segment

Digital programs for the Corporate business segment mainly focus on accelerating and improving management decision-making processes while increasing workforce productivity, automating HR management and organizational development processes, and reducing the risk of external and internal cyberattacks.

Successful examples of digitalization in this segment include an RPA solution automating routine tasks rolled out at the Perm Regional Accounting Center and at international LUKOIL Group entities.

REFINING, MARKETING, AND DISTRIBUTION

MACROECONOMIC OVERVIEW

The average benchmark refinery margin in the European part of Russia declined by 29% year-on-year to slightly above \$3 per barrel in 2018. The decline was driven by lower refining margins in Europe, higher motor fuel excise tax rates from January to May 2018, as well as domestic wholesale prices being below export parity. The positive impact came from a larger difference between export duties for crude oil and

petroleum products, driven by rising oil prices, as well as lower excise tax rates from June to December 2018.

Average refining margins across LUKOIL's Russian refineries were considerably higher than the benchmark margins in the European part of Russia due to a higher light products yield in the slate alongside a low fuel oil and vacuum gas oil yield.

In 2018, the benchmark refinery margin in Europe was 11% lower year-on-year, primarily due to deterioration of spreads for gasolines and fuel oil.

Excise tax rates on petroleum products in Russia

RUB per tonne

	2016	2017	2018	Change, 2018/2017, %
Motor gasoline				
Below Euro-5	12,454	13,100	13,100	0.0
Euro-5	9,484	10,130	9,454	-6.7
Diesel fuel	5,009	6,800	6,492	-4.5

Petroleum product export duty rates

as % of crude oil rate

	2016	2017	2018	Change, 2018/2017, %
Motor gasoline	61	30	30	0
Diesel fuel	40	30	30	0
Fuel oil and vacuum gas oil	82	100	100	0
Straight-run gasoline	71	55	55	0

OIL REFINING



2018 RESULTS

- Launched the construction of the delayed coker complex at Nizhny Novgorod Refinery
- Launched the construction of the isomerization unit at Nizhny Novgorod Refinery
- Progressed further on enhancing operational efficiency and cost optimization programs
- Drafted an action plan for optimizing the petroleum product range to comply with the International Maritime Organization's (IMO) new global sulfur cap in bunker fuels (MARPOL) beginning in 2020

LUKOIL Group integrates four refineries in Russia (in Perm, Volgograd, Nizhny Novgorod, and Ukhta), three refineries in Europe (Italy, Romania, and Bulgaria), and has a 45% interest in a refinery in the Netherlands. The aggregate capacity of these refineries is 84.6 million tonnes.

In 2018, the Group's refinery throughput at own refineries remained almost flat year-on-year at 67.3 million tonnes or 77% of LUKOIL's total oil production in 2018. Refineries in Russia accounted for 64% of total throughput volumes.

Refineries in Russia

The throughput at LUKOIL's refineries in Russia remained flat year-on-year at 43.2 million tonnes, while capital expenditures amounted to RUB 45 billion in 2018, up 76.9% year-on-year. The increase was primarily driven by the launch of the new units construction at Nizhny Novgorod Refinery.

Construction of the delayed coker complex at Nizhny Novgorod Refinery was launched in 2018. The facility's feedstock capacity is 2.1 million tonnes. The complex will use heavy residuals from the refining process as feedstock and produce mainly diesel fuel, straight-run gasoline, and gas fractions,

as well as heavy products such as vacuum gas oil and coke. The launch of the delayed coker complex and related optimization measures will increase the light product yield at Nizhny Novgorod Refinery by more than 10 percentage points. The increased secondary refining capacity and optimized refinery utilization will help reduce fuel oil output by 2.7 million tonnes per year. Several EPC contracts were awarded in 2018. Preparations for pile driving and laying the foundation for the process units were commenced during the year.

The second project aimed at improving the high value-added product output at Nizhny Novgorod Refinery is the construction of an isomerization unit to ramp up our output of motor gasolines. In 2018, an EPC contract was awarded and preparations began for launching the active construction phase.

Major efforts were made during the year to develop and launch new types of products at our refineries in Russia. In particular, processes were developed at Volgograd Refinery for producing MARPOL 2020-compliant low-sulfur heavy bunker fuel.

In the reporting year, LUKOIL continued increasing its refining depth through the use of alternative feedstock and a higher utilization of secondary



2019 PRIORITIES

- Construct the delayed coker complex and the isomerization unit at Nizhny Novgorod Refinery
- Progress further on enhancing operational efficiency and cost optimization programs
- Continue implementation of integrated programs on increasing reliability

processes, including strengthening its inter-plant integration. Specifically, cross-supplies between the Group's refineries amounted to 1.6 million tonnes in 2018. The fuel oil loading infrastructure was also brought on stream at Perm Refinery in 2018, improving delayed coker utilization rate and strengthening inter-plant optimization across the Group.

Commissioning new refining units from 2015 to 2016 and optimizing the utilization of secondary processing units considerably improved the refining depth and reduced the fuel oil yield from 22% in 2014 to 11% in 2018.

Excluding mini-refineries, light product yield was 69.3% (69.2% in 2017) in the reporting year, while the refining depth

reached 88.0% (86.7% in 2017). Fuel oil and vacuum gas oil output reduced by 4% year-on-year, mainly due to the lower output of these products at the Volgograd and Ukhta refineries.

Refineries in Europe

In 2018, the throughput at the Group's refineries in Europe remained flat at 24.1 million tonnes. The decreased refining due to scheduled maintenance at Burgas Refinery in Bulgaria was offset by a ramp-up at the refineries in Italy and Romania.

Following a change in the market environment, we modified the utilization structure at some of our European refineries in 2018 by cutting crude oil refining in favor of a higher heavy prod-

uct refining due to wider price spreads between heavy products and crude oil. These developments, along with the scheduled maintenance at our Bulgarian refinery, led to a reduced light product yield at LUKOIL's European refineries, at 72.8% (75.1% in 2017). However, this reduction was partially offset by optimizations in the feedstock slate at Zeeland Refinery.

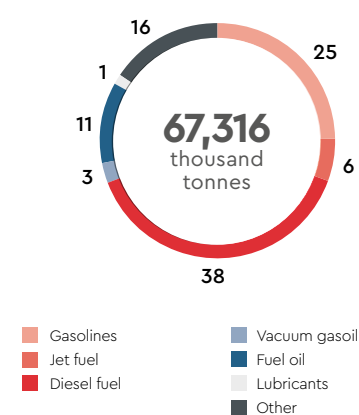
The capital expenditures of the Group's refineries in Europe totaled RUB 12 billion in 2018, up 25.8% year-on-year. The growth was due to a depreciation of the Russian ruble, as well as scheduled maintenance at our Bulgarian and Italian refineries.

Refinery throughput and production of petroleum products at LUKOIL Group refineries

	2016	2017	2018	Change 2018/2017
Refinery throughput, thousand tonnes	66,061	67,240	67,316	0.1%
Petroleum products production, thousand tonnes	62,343	63,491	63,774	0.4%
Light product yield, %	67	71	71	-
Refining depth, %	85	87	88	1 p.p.
Nelson Index	8.8	8.8	8.8	-

Product slate

% of refinery throughput



LUBRICANTS PRODUCTION AND MARKETING

2018 RESULTS

- Sales in our LUKOIL branded and high value-added lubricant ranges grew by 2% and 12% respectively
- Launched joint product development with leading global automotive and industrial equipment manufacturers
- Certified the Group's production assets in Russia, Austria, and Finland to the new international automotive standard IATF 16949
- Successfully completed an audit under the German Association of the Automotive Industry VDA 6.3 standard at our Perm production site
- Launched LUKOIL-branded online stores and sales through global marketplaces
- Launched an innovative lubricants and bitumen loading facility in Volgograd
- Entered the West and North African markets

LUKOIL Group produces lubricants at seven of its own sites, within two joint ventures, and at 25 contracted plants. Our Russian assets comprise full cycle lubricants production facilities at the refineries in Perm and Volgograd, a lubricant blending plant in Tyumen, and joint venture between LUKOIL and Russian Railways, INTESMO, producing greases in Volgograd. LUKOIL's overseas production assets include its own plants in Romania, Finland, Turkey, and Austria, as well as LLK-NAFTAN joint venture in Belarus producing additives.

In 2018, 45% of lubricants in Russia were produced at facilities operated by LUKOIL Group. LUKOIL's lubricant production (full cycle) in 2018 was 961 thousand tonnes, while sales of LUKOIL-branded lubricants were up 2% year-on-year to 594 thousand tonnes.

LUKOIL markets lubricants and greases in over 100 countries. One of the Group's key priorities is to develop its product range in line with modern requirements. In 2018, we have developed over 60 new lubricant solutions, including motor and transmission oils, industrial oils, products for original equipment

manufacturers (OEMs), as well as metalworking fluids and process oils. We have over 700 products within the lubricants category. In 2018, consumers of LUKOIL's oils included all Russia-based plants of foreign automotive manufacturers where car engines are assembled and filled, including Volkswagen, Ford, Renault, MAN, and others. We launched an ambitious joint product development program in 2018 with leading global automotive and industrial equipment manufacturers, under which the development of 20 new lubricant solutions was commenced. Our Perm production site was successfully audited under the German Association of the Automotive Industry VDA 6.3 standard in 2018. Companies certified under the VDA 6.3 become priority suppliers when German car manufacturers issue orders related to new car models.

Launched in 2014, the largest Russian grease producer and joint venture between LUKOIL and Russian Railways, INTESMO, increased its output by 25%. The plant houses an engineering center, unique in Russia, where greases are developed and tested. In just three years of operation, the center adopted

2019 PRIORITIES

- Launch the lubricants plant in Kazakhstan
- Increase the share of high value-added products
- Launch the R&D center for industrial lubricants and specialty products at the INTESMO engineering center

Lubricant production and blending

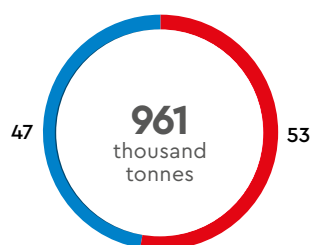
thousand tonnes

	2016	2017	2018	Change, 2018/2017, %
Full cycle lubricant production	917	998	961	-3.7
Lubricant blending	118	128	131	2.1

200 testing methods of greases and lubricants and also developed and launched the production of 115 types of greases, many of which outperform foreign counterparts by operational characteristics. In 2019, we plan to launch the R&D center for industrial greases and specialty products at the INTESMO engineering center.

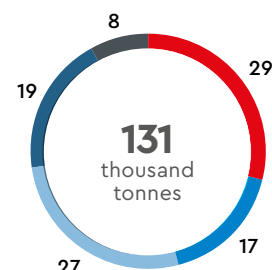
Full cycle lubricant production in 2018

%



Lubricant blending in 2018

%



■ Volgograd Refinery

■ Perm Refinery

■ Russia, Tyumen

■ Finland

■ Austria

■ Turkey

■ Romania

GAS PROCESSING

2018 RESULTS

- Increased processing volumes due to the higher capacity utilization at Stavrolen

2019 PRIORITIES

- Maximize synergy from vertical integration by increasing our APG use, growing our output of liquid hydrocarbons and marketable gas, and providing feedstock to our power generating assets

LUKOIL Group processes gas and natural gas liquids at three gas processing plants (GPPs) in West Siberia, Timan-Pechora, and Volga regions, as well as at its Perm Refinery and Stavrolen petrochemical complex in the Stavropol Territory. The Group's GPPs process the APG produced by LUKOIL into liquid hydrocarbons and marketable gas.

In 2018, gas processing increased by 6.7% to 4.3 billion cubic meters, mainly due to the increased capacity

utilization at Stavrolen and higher processing volumes at Perm Refinery and Korobkovsky GPP.

The output of liquefied petroleum gases and liquid hydrocarbons at the Group's GPPs was 1.7 million tonnes, up 4.1% year-on-year in 2018 due to the increased output at Perm Refinery. Marketable gas production increased by 5.9% year-on-year to 2.6 billion cubic meters in 2018 due to the higher output at Stavrolen.

Gas processing

million cubic meters

	2016	2017	2018	Change, 2018/2017, %
Total	3,901	4,038	4,308	6.7
Lokosovsky GPP	953	1,497	1,454	-2.9
Perm Refinery with gas processing complex	1,134	1,162	1,211	4.3
Korobkovsky GPP	418	362	383	5.9
Usinsk GPP	137	161	149	-7.2
Stavrolen gas processing complex	1,259	856	1,110	29.8

PETROCHEMICALS

2018 RESULTS

- Completed reconstruction of the polyethylene production facilities, capacity of ethylene polymerization units ramped up to 40 tonnes per hour at Stavrolen
- Increased the acrylonitrile and sodium cyanide production capacities at Saratovorgsintez

2019 PRIORITIES

- Complete feasibility studies and launch projects for developing petrochemical facilities at the Group's refineries
- Complete the pyrolysis furnace upgrades at Stavrolen

LUKOIL Group produces petrochemicals at two plants in Russia and at its refineries in Italy and Bulgaria. The output includes a wide range of polymers, organic synthesis products and other petrochemicals. LUKOIL meets a significant portion of domestic demand for various petrochemicals and is also a large petrochemicals exporter to more than 30 countries.

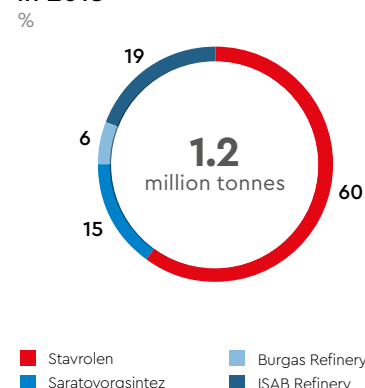
In 2018, we increased our petrochemicals output by 6.4% to 1.2 million tonnes, primarily due to an increase in the marketable products output at Stavrolen.

Retrofitting the polyethylene production facilities at Stavrolen was completed in 2018, which helped increase the output of premium high-density polyethylene products. In particular, we launched the production of modern bimodal polyethylene suited for pipe applications.

Growth prospects in petrochemicals depend on the development of petrochemicals production at existing

sites and the monetization of available feedstock. In 2018, LUKOIL completed a large portion of the feasibility studies for a polypropylene facility at Nizhny Novgorod Refinery. The project provides for retrofitting the existing catalytic cracking units to increase the propylene yield. Feasibility studies were also conducted for a styrene production facility at Nizhny Novgorod Refinery. The project provides for using ethylene recovered from fuel gas catalytic cracking units and benzene from the reforming unit as feedstock for the facility.

Petrochemicals output in 2018



Petrochemicals output

	2016	2017	2018	Change, 2018/2017
Marketable products output, thousand tonnes	1,270	1,171	1,246	6.4%
Polymers and monomers, %	34.8	34.8	37.4	2.6 p.p.
Organic synthesis products, %	39.9	40.4	36.1	-4.3 p.p.
Pyrolysis products, %	25.1	24.6	26.4	1.8 p.p.
Other, %	0.1	0.2	0.2	–

POWER GENERATION



2018 RESULTS

- Commissioned Hydroelectric Unit 1 as part of the renovation project at Belorechensk HPP
- Commissioned five steam-generating units at the Yaregskoye and the Usinskoye fields



2019 PRIORITIES

- Complete the renovation project at Belorechensk HPP by commissioning Hydroelectric Unit 2 (24 MW)
- Commission the steam generators at the Yaregskoye and the Usinskoye fields
- Construct a 16 MW GTPP to cover the electricity consumption across several fields in the Urals

LUKOIL's power generation segment is represented by a fully vertically integrated chain, from generation to transmission and distribution of heat and power to external consumers (commercial power generation) and for its own needs (supporting power generation). Our aggregate power generation capacity is 6.2 GW, with commercial power generation accounting for 74% of the total and supporting power generation for the remaining 26%. The power generating facilities in our asset portfolio help to strengthen vertical integration and ensure high efficient APG use rates while reducing the electricity costs at our production facilities.

Commercial power generation

LUKOIL's main commercial heat and power generating facilities are located in the south of the European part of Russia, accounting for 97% of electricity

generation in the Astrakhan Region and 59% in the Krasnodar Territory. Our commercial electricity generation in 2018 totaled 19.9 billion kWh, while heat supplies totaled 11.0 million Gcal.

Renewable power generation

Renewable power generating facilities also contribute to commercial power generation. The Group's core assets comprise four hydroelectric power plants (HPPs) located in Russia with a combined capacity of 291 MW and a combined output of 1,156 million kWh in 2018.

One of our important hydroelectric generation projects is the reconstruction of Belorechensk HPP. The two hydroelectric units are to be fully replaced, increasing the installed capacity of each from 16 MW to 24 MW, totaling 48 MW of hydroelectric installed capacity post-renovation. In 2018, we

Commercial electricity and heat generation

	2016	2017	2018	Change, 2018/2017, %
Electricity, million kWh	21,704	20,189	19,919	-1.3
Including renewable power generation, million kWh	977	1,053	1,365	29.5
Heat, million Gcal	12.4	10.7	11.0	2.3

completed Phase 1 of the project by commissioning Hydroelectric Unit 1 and completing comprehensive upgrades across almost all auxiliary systems at Belorechensk HPP.

The project will extend the operation of Belorechensk HPP by at least 40 years, increasing the efficiency and reliability of its green electricity generation.

We also operate three solar power plants in Russia at Volgograd Refinery (10 MW), Romania (9 MW), and Bulgaria (1.3 MW). These plants are built on unutilized industrial sites of the

refineries and supply electricity to local grids. In 2018, the annual output of the plants totaled 17 million kWh.

LUKOIL also owns the 84 MW Land Power wind power plant in Romania. The annual output of the plant totaled 192 million kWh in 2018.

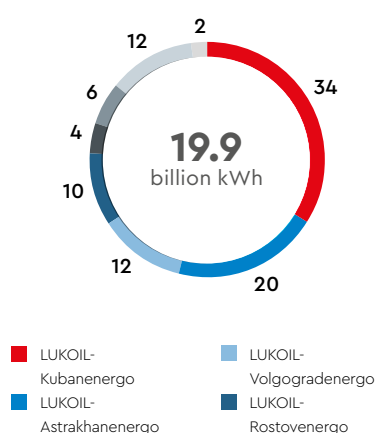
Supporting power generation

Development of in-house electricity generation at fields and plants helps the Group reduce its electricity costs and use APG more rationally, for example as a fuel for gas power plants. In 2018, sup-

porting power generation by the Group totaled 7,319 million kWh, while its share in LUKOIL's total electricity consumption for production purposes was 34%.

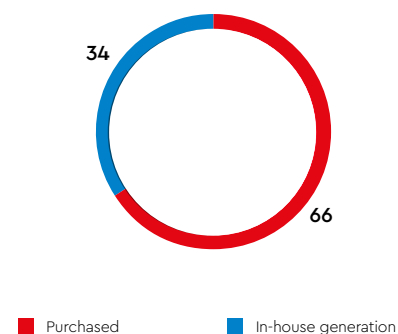
Commercial electricity output and heat supplies in 2018

%



Power consumption by the Group's production entities in 2018

%



WHOLESALE AND TRADING



2018 RESULTS

- Increased trading volumes
- Increased the share of pipeline supplies in petroleum products exports from 26 to 52%



2019 PRIORITIES

- Diversify sales markets
- Increase transportation via LUKOIL's own infrastructure

LUKOIL sells crude oil, gas, and petroleum products in the domestic and international markets, distributing optimal flows to suit the market environment. We own both pipelines and crude oil and petroleum product transshipment facilities, which help to minimize transportation costs. A well-developed trading arm within the Group maximizes efficient sales of our crude oil and petroleum products while generating additional income from sales of purchased hydrocarbons.

The combined sales of crude oil, petroleum products, and petrochemicals totaled 210.5 million tonnes in 2018, up 2.7% year-on-year primarily due to increased oil trading.

Crude oil

Crude oil sales volumes increased by 14.0% to 85.2 million tonnes in 2018, primarily due to higher volumes of international trading. The markets outside of the Customs Union accounted for approximately 94.4% of LUKOIL's total crude oil sales volumes, while 2.4% was sold in Russia and 3.2% in other countries of the Customs Union.

LUKOIL sold 2.1 million tonnes of crude oil in the domestic market, a 10.2% year-on-year decline, primarily due to the lower crude oil demand from key consumers. Following lower domestic sales, LUKOIL's exports subsequently increased by 0.3% to 36.7 million tonnes in 2018. The share of exports outside the Customs Union increased from 92.3% to 92.5%, primarily due to the production growth in the North Caspian and at the Yaregskoye field, both of which enjoy export duty benefits. International crude oil sales increased by 14.7% to 83.2 million tonnes, primarily due to the higher trading volumes.

As with the year prior, the most efficient way to monetize LUKOIL's crude oil in 2018 was processing it at its own refineries. Crude oil supplies to the Group's refineries in Russia amounted to 43.2 million tonnes in 2018, up by 0.2% year-on-year. Crude oil supplies to the Group's refineries in Europe totaled 24.1 million tonnes in 2018, almost flat year-on-year. Supplies of oil for processing at third-party refineries amounted to 6.5 million tonnes, almost flat year-on-year.

Oil supplies and sales

million tonnes

	2016	2017	2018	Change, 2018/2017, %
Sales in Russia	7.1	2.3	2.1	-10.2
Supplies to LUKOIL's Russian refineries	41.8	43.1	43.2	0.2
Exports from Russia	33.9	36.6	36.7	0.3
International sales	70.3	72.5	83.2	14.7
Supplies to LUKOIL's European refineries	20.4	22.0	21.3	-3.2

Petroleum products

Sales of petroleum products amounted to 123.5 million tonnes in 2018, down 3.9% year-on-year, primarily due to downward pressure on trading volumes from the market environment.

Sales volumes of petroleum products in Russia accounted for approximately 20.8% of the total or 25.6 million tonnes. Sales volumes in Russia grew by 3.3% year-on-year, mostly driven by retail sales due to higher demand for LUKOIL's products. To meet the higher demand, we redirected some of our export supplies to the domestic market. LUKOIL's retail sales volumes in Russia amounted to 10.9 million tonnes, up 8.4% year-on-year.

Russian exports of petroleum products declined in 2018 by 7.3% to 16.2 million tonnes following a higher demand for gasoline and diesel fuel in the domestic market and a lower fuel oil output. Fuel oil exports were down by 45.1% and their share in LUKOIL's total exports of petroleum products declined from 15.8% in 2017 to 9.3% in 2018.

A total of 79.2% of LUKOIL's petroleum products were sold in the international market. International wholesale sales decreased by 5.9% to 93.7 million tonnes, mostly driven by lower trading volumes of petroleum products. International retail sales grew by 1.5% to 4.2 million tonnes due to increased average daily sales per filling station.

Gas

In 2018, LUKOIL Group sold 27.9 billion cubic meters of gas (natural gas, APG, and dry stripped gas), up 22.2% year-on-year. Russia accounted for 49.2% of the Group's total gas sales volumes, at 13.7 billion cubic meters, 11.9 billion cubic meters of which were sold to Gazprom Group.

International gas sales volumes amounted to 14.2 billion cubic meters, up by 56.0% year-on-year, due to the gas production growth in Uzbekistan. As a result, the share of international sales in the total sales volumes was up by 11 percentage points year-on-year, at 50.8%.

Sales of petroleum products¹

million tonnes

	2016	2017	2018	Change, 2018/2017, %
Total	121.6	128.5	123.5	-3.9
Russia	21.7	24.8	25.6	3.3
Outside Russia	99.9	103.7	97.9	-5.6

Exports of petroleum products¹

million tonnes

	2016	2017	2018	Change, 2018/2017, %
Total	18.7	17.5	16.2	-7.3
Diesel fuel	8.0	10.1	9.8	-2.9
Gasoline	0.4	0.3	0.2	-29.9
Jet fuel	0.2	0.1	0.05	-41.7
Lubricants	0.6	0.6	0.6	-3.7
Fuel oil	3.7	2.8	1.5	-45.1
Other	5.8	3.6	4.1	11.2

Gas sales

million cubic meters

	2016	2017	2018	Change, 2018/2017, %
Total	18,908	22,837	27,896	22.2
Russia	11,845	13,751	13,723	-0.2
To Gazprom Group	8,794	11,140	11,925	7.0
To other consumers	3,051	2,611	1,798	-31.1
Outside Russia	7,063	9,086	14,173	56.0

¹ From 2016, including gas products produced at LUKOIL's GPPs.

Own transportation infrastructure and dedicated supply channels

Our priority when selling crude oil and petroleum products is efficient logistics and maximum reliance on our transportation infrastructure to reduce transportation costs and optimize routes. LUKOIL Group owns three terminals in Russia (Varandey Oil Terminal in Timan-Pechora on the Barents Sea, an oil terminal in the port of Svetly in the Kaliningrad Region, and a petroleum products terminal in the port of Vysotsk on the Baltic Sea) and one terminal in the port of Barcelona in Spain, with a combined capacity of 36 million tonnes of oil and petroleum products per year. LUKOIL also uses its own floating oil storage unit in the Caspian Sea for oil transshipment.

In 2018, transshipment via LUKOIL's own infrastructure was down 3.9% year-on-year and totaled 21.0 million tonnes of crude oil and petroleum products.

Crude oil transshipment through our own terminals declined by 13.1% year-on-year to 9.6 million tonnes, driven by lower production volumes at the A. Titov and R. Trebs fields operated by Bashneft-Polyus joint venture, in which LUKOIL has a 25.1% stake. This resulted in the share of crude oil exports via our own transportation infrastructure declining to 23.9% in 2018 (25.3% in 2017).

Petroleum products transshipped via our terminals increased by 5.6% to 11.4 million tonnes, driven by higher

transshipment rates of fuel oil and vacuum gas oil. In 2018, petroleum product shipments via LUKOIL's terminal in the port of Vysotsk totaled 10.6 million tonnes.

LUKOIL also holds a 12.5% stake in the Caspian Pipeline Consortium (CPC). LUKOIL's oil exports via the CPC increased by 38.0% in 2018 to 4.8 million tonnes due to production growth at the Caspian Sea fields. The CPC's oil quality bank ensures that LUKOIL's selling prices reflect the high quality of its crude.

In 2018, LUKOIL Group exported 1.2 million tonnes of crude oil via the East Siberia – Pacific Ocean (ESPO) pipeline, up 8.8% year-on-year. This route enables transporting our light oil from West Siberia with a corresponding premium for its quality as compared to conventional Urals crude exports to the west. In addition, supplies of light West Siberian crude oil transported to the port of Novorossiysk, via a separate pipeline preventing mixing with heavy oils and helping sell it with a corresponding premium for its quality, grew by 9.1% in 2018 to 959 thousand tonnes.

In December 2017, LUKOIL began supplying the diesel fuel produced at its Volgograd Refinery to the port of Novorossiysk via Transneft's new petroleum product pipeline, Volgograd Refinery – Tinguta – Tikhoretsk – Novorossiysk (the South project). LUKOIL transported 3.9 million tonnes of crude oil via the 8.7-million-tonne pipeline in 2018.

In June 2017, LUKOIL launched transportation of the motor gasoline produced at its Nizhny Novgorod Refinery to the Moscow Region via Transneft's petroleum product pipeline. The pipeline capacity is 3 million tonnes per year. Transportation totaled 0.9 million tonnes in 2018.

After launching transportation through these two pipelines, LUKOIL was able to significantly increase the share of pipeline shipments in its total petroleum product supplies and subsequently reduce the share of costly rail transportation, achieving major savings in transportation costs. In particular, pipelines accounted for 52% of LUKOIL's petroleum product supplies in 2018 compared to 26% in 2017.

Trading

LUKOIL performs its trading operations in all key regions of the world through its subsidiary, LITASCO. LITASCO's main functions include maximizing sales efficiency for LUKOIL's crude oil and petroleum products and boosting profits through trading third-party volumes.

To maximize the efficiency of its trading operations, LITASCO builds long-term relations with major refineries in South-East Asia, the USA, Canada, and other countries, and supplies crude oil and petroleum products to the Group's refineries in Europe. Crude oil and petroleum products produced by LUKOIL Group accounted for one third of LITASCO's total trading volumes in 2018, while trading third-party crude oil and petroleum products accounted for the remaining two thirds.

PREMIUM SALES CHANNELS



2018 RESULTS

- Increased the average daily sales volumes per filling station by 6.3% to 10.7 tonnes
- Reorganized the retail business management system
- Increased sales volumes of bunker fuels by 4%
- Increased into-plane jet fuel sales volumes by 17%
- Increased gross profit from sales of non-fuel goods and services at filling stations by 20%
- Increased sales volumes of ECTO-branded fuels by 12%



2019 PRIORITIES

- Increase the efficiency of our retail network
- Expand our non-fuel business
- Increase sales volumes of premium ECTO-branded fuels
- Retain our high market share in aircraft refueling and marine bunkering
- Focused growth and launch of new products in our lubricants and bitumen segments

Retail Sales

LUKOIL sells the bulk of its petroleum products in the retail market via its well-diversified retail network of 5,168 filling stations located in 18 countries.

In 2018, our total retail sales volumes grew by 6.4% and amounted to 15.1 million tonnes of petroleum products, 10.9 million tonnes of which was sold in Russia and 4.2 million tonnes sold abroad.

Our main focus during the year in retail was on improving efficiency and maximizing free cash flow, and we also optimized the geographic footprint and formats of our filling station network.

Retail sales volumes of petroleum products in Russia grew by 8.4% year-on-year. Our customer-oriented policy and the constructions and upgrades made to our filling stations helped boost the average daily sales volumes per filling station in Russia to 13.8 tonnes. As part of our operational excellence program in Russia, 21 filling stations were sold in 2018, seven were built, nine were bought, and 95 were reconstructed.

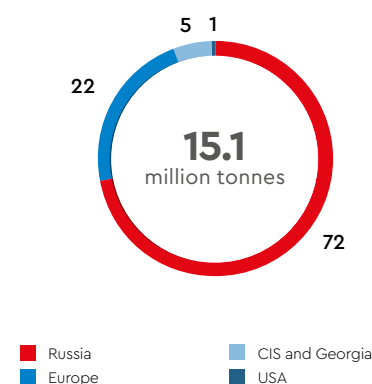
We made an important step in 2018 toward further cost optimizations within our Russian filling stations network by reorganizing the retail management system and reducing the

number of our distribution subsidiaries from eight to four organizations through a merger and redistribution of our distribution assets. We also expect additional benefits from both consolidating our procurement and logistics management and unifying our marketing policy. Additionally, we began enhancing our IT platform to further improve efficiency of retail network and product range management.

International retail sales volumes of petroleum products were up by 1.5% year-on-year in 2018 following increased average daily sales volumes per filling station.

Breakdown of retail sales volumes in 2018

%



Branded fuel

LUKOIL actively promotes sales of its fuels under the ECTO brand, with improved efficiency and environmental performance. In 2018, sales volumes of ECTO-branded fuels were up 12% at 9.6 million tonnes. Sales volumes of ECTO-branded gasoline and diesel fuels increased both in Russia and abroad. Sales of the premium ECTO 100 motor gasoline were launched in June 2017. LUKOIL's retail network of filling stations has fully replaced ECTO Sport (Euro-5 AI-98) with the new, improved, higher performance ECTO 100 fuel. The launch of ECTO 100 led to increased demand, with sales volumes of ECTO 100 gasoline amounting to 111 thousand tonnes in 2018.

Non-fuel goods and services

In 2018, we continued our efforts in developing sales of non-fuel goods and services at our filling stations. Gross profit from non-fuel sales in Russia reached RUB 8.0 billion, a 21% increase year-on-year, and gross profit from international sales was RUB 5.9 billion, up 19% year-on-year. LUKOIL's revenues from non-food sales are boosted by product range

Retail sales of petroleum products

	2016	2017	2018	Change, 2018/2017, %
Number of filling stations¹ as at December 31	5,309	5,258	5,168	-1.7
Russia	2,603	2,609	2,556	-2.0
Outside Russia	2,706	2,649	2,612	-1.4
Total retail sales volumes, thousand tonnes	14,193	14,238	15,144	6.4
Russia	9,900	10,083	10,927	8.4
Outside Russia	4,293	4,155	4,217	1.5
Average daily sales volumes at LUKOIL's filling stations, tonnes per day	9.9	10.0	10.7	6.3
Russia	12.7	12.8	13.8	7.8
Outside Russia	6.5	6.6	6.8	1.7

¹ Including owned, leased, franchised, and suspended stations.

optimizations, continuous marketing efforts, developing value-added services, rolling out the best retail practices, focusing on customer service excellence, and upgrading filling stations.

The higher revenue from our Russian filling stations in 2018 was driven by higher foot traffic, a 23% increase in food sales, and higher sales of café products.

LUKOIL plans to continue focusing on accelerated growth and efficiency improvements in retail sales of non-fuel goods and services to better cover the operating costs of filling stations. In 2018, the gross profit from non-fuel sales covered 39% of the expenses of our Russian filling stations, compared to 33% in 2017.

Marine bunkering

LUKOIL is one of the largest suppliers of bunker fuels, with bunkering operations in 21 ports and six Russian regions. LUKOIL also carries out its overseas operations in Bulgarian and Romanian ports. We operate mainly in ports on the Baltic Sea, the Barents Sea, and the Black Sea, and on inland waterways.

The Group sold 4.7 million tonnes of bunker fuel in 2018, up 4% year-on-year, including supplying 1.7 million tonnes of bunker fuel through retail channels – to the final consumers of the fuel, with additional margin. The high quality of our bunker fuel helps LUKOIL retain its significant market share.

Bunker fuel sales

million tonnes



Aircraft refueling

LUKOIL sells both its own and purchased jet fuel, mostly into-plane, at airports in Russia, Bulgaria, and Turkey, either through its own sales network or third-party refueling companies.

Jet fuel sales exceeded 3.2 million tonnes in 2018, down 1.2% year-on-year, while high margin into-plane fuel sales grew by 17% to 2.2 million tonnes.

This growth was primarily driven by the launch of our jet refueling complex with a capacity of 1.2 million tonnes per year at Moscow Sheremetyevo airport in July 2018. The facility is one of the most advanced in Russia and equipped with

an automated process control system as well as a fuel testing lab. Strong infrastructure, a fuel farm, and a hydrant system for centralized refueling enable the facility to refuel aircraft at 27 parking stands.

Over the past five years, the share of into-plane refueling grew from 45% to 70% in the total volume of LUKOIL's jet fuel sales. LUKOIL's long-standing consumers of jet fuel include major Russian and international airlines and civil aviation companies.

Today, our into-plane refueling network covers 33 Russian airports, in which 18 of the jet-refueling complexes are operated by LUKOIL or are joint ventures.

Into-plane jet fuel sales

million tonnes



CORPORATE RESPONSIBILITY

Since its incorporation, LUKOIL has conducted its business in a sustainable way, seeking to strike a balance between environmental sustainability and social and economic development. Our approach to sustainable development is based on aligning LUKOIL's interests and plans with the United Nations Global Compact, universal human values, global trends, and national and regional development priorities, which integrates economic, environmental, and social goals and objectives into our corporate decision-making system.

For more details on the sustainability management system, see the Sustainability Management System section on **page 123**

Ensuring Health, Safety, and Environment (HSE) compliance is a key element of our sustainable development. LUKOIL's HSE management system is certified to ISO 14001:2015 and OHSAS 18001:2007, and is based on principles of preventive actions and the personal accountability of both managers and line employees. LUKOIL Group is transitioning to the

new international ISO 45001 standard replacing OHSAS 18001:2007 following its publication in 2018.

The Health, Safety, and Environment Policy Implemented by LUKOIL Group in the Twenty-First Century (the HSE Policy) defines our HSE management system. The Policy was amended in 2018 to address among other things the increasing importance of climate change issues.

For more details on the HSE Policy, see the Company's website.

To develop the HSE Management System, the Company has in place the Health, Safety, and Environmental Committee of PJSC LUKOIL which reviews relevant HSE matters, including the HSE Policy development, measures for material HSE risk management, proposals for motivating the Group entities' employees to comply with HSE requirements (including through KPIs), HSE compliance performance, and performance of HSE activities. The

Committee also reviews responses to regulatory changes that have an impact on the Company's business.

Moreover, the Committee prepares proposals to the Company's governance bodies for approving key HSE documents: the Health, Safety, and Environment Policy Implemented by LUKOIL Group in the Twenty-First Century, targeted segment-specific functional programs, and the Company's local regulations.

To implement the Policy, the Company is developing three-year targeted HSE programs, which are reviewed by the Health, Safety, and Environmental Committee of PJSC LUKOIL and approved by order of PJSC LUKOIL. Targeted program performance is reviewed annually at a Management Committee meeting. PJSC LUKOIL's Board of Directors annually reviews the Company's HSE status and measures being taken to improve occupational safety, and makes decisions on the focus areas for the HSE Management System's improvement.

MOTIVATION SYSTEM AND HSE PERFORMANCE

To strengthen accountability, HSE Compliance was added to LUKOIL Group's set of key performance indicators (KPIs). The metrics for assessing this KPI include:

- Zero fatalities caused by employer action
- Compliance of the HSE Management System with the requirements of the ISO 14001 and OHSAS 18001 international standards
- Accident frequency rate
- Per unit air pollutant emissions
- Per unit polluted wastewater discharge into surface water bodies
- Ratio of annual waste disposal volume to new waste generation, and other indicators

HSE compliance assessments at LUKOIL are used to inform the incentive system for managers at all levels as well as workers and specialists.

HEALTH AND SAFETY



KEY TARGETS¹

- Improved working conditions and occupational safety, thereby reducing professional injury and occupational disease rates
- Reduce the risks of accidents, incidents, fire, and emergencies at the Group's facilities



2018 RESULTS

- Improved working conditions
- Maintaining low work-related injury rates within the Company and reducing the number of injuries at contractor organizations
- Zero emergencies at production facilities
- Zero accidents at hazardous production facilities



2019 PRIORITIES

- Increase prevention efforts to ensure the early detection of occupational diseases and implementation of measures to minimize the negative impacts of work-related factors contributing to occupational diseases
- Reduce work-related injury rates
- Implement measures to introduce fire fighting systems at the facilities and ensure their compliance with the updated fire safety regulations
- Adopt and roll out the best HSE management and fire safety practices at the Group's entities

Ensuring safe working conditions and compliance with occupational safety regulations are our major priorities. LUKOIL has maintained a consistently high ranking among Russia's largest oil and gas companies for its health and safety performance. In 2018, work-related injury rates remained low across LUKOIL Group entities, while health consequences for injured employees became less serious. The number of injuries involving workers from contractor organizations at the Company's facilities was reduced notably (to 9 cases from 20 cases in 2017). These improvements were achieved due to contractor cooperation initiatives implemented in previous years, including engagement on safety culture development.

One lethal accident occurred in 2018 at the Kiyazlinskoye oil field operated by LLC RITEK (a LUKOIL subsidiary) in Tatarstan, caused by a work safety violation while

pumping melt water from a dewatering well. The subsequent investigation carried out at LLC RITEK resulted in a revision of local regulations related to similar activities. Unscheduled safety briefings and employee skill assessments were also held, and dewatering wells were fitted with additional safety equipment. In order to avoid similar occurrences elsewhere across the Group, the incident was discussed at LUKOIL's Safety Day, chaired by Ravil Maganov, Deputy Chairman of the Board of Directors, First Executive Vice President of PJSC LUKOIL, and Chairman of the Health, Safety, and Environment Committee of PJSC LUKOIL, and attended by representatives of the Group entities, trade unions, and contractors.

Activities aimed at preventing accidents at hazardous production facilities helped avoid accidents of this nature in 2018.

Work-related injury rates at LUKOIL Group

	2016	2017	2018	Change 2018/2017, %
Number of occupational accidents	19	20	21	5
Number of injured employees	28	22	23	5
Fatalities	4	4	1	-75
Lost-time accident frequency rate (LTAFR) ²	0.2	0.2	0.2	
Lost-time injury frequency rate (LTIFR) ³			0.12	

² LTAFR is calculated as the number of work-related injuries per thousand people of the average headcount during the reporting period.

³ LTIFR is calculated as the number of lost-time injuries per million of total man-hours worked.

Accidents at LUKOIL's hazardous production facilities in Russia⁴

	2016	2017	2018
Accidents	2	6	0

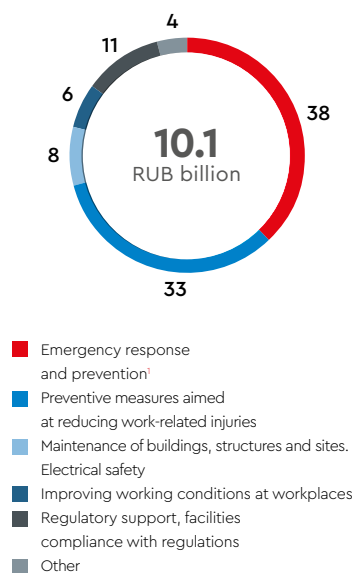
⁴ Hazardous production facilities as defined in Russian Federal Law No. 116-FZ "On Industrial Safety of Hazardous Production Facilities" dated July 21, 1997.

¹ Key targets of the Industrial Safety Program.

Conducting regular drills is our most crucial tool in preventing serious accidents. Our on-site trainings involve both our employees and the employees of our contractors that are present at the site during such exercises. During 2018, 178 drills of different levels were conducted, with oil and petroleum product spills accounting for half of all drills. Over 11.9 thousand on-site trainings were conducted. Over 88 thousand LUKOIL Group and contractor employees participated in the drills and training sessions. During the drills in 2018, a special emphasis was placed on reviewing response plans for various incidents (emergencies) as well as the level of preparedness and adequacy of personnel and resources mobilised for response to emergency situations.

Industrial safety expenditures (capital and operating expenditures) across the Group in 2018

%



¹ Including fire safety related works and services, procurement of firefighting and protection equipment, activities to implement radiation safety standards, etc.

Assessment of working conditions

The five-year transition period to phase out the previous workplace certification process in the Russian Federation and roll out the new procedure concluded in 2018. On December 31, 2018, LUKOIL carried out special assessments of 98.5% of the workplaces across the Group's Russian entities, where 99.1% of its employees work. The remaining employees work at newly created workplaces or at workplaces with changed working conditions, for which special assessments are scheduled within statutory timelines. LUKOIL has completed the special assessment of working conditions for its existing workplaces. Assessment of the working conditions at LUKOIL Group's foreign entities is carried out in accordance with relevant national legislation.

Employees exposed to harmful working conditions are compensated depending on the class of working conditions with either increased pay, additional vacation time, or a shorter working week. Such workers accounted for 35% of the average headcount at our Russian entities in 2018.

HSE compliance for contractors

LUKOIL's corporate standards set out mandatory HSE requirements for our contractors, which are included into contracts as their integral part. Contractors are audited for their HSE compliance during the pre-qualification process prior to taking part in competitive tender procedures, and are screened out of the tendering process upon failure to comply with the established requirements. Compliance with the established HSE requirements is also monitored throughout the contract performance stage. In addition to mandatory certification by the Federal Environmental, Industrial, and Nuclear Supervision Service of Russia (Rostekhnadzor), contractors' safety managers are also certified by LUKOIL Group's certification committees.

NOTIFICATION SYSTEM

The HSE Management System sets out uniform requirements for the notification, recording, and analysis procedures for accidents at LUKOIL Group. All injuries at LUKOIL's facilities, including those involving contractor employees, are promptly reported to all stakeholders, including LUKOIL's structural units and executives, to decide on further rapid response actions. The incoming information is registered and filed in our RISK PB corporate information management system. The findings of the analysis of circumstances and causes following an investigation of each incident are communicated to the Group's entities, contractors, and units and additionally discussed both at the Health, Safety, and Environment Committee and Safety Days with the involvement of trade unions and key contractors. Organizational and technical measures are developed and tested to prevent injuries. The accident analysis results are included in the annual report to the Management Committee, where measures to prevent further accidents are developed.

ENVIRONMENTAL PROTECTION



KEY TARGETS²

- Increasing efficient APG use rates
- Reducing air pollutant and greenhouse gas emissions
- Ensuring treatment of the wastewater discharged into water bodies and centralized wastewater collection systems
- Disposal of hazardous waste generated and prevention of further waste generation



2018 RESULTS

- Efficient APG use across LUKOIL Group reached a record-breaking 97.4%
- The air pollutant and greenhouse gas emissions target was met ahead of schedule
- Air pollutant emissions reduced across the Group's Russian entities by 14% year-on-year
- The share of contaminated (untreated and insufficiently treated) wastewater in the total discharge into surface water bodies across the Group's Russian entities decreased to 0.4% (0.5% in 2017)
- The Company arranged for the disposal of all production waste generated in 2018



2019 PRIORITIES

- Maintain efficient APG use rates across the Group at a level not lower than 95%
- Maintain levels of pollutant emissions and discharges, water consumption, and waste generation within the Russian national standards subject to transition to the best available technologies

We are highly aware of our social responsibility to preserve the environment and use natural resources responsibly, and strictly comply with the national legislation of the countries in which we operate, conforming with the highest environmental protection standards.

All key environmental impact metrics were improved in 2018. Our key sustainability achievement in 2018 was the increase of our efficient APG use rate to a record-high 97.4% across the Group, driven by our sustained efforts upgrading and commissioning new efficient APG use facilities. Gas flaring by the Group's Russian entities was reduced by 44% year-on-year, and emissions capture and scrubbing technologies were improved, which resulted in reduced air pollutant emissions across the Group's Russian entities (down by 14% to 433 thousand tonnes) and lower direct CO₂ emissions (down by 4% to 29.99 million tonnes of CO₂ equivalent).

Apart from that, across the Group's Russian entities in 2018, water consumption for operational needs was reduced by 5% in 2018, and the share of contaminated wastewater in the total water discharge decreased to 0.4% from 0.5% in 2017. The volume of contaminated wastewater discharge was lowered by 20% to 0.9 million cubic meters, while the production waste disposal rate was 1,582 thousand tonnes in 2018, matching the waste generation rate. Of the total waste generated by the Group in 2018, hazardous waste (hazard classes 1 to 3, according to the Russian classification) accounted for 10%, low-hazard waste (hazard class 4) for 73%, and non-hazardous for 17%. The area of oil-contaminated land at the end year-end was reduced by 1% to 59.3 hectares.

Climate change

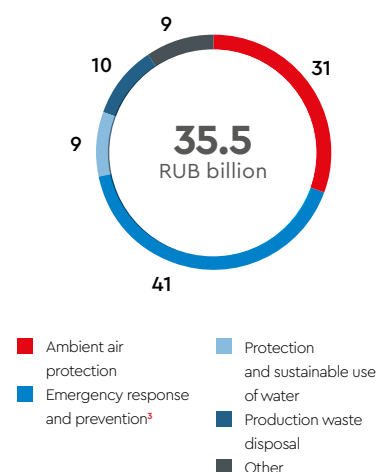
LUKOIL recognizes the importance of preventing global climate change and has deep concern for the environment. We are involved in developing a statutory and regulatory framework governing greenhouse gas emissions and plan our operations in accordance with the resulting decisions.

Greenhouse gas emissions

In 2018, the total direct greenhouse gas emissions by our Russian entities was reduced by 4% to 29.96 million tonnes of CO₂ equivalent, and in 2018 we met our target to reduce direct greenhouse gas emissions by 1.2% from a baseline 2016, by 2020, ahead of schedule. Our E&P segment in Russia was the main contributor to reducing greenhouse gas emissions.

Environmental expenditures (capital and operating expenditures) in 2018

%



* Includes the use of corrosion inhibitors, diagnostics, and major repairs of pipelines; spill drills; installation of emergency reservoirs.

² Key targets of the Industrial Safety Program.

We have successfully reduced our greenhouse gas emissions through comprehensive efforts in a number of areas:

- **More efficient APG use.** Constructing new and renovating existing efficient APG use facilities. 45 efficient APG use facilities were commissioned between 2016 and 2018
- **Energy efficiency.** LUKOIL's 2017–2019 Energy Conservation Program improves its energy efficiency. Twenty-five LUKOIL subsidiaries implemented the ISO 50001:2011 compliant energy management system

The Company also develops alternative power generation projects to reduce its environmental footprint and diversify its business. LUKOIL has a large portfolio of renewable power generation assets, accounting for 7% of the commercial power generated by the Group in 2018.

For more details on renewable energy, see the Power Generation section on **page 60**.



Environmental spending

LUKOIL's environmental spending in Russia totaled RUB 35.5 billion in 2018, down 16% year-on-year, mainly due to the completion of our key efficient APG use facilities.

GHG EMISSIONS DISCLOSURE

Since 2013, LUKOIL has been participating in the Carbon Disclosure Project (CDP), an international initiative for the disclosure of greenhouse gas emissions. The Company's 2018 CDP report earned PJSC LUKOIL a "D" score for its commitment to addressing climate change, which corresponds to the average score for Russian companies.

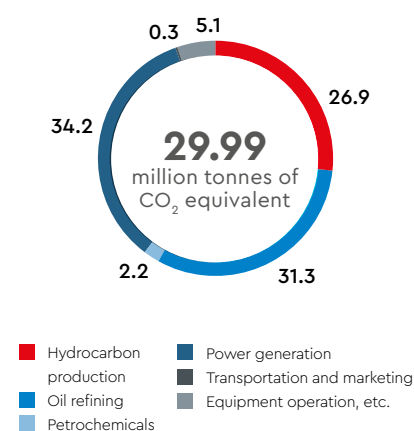
Direct greenhouse gas emissions by the Group's Russian entities

million tonnes of CO₂ equivalent



GHG emissions by the Group's Russian entities in 2018

%



The Group's key environmental efforts

WATER

SUSTAINABLE USE OF WATER AND PREVENTING WATER POLLUTION

Key 2018 initiatives

- A project upgrading the evaporation pond at the Astrakhan State District Power Plant (Astrakhan GRES) was completed, effectively preventing more than 0.5 million cubic meters of wastewater being discharged per year
- Construction was continued on wastewater treatment facilities at the Yaregskoye field

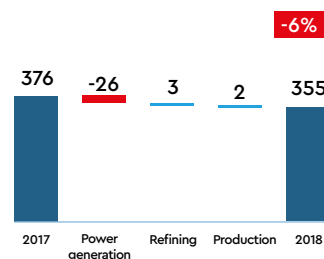
PRESERVING BIODIVERSITY

Key 2018 initiatives

- More than 33 million juvenile fish of valuable species were released into rivers and water reservoirs during 2018 under our Biodiversity Conservation Program

Water consumption for operational needs by the Group's Russian entities

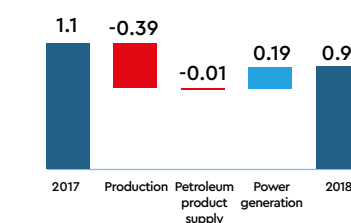
million cubic meters



LUKOIL's water consumption in 2018 was reduced primarily as a result of decommissioning outdated equipment at its power generation assets.

Discharge of contaminated (untreated and insufficiently treated) wastewater by the Group's Russian entities

million cubic meters



¹ Insufficiently treated wastewater includes polluted water that has been industrially treated but still has pollutant content exceeding the national standards.

AIR

MINIMIZING AIR EMISSIONS

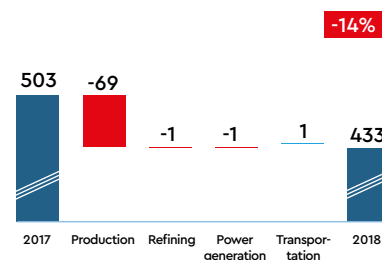
Key 2018 initiatives

- Design, construction, and upgrade of efficient APG use facilities, including the commissioning of nine facilities
- Commissioning of renovated facilities of the Usinsk GPP
- Commissioning of a sulfur recovery unit and a sulfur granulation unit at the oil treatment facilities at the Vostochno-Lambeyshorskoye field
- Commissioning of a vacuum compressor station at the V. Vinogradov field

Decreased APG flaring by the Group's oil and gas producing entities was the main factor contributing to the reduction in air pollutant emissions.

Air pollutant emissions by the Group's Russian entities

thousand tonnes



LAND

PRODUCTION WASTE DISPOSAL

Key 2018 initiatives

- We continued our waste disposal activities, along with monitoring of our contractors' compliance with their contract terms, including by checking their waste management methods, the condition of their operational controls, and the availability of sufficient resources for meeting their contractual obligations
- New in-house waste disposal and utilization facilities were constructed, and existing facilities at the Pyakyakhinskoye, Kamennoye, Usinskoye, Vozeyskoye, and Shchelyurskoye fields were upgraded

Waste generation increased in 2018 due to the federal classification of waste being expanded.

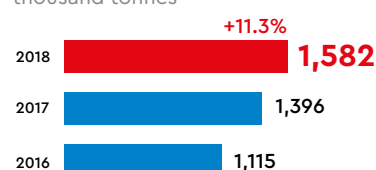
Compared to the pre-privatization period baseline, waste generation by the Group's Russian entities was reduced by 16% to 269 thousand tonnes (319.4 thousand tonnes in 2017).

Annual volumes of waste disposal to new waste generation by the Group's Russian entities



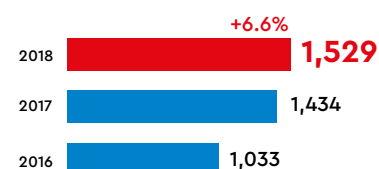
Production waste disposal and landfill

thousand tonnes



Production waste generation

thousand tonnes



PIPELINE FAILURE REDUCTION AND SUSTAINABLE LAND USE

LUKOIL implements a set of scheduled activities to minimize pipeline failure risks, as 99% of environmental incidents are caused by failures in pipeline integrity.

Key 2018 initiatives

- Replacement of 1,224 km of worn-out pipelines
- Annually replaced pipelines account for 2.6% of the total pipeline length, with pipelines with anti-corrosion coating comprising the majority of replacements, at 67.6% (63.2% in 2017)
- 7.1 thousand tonnes of corrosion inhibitors were injected into pipelines, with corrosion-protected pipelines accounting for 10.5% of the total pipeline length

Failures per km of pipeline at the Group's Russian entities

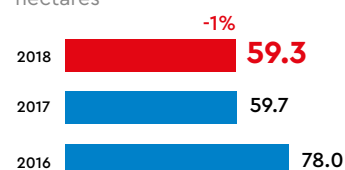
Failures per km¹



¹ Pipeline failure is defined as a pipeline interruption caused by a sudden total or partial pipeline shutdown due to a compromise in either the pipeline integrity or shut-off and/or control valves, or a pipeline blockage. Including data on oil, gas, and water pipelines.

Contaminated land at the Group's Russian entities as at December 31

hectares



Efficient APG use

LUKOIL uses APG reinjection to maintain pressure while also transporting APG to its GPPs. APG is also used as a fuel for on-site gas-fired power plants, which helps reduce electricity and oil production costs.

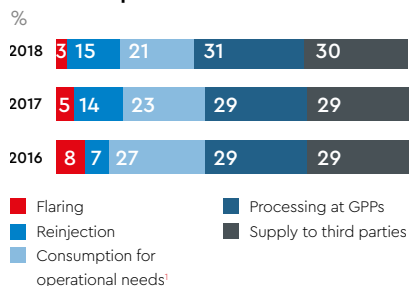
Our consistent efforts under the efficient APG use program annually increase our overall efficient APG use rate, which reached 97.4% across the Group in 2018, up 2 percentage points year-on-year.

Under LUKOIL Group's Efficient APG Use Program for 2018–2020, 21 efficient APG use facilities were designed, constructed, and renovated in 2018, and nine facilities were commissioned.

History of commissioning of efficient APG use facilities

Following the construction and commissioning of our APG use facilities, we have boosted our APG efficient use rate over the past five years by 7.3 percentage points to 97.4% while reducing flaring, increasing reinjection and consumption for operational needs, as well as supplying APG to third parties.

Gross APG production across the Group



Efficient APG use in key operating regions

%

	2016	2017	2018
Total	92.1	95.4	97.4
Russia	91.7	95.2	97.3
West Siberia	96.5	97.0	97.9
Urals	92.3	96.5	97.5
Volga region	91.5	95.7	98.1
Timan-Pechora	82.0	89.9	94.6
Other	98.0	97.3	98.6
International projects	98.1	97.6	98.1

Efficient APG use projects completed in 2018

Region	Field	Facility
Timan-Pechora	Usinskoye field	• Gas pipelines at the Permian reservoir
	Vostochno-Lambeysorskoye field	• Sulfur recovery unit, sulfur granulation unit
	Other fields in the Republic of Komi	• Steam-generating units, oil and gas pipelines, multiphase pump units
Urals	Pavlovskoye field, the Dorokhovskaya cluster of fields	• A gas pipeline from a booster pump station at the Pavlovskoye field to the Pavlovka main compressor station • A gas pipeline from a booster pump station at the Dorokhovskaya cluster of fields to the GKS-0016 mini main compressor station connection to the pipeline
West Siberia	V. Vinogradov field	• A vacuum compressor station

Commissioning of key efficient APG use facilities

Year	Commissioning of key efficient APG use facilities
2018	Commissioning of renovated facilities of the Usinsky GPP, construction of gas pipelines, CCGTs, and other infrastructure in the Republic of Komi
2017	Completion of renovations at the Usinsky GPP, the 75 MW Yarega power generating center, and the gas compression and treatment system at the V. Filanovsky field
2016	The amine-based gas conditioning unit at Vostochno-Lambeysorskoye field
2015	Export gas pipelines from North Caspian fields
2014	Gas treatment and conditioning units and gas pipelines in Timan-Pechora

ENERGY EFFICIENCY

LUKOIL Group views energy efficiency improvements across all business areas as a strategic priority under its Strategic Development Program for 2018–2027.

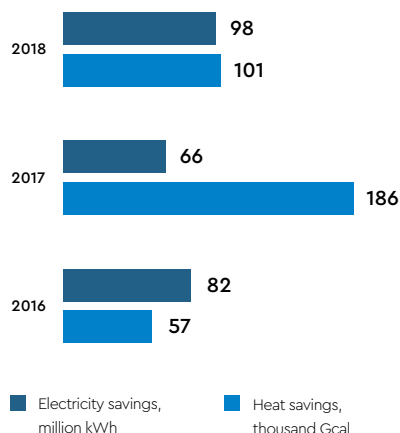
Key energy efficiency initiatives in 2018 included replacing pumps, optimizing pump operation, installing energy saving pumps and variable frequency drives, replacing and upgrading on-site equipment to boost efficiency factor, and upgrading lighting and heating solutions.

During the year, we increased the number of artificial lift wells with permanent magnet motors (PMSM) by almost 60% as part of our program for transitioning to energy efficient pumps. By the end of the year, PMSMs were installed at 37% of our artificial lift wells. All asynchronous motors are planned to be replaced with PMSMs by 2022. Our fleet of energy efficient reservoir pressure maintenance pumps grew by 14% in 2018. In 2018, the effect from these initiatives was over 10% of related electricity costs.

In the Refining, Marketing, and Distribution segment, our energy efficiency program includes heat integration of facilities that produce and consume heat, as well as furnace efficiency upgrades and maximizing efficient gas use.

Fuel and energy (FER) make up a significant part of LUKOIL's operating expenses and their efficient use is among the Group's major commitments. The fuel and energy consumed by LUKOIL Group include electricity (31%), heat (20%), and fuel (49%).

Results of energy efficiency initiatives across LUKOIL Group



Energy consumption of PJSC LUKOIL, by type

	2018 consumption	
	by volume	by monetary value (including 18% VAT), RUB million
Power	20,168 thousand kWh	107.5
Heat energy	16,369 Gcal	28.9

PERSONNEL

2018 RESULTS

- Enhanced incentives for top management on economic efficiency indicators
- Developed a number of digital employee performance management projects
- Reorganized our Russian petroleum product supply entities

Strong and stable corporate culture and corporate values are at the heart of LUKOIL Group's HR policy. All elements of the HR Policy are structured to ensure maximum flexibility for the Group and the ability not only to adapt promptly and efficiently to social, political, and economic changes, but also pro-actively initiate and successfully implement changes and innovations.

LUKOIL's talent management strategy is aligned with its Strategic Development Program and the staffing demand of its business segments based on planning and budgeting processes that enable the workforce to be efficiently reallocated through insourcing as well as flexible recruitment, professional training, and developing talent.

As the Strategic Development Program of LUKOIL Group for 2018–2027 is aimed, among other things, at improving the Company's operational efficiency and our talent management strategy is focused on boosting labor productivity through business process digitalization and automation, as well as upgrading employee skills.

In 2018, the Group's average headcount was 102.5 thousand employees, down 1% year-on-year.

Our employee turnover increased by 1.1 percentage points year-on-year to 7.8% as a result of reorganizing our Russian distribution subsidiaries in 2018.

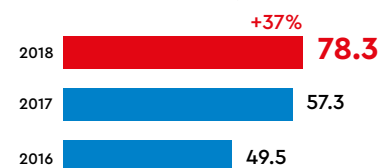
For more details, see the Retail Sales section on **page 65**.

Personnel incentives. Motivating our personnel to put in their best effort involves providing both financial and non-financial incentives. Non-financial incentives include state and corporate awards, such as certificates of merit and letters of gratitude.

Top managers are remunerated according to the Regulations on PJSC LUKOIL Management Remuneration and Incentive System. The Regulations were amended in 2018 to shift the focus from volume indicators to economic efficiency indicators and enhance the focus of managers on the free cash flow.

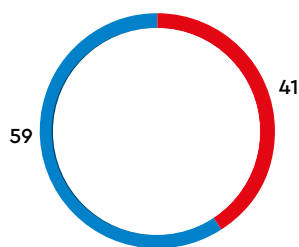
Revenue per employee

RUB million per employee



Personnel by gender as at December 31, 2018

%

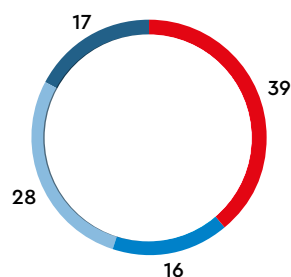


Female

Male

Personnel by age as at December 31, 2018

%

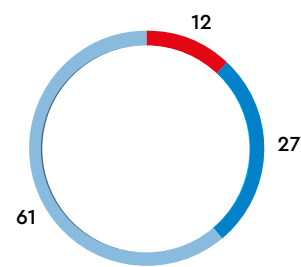


under 35
36 to 40

41 to 50
51 and above

Personnel by job category as at December 31, 2018

%

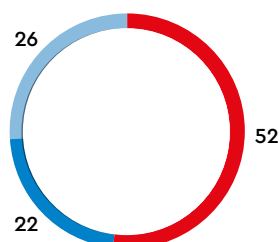


Managers
Specialists

Workers and other personnel

Personnel by education level as at December 31, 2018

%

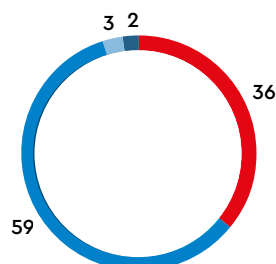


■ Higher
■ Secondary vocational

■ Primary vocational, secondary, below secondary

Personnel by segment as at December 31, 2018

%

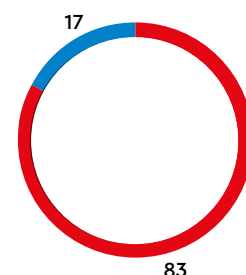


■ Exploration and Production
■ Refining, Marketing, and Distribution

■ Other Business
■ Corporate

Personnel by geography as at December 31, 2018

%



■ Russian entities

■ Foreign entities

Staff performance assessments are carried out annually and are designed to motivate employees to improve their productivity and performance, strengthen their accountability, and encourage initiative. Performance assessments are carried out by employees' immediate supervisors based on self-assessment and an expert assessment, if applicable. Both specialists and managers are assessed. Employees are informed of the upcoming assessment objectives, deadlines, criteria, procedures, and results. The assessment results are forwarded to managers to calculate proficiency ratios that are used to determine bonuses.

Employee development system.

The Company has a continuous training system in place to provide its personnel with all the necessary knowledge

and skills. By training our employees, we successfully address challenges associated with new business activities and maintain our competitive edge which results in improving employee performance and cutting costs. Employee development is based on annual professional development plans.

In 2018, we developed a number of digital employee performance management projects and included them in our list of priorities for 2019 and 2020: Talent Management Based on Visual Analytics; Intellectual Assistant and Administrative Knowledge Base; and Safety Culture 4.0.

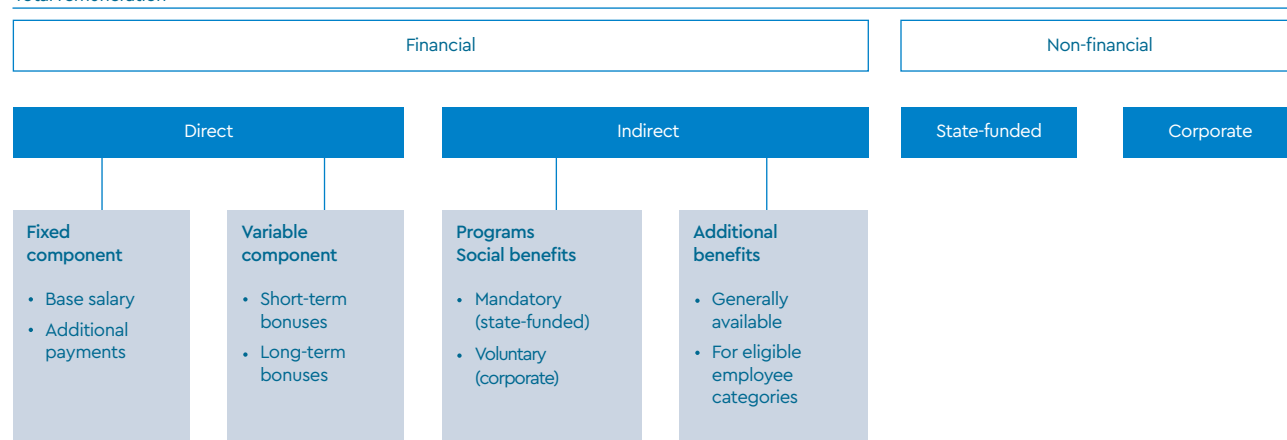
Professional Training Days are held twice a year for all managers of the Group entities to discuss the most pressing matters.

In order to perform its employees training, the Company uses workshops, seminars, secondments, professional development and retraining programs, as well as professional training days. For many years, close to 70% of LUKOIL's average headcount have benefitted from our annual training – in 2018, 74.7 thousand employees (73% of the average headcount).

Covering more than 63 Group entities and over 98 thousand users, our distance education program helps to optimize compulsory training costs. Over 134 thousand training courses were completed in 2018 (up 34% year-on-year) within the system, as well as more than 36 thousand certifications on industrial safety issues were passed (up 30% year-on-year).

MOTIVATION SYSTEM

Total remuneration



We also deployed a Corporate Knowledge Management System (covering over 11 thousand employees) to improve operational efficiency and drive innovation from within the Group. This framework helps to capture and disseminate best practices, ensure effective communications, and jointly explore and address common operational problems.

Talent pool management. Building our talent pool ensures the continuity of management. The grounds for being included in the talent pool include employee performance, professional and business qualities, potential for managerial tasks, and assessment results.

The management talent pool of PJSC LUKOIL until 2019 was approved in 2016 along with another one for the Group entities.

EDUCATIONAL PROGRAMS FOR ENGINEERS

To train engineers, we collaborate with leading higher educational institutions that offer oil and gas degree programs. A total of 112 cooperative agreements were signed between the Group entities and 62 higher education and vocational training institutions. Nine anchor departments have been set up at universities and are in operation. In 2018, we decided to create a training centre at Kogalym involving the Perm National Research Polytechnic University, a leading Russian university, as a partner under the project. The project combines science, education, and business to train petroleum engineers leveraging our accumulated experience, research projects, and production capabilities.

ENGAGING SERVICE AND CONTRACTING ORGANIZATIONS

LUKOIL engages service companies and contractors to minimize risks related to unqualified employee tasks by introducing qualification requirements to employment contracts for personnel engaged in work at the Group's facilities.

We prepare individual three-year development plans for each employee in the talent pool and monitor their progress annually, changing and amending plans where appropriate. These development plans are controlled by the Company's Vice Presidents and the top managers of its subsidiaries. Talent pool members are trained at the best Russian and foreign educational organizations and training centers. Special attention for the talent pool is given to developing and maintaining managerial and corporate skills at the required level.

Diversification. In implementing its HR Policy, LUKOIL is guided by the principles outlined in conventions of the United Nations and the International Labor Organization. LUKOIL maintains zero tolerance toward any kind of discrimination so as to provide equal opportunities for all its employees.

We also have in place local regulations on job quotas for people with disabilities, with the quota at LUKOIL totaling 2% of its average headcount. Special working conditions, benefits, and guarantees are provided for disabled employees, including shorter work hours for the same salary and longer annual leave, as well as suitable workplaces with customized equipment and additional fittings.

Social policy for employees. Our social policy is governed by the Social Code of PJSC LUKOIL, the Agreement between the Employer and the Trade Union Association of Public Joint-Stock Company "Oil Company 'LUKOIL'" for 2015–2020, collective bargaining agreements, and other

internal regulations on social policy. LUKOIL also pursues an extensive social policy offering a variety of guarantees and privileges that all employees of the Group entities are entitled to. Collective bargaining agreements cover 97.7% of the employees at our Russian entities and 62% of employees at our international entities.

The total cost of social programs for employees, their families, and retirees amounted to RUB 17 billion in 2018, while the cost of social infrastructure maintenance was over RUB 1 billion. The most important programs include healthcare, housing, and private pension plans for employees.

Human rights. LUKOIL respects and observes universal human rights and abides by the fundamental principles of the UN Universal Declaration of Human Rights in its operations, including employee equality and prohibiting any form of forced or child labor, discrimination, or degrading or humiliating treatment. We comply with the statutory working hours applied in our countries of operation while being committed to developing our employees, maintaining an effective employee remuneration system, and offering equal pay for equal work. Our commitments taken under the UN Global Compact apply to all regions and activities of the Company. We also encourage all organizations we work with to respect and observe human rights. When signing agreements with contractors and during their performance of contracted work or services, the relevant functions of the Company audit the counterparty's compliance with human rights laws and regulations. If any breaches are

PERSONAL DATA SECURITY

The Company has in place Personal Data Processing Policy.

PJSC LUKOIL and the Group entities operating in the European Union (53 in total) have signed the necessary agreements to align the Group's personal data processing and protection procedures with Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC.

The full text of the PJSC LUKOIL Personal Data Processing Policy is available on the Company's website.

EXPERT ASSESSMENT

PJSC LUKOIL has been rated among the Russian leaders of the Corporate Human Rights Benchmark, an international benchmark of corporate human rights performance. In 2018, the Company ranked first among Russian companies. Sponsored by eight global investors and banks, the rating looks at the compliance of publicly available corporate documents with the UN Guiding Principles on Business and Human Rights.

Among the key assessment criteria are: embedding respect for human rights in management systems, judicial grievance mechanisms, responses to allegations, information transparency.

identified, we suspend all engagements with the counterparty until these breaches are remedied, or terminate engagement if they are not. The Company maintains a constructive dialog with government authorities, employers, and the trade unions on corporate social responsibility and adherence to human rights in its regions of operation. LUKOIL also cooperates with the International Labor Organization.

Considering the importance of human rights, ethical conduct in stakeholder engagement, and other aspects of business ethics, the Company drafted and approved a new version of the Code of Business Conduct and Ethics of PJSC LUKOIL.

To ensure compliance with the corporate business ethics standards, including respect for human rights, a Business Ethics Commission was set up, chaired by the Company's President. Should any alleged human right violation occur, employees can address their employer directly or with the help of independent trade union organizations. Other stakeholders can call the Commission on the contact numbers listed in the Whistleblowing section of the Code of Business Conduct and Ethics. The Company accepts confidential reports that may be submitted via communication channels available on a 24-hour basis. The Commission registered four reports

in 2018. In each case, measures were taken to prevent negative situations from escalating. During 2018, LUKOIL did not receive any complaints on violation of human rights, including with regard to its contractors working at the Company's facilities.

For more details on our corporate business ethics, see the Business Ethics section on **page 124**.

For more details on the Business Ethics Commission, see the Reference Information section on **page 136**.

For more details on amendments to the Code of Business Conduct and Ethics, see the Business Ethics section on **page 124**. The full text of the Code of Business Conduct and Ethics of PJSC LUKOIL is available on the Company's website.

The Company's key principles and approaches to social responsibility are described in the Social Code of PJSC LUKOIL.

The full text of the Social Code of PJSC LUKOIL is available on the Company's website.

CONTRIBUTION TO SOCIETY



2018 RESULTS

- Signed new cooperative agreements with administrations in regions of operation
- Delivered on a number of major charitable projects for education, healthcare, culture, and social infrastructure construction
- Provided sponsorships to professional sports teams and competitions
- Continued cooperation with federal authorities and NGOs

economic issues of local communities while supporting their cultural, sports, research, educational, environmental, and health initiatives.

In selecting charity recipients, we favor civic initiatives aimed at fostering economic growth and social stability. LUKOIL's corporate philanthropy is structured around these values. Significant projects supported by LUKOIL are run through social partnerships with Russian regions.

We also support projects aimed at developing local communities, such as support for vulnerable groups, children, and youth, the conservation and development of cultural and historic heritage sites, funding local cultural, educational, and sports organizations, supporting socially significant research and campaigns, and participating in charitable events.

We carry out social research, whereby the local citizens living in our operating regions are surveyed in order to plan projects and then assess their performance. We also hold meetings with the administrations of municipalities to discuss the efficient implementation of our cooperative agreements, establish joint working groups, and regularly monitor the social and economic environment in these regions.

Charitable expenditures and spending under cooperative agreements with Russian regions and municipalities totaled about RUB 9 billion in 2018, RUB 5 billion of which had been allocated to agreements. Our key charitable initiatives supported museums and art groups, medical institutions, sports initiatives, and religious groups. LUKOIL funds numerous educational programs, including scholarship programs and grants, and supports orphanages and children's educational facilities. In 2018, we also launched a number of environmental projects holding cleanups of rivers and water bodies, planting trees and shrubbery, beautifying garden squares, plazas, streets, as well as museum, hospital, and church sites, and improving kindergarten playgrounds.

The Company outlines following categories of stakeholders:

- Federal and local legislative and executive authorities
- Shareholders and investors
- Employees and trade unions
- Local communities
- Suppliers and contractors
- Customers

RELATIONS WITH INDIGENOUS MINORITIES OF THE NORTH

LUKOIL operates in regions that are home to indigenous minorities of the North: Khanty-Mansi Autonomous Area – Yugra and Nenets Autonomous Area. LUKOIL acknowledges and safeguards the rights of the indigenous minorities of the North set out in international laws, including the United Nations Declaration on the Rights of Indigenous Peoples, the Convention on Biodiversity, Resolution on the UN World Conference on Indigenous Peoples, and United Nations Global Compact. We respect the right that indigenous peoples have to their land, traditions and cultural heritage, and do not displace indigenous peoples from their lands or territories without their free, prior, and informed consent.

We actively cooperate with the representative bodies of indigenous minorities of the North, regional administrations, heads of municipalities, the Assembly of Indigenous Minorities of the North, and the leading NGOs of the North.

In order to preserve minorities' traditions, ethnic culture, and languages, LUKOIL builds social facilities and provides compensatory payments, education, healthcare, specialized equipment and tools, construction materials, fuels and lubricants, and animal feed, as well as organizes and holds thematic conferences. No violations of the rights of the indigenous minorities of the North by the Company were reported in 2018.



2019 PRIORITIES

- Delivery on social and charitable programs in our regions of operation
- Sustainable development of the regions in which we operate and raising the quality of life in urban and rural areas through support for healthcare, education, and social enterprises

Conscious of our responsibility to all stakeholders in the countries and regions in which we operate, LUKOIL maintains an open line of communication with them, including through our reports and targeted programs, while being mindful of the cultural and historical profile of each community.

Social and charitable initiatives are a part of our corporate strategy supporting productive cooperation with regions, the business community, and society. Each initiative is tailored to its specific region and is based on the expertise and human capital available in the area. LUKOIL supports numerous social projects in its operating regions every year and helps resolve the

CORPORATE GOVERNANCE

2018 RESULTS

- Canceled 100.6 million Company shares
- Started share and depositary receipt buyback in the open market
- Made amendments to the Charter expanding the authority of the Board of Directors
- Approved internal documents ensuring the exercise of shareholder rights and setting out PJSC LUKOIL's Management Remuneration and Incentive System
- Continued to increase transparency

An efficient corporate governance system is a vital tool ensuring sustainable development and successful implementation of the corporate strategy to create shareholder value.

The Company has a well-developed corporate governance system guided by business conduct and ethics set at international standards, Russian law requirements, the Listing Rules of Moscow Exchange, and provisions of the Corporate Governance Code recommended by the Bank of Russia (hereinafter, also the "Code").

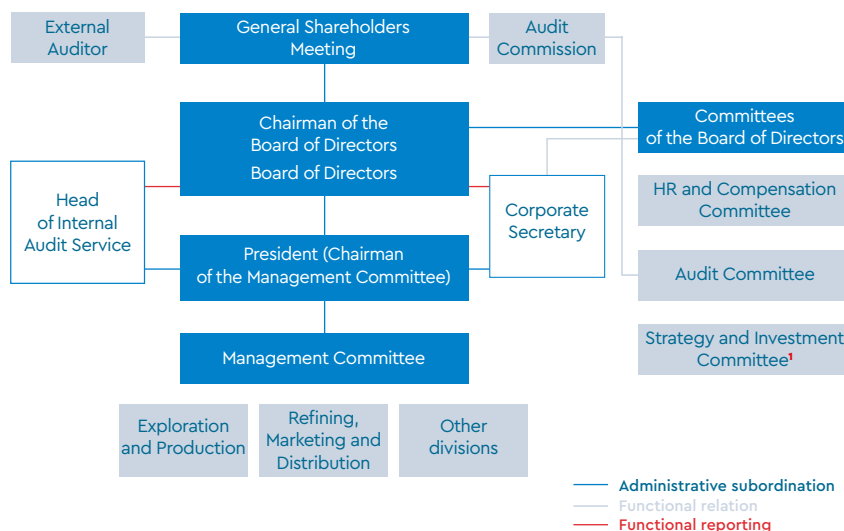
PJSC LUKOIL's corporate governance system is based on the following key principles:

- Respect for, and protection of, the rights of shareholders and investors
- Consistent and collegial decision-making
- Active approach and professional skills of the Board of Directors
- A stable and transparent dividend policy
- Information openness and transparency
- Zero tolerance for corruption in any form
- Adherence to ethical standards
- Corporate social responsibility

2019 PRIORITIES

- Further improve the internal audit system and the risk management and internal control system through gradual automation of control and audit procedures, as well as development of the corporate IT system for automation of risk management, internal control, and internal audit processes.
- Expand the authority of the Strategy and Investment Committee in sustainability matters¹
- Update PJSC LUKOIL's internal documents to incorporate regulatory changes

Corporate governance structure of PJSC LUKOIL in 2018



SPECIFIC COMMITTEES:

- Risk Committee
- Health, Safety, and Environmental Committee of PJSC LUKOIL
- LUKOIL Group Investment and Coordination Committee
- Tender Committee of OAO LUKOIL
- Major E&P Projects Committee

The internal documents regulating LUKOIL's principles, practices, and specific corporate governance procedures are available on the Company's website.

¹ In March 2019, the Committee was renamed the Strategy, Investment, and Sustainability Committee (Resolution of the Board of Directors dated March 6, 2019, Minutes No. 4).

Development of corporate governance system

In 2018, PJSC LUKOIL focused on enhancing corporate procedures and practices in compliance with the Corporate Governance Code. Focus areas:

- **Cancellation of 100.6 million Company shares.** Pursuant to the resolution of the Extraordinary General Shareholders Meeting held on August 24, 2018 on reducing PJSC LUKOIL's charter capital through acquisition of a portion of issued shares in order to reduce their total number, PJSC LUKOIL acquired 100.6 million ordinary shares from the Company's shareholders, of which over 99.9% were acquired from LUKOIL SECURITIES LIMITED, a wholly-owned subsidiary of PJSC LUKOIL. On November 1, 2018, the acquired shares were canceled, resulting in the reduction of the number of issued ordinary shares of PJSC LUKOIL to 750 million.
- **Start of buyback of PJSC LUKOIL shares and depositary receipts in the open market.** On August 30, 2018, the start of an open market buyback of the Company shares and depositary receipts in an aggregate amount of up to USD 3 billion was announced. The program is scheduled to last from September 3, 2018 to December 30, 2022. Purchases under the program are made by LUKOIL SECURITIES LIMITED on regulated trading venues. Purchases are made by qualified international brokers in compliance with all applicable laws and regulations.

- **Amendments to the Charter expanding the authority of the Board of Directors.** In line with changes to Russian laws, the authority of PJSC LUKOIL's Board of Directors was expanded enabling it to include matters on the agenda for the General Shareholders Meeting and/or propose nominees to the Board of Directors at its discretion.
- **Approval of internal documents ensuring the exercise of shareholders rights, as well as documents regulating PJSC LUKOIL's top management remuneration.** The new version of PJSC LUKOIL's Shareholder Relations Policy was approved. It comprises updated relevant principles, goals, and objectives, as well as the procedure for interaction between PJSC LUKOIL and its shareholders, in line with the applicable Russian laws. Amendments to the Regulations on PJSC LUKOIL's Management Remuneration and Incentive System, updating the Group-wide and individual KPI system in line with LUKOIL Group's strategy, were also approved.
- **Raising the status of non-financial reporting.** In 2018, the functions of the Strategy and Investment Committee of PJSC LUKOIL's Board of Directors were expanded to include discussion on LUKOIL Group's Sustainability Report preparation.

As a result of the Company's efforts in 2018 toward improving its corporate governance, PJSC LUKOIL now fully complies with 73% of the principles outlined in the Code, up 1 pp year-on-year². At the end of the reporting year, PJSC LUKOIL complied with almost all core principles of the Corporate Governance Code.

Based on the survey conducted by the Independent Directors Association in 2018, LUKOIL was among the Top 10 Russian companies in terms of corporate governance.

² Code compliance is assessed using guidelines based on comparisons between LUKOIL's practices and detailed Code recommendations. Compliance with a paragraph of the Code is considered as partial if any single detailed recommendation in the paragraph has not been complied with. If none of the detailed recommendations in a paragraph have been complied with, the Company will be considered as noncompliant with the paragraph.

Self-assessment of the corporate governance practices for compliance with the principles and recommendations of the Code¹

Corporate governance principles	Number of principles recommended by the Code	2017			2018		
		Full compliance	Partial compliance	No compliance	Full compliance	Partial compliance	No compliance
Rights and equal opportunities for shareholders in exercising their rights	13	9	3	1	10	2	1
Board of Directors	36	27	8	1	27	8	1
Corporate Secretary of the Company	2	2	–	–	2	–	–
Remuneration system for Directors, executive bodies, and other key executives of the Company	10	8	2	–	8	2	–
Risk Management and Internal Control System	6	5	1	–	5	1	–
Company disclosures and information policy	7	6	1	–	6	1	–
Material corporate actions	5	–	5	–	–	5	–
TOTAL SCORE	79	57	20	2	58	19	2
	100%	72.2%	25.3%	2.5%	73.4%	24.1%	2.5%

¹ Statistics provided based on the Corporate Governance Code Compliance Report.

The Company endeavors to continue developing its corporate governance to improve performance and sharpen its competitive edge. PJSC LUKOIL primarily focuses on implementing the principles, practices, and procedures which are most valued by the investment community and have proved applicable by major players.

For more details on Corporate Governance Code compliance, see Appendix 1: Corporate Governance Code Compliance Report.



GENERAL SHAREHOLDERS MEETING

The General Shareholders Meeting is the supreme governance body of PJSC LUKOIL and is responsible for making decisions on matters most crucial to the Company:

- Amendments and addenda to the Company's Charter and approval of any new versions
- Decisions on the number of Board members, election of its members, and early termination of their powers
- Election of Audit Commission members and early termination of their powers
- Approval of the Company's auditor
- Payment (declaration) of dividends for reporting periods
- Approval of the Company's annual reports and annual accounting (financial) statements
- Approval of internal documents governing the activities of the Company's bodies
- Approval of transactions or making decisions for their subsequent approval in cases stipulated by the Federal Law On Joint-Stock Companies

The full list of matters falling within the authority of the General Shareholders Meeting is determined by Federal Law No. 208-FZ On Joint-Stock Companies dated December 26, 1995, and the Company's Charter.

General Shareholders Meetings of PJSC LUKOIL held in 2018

Annual General Shareholders Meeting

June 21, 2018

In person

Extraordinary General Shareholders Meeting

August 24, 2018

Absentee voting

Extraordinary General Shareholders Meeting

December 3, 2018

Absentee voting

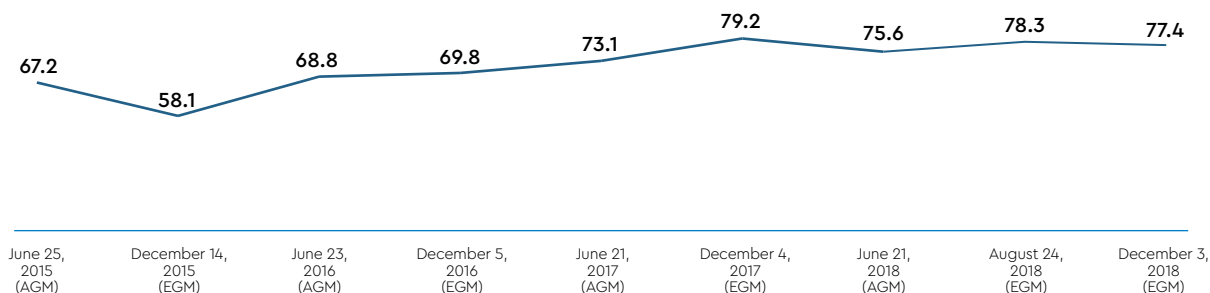
- PJSC LUKOIL 2017 Annual Report and annual accounting (financial) statements were approved, profit for the period was distributed, and the resolution on dividend payouts for 2017 was passed. New Board and Audit Commission were elected; decisions on remuneration and compensation of expenses to members of the Board of Directors, and decisions on remuneration of the Audit Commission members were made; the Company's auditor was approved.
- Amendments to the Company's Charter were approved.
- An interested party transaction was approved.
- The resolution was passed on the reduction of the Company's charter capital through acquiring of a portion of PJSC LUKOIL outstanding shares to reduce their total number.
- Resolutions were passed on the interim dividend payout for nine months of 2018 and a partial payment of the Board of Directors' remunerations.
- Amendments and addenda to the Company's Charter were approved.

The procedures for preparing, holding, and summarizing the results of the General Shareholders Meeting of PJSC LUKOIL are determined by the Regulations on the Procedure for Preparing and Holding the General

Shareholders Meeting of PJSC LUKOIL. The procedure for holding the General Shareholders Meeting provides an equal opportunity for all Company shareholders' attendance.

Quorum at General Shareholders Meetings in 2015–2018

%



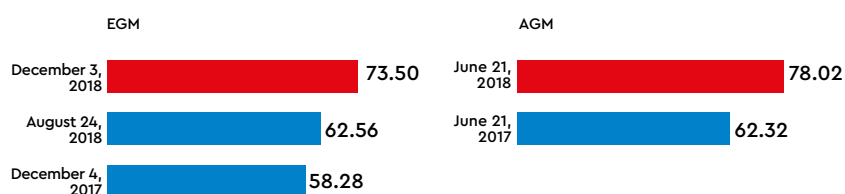
Three General Shareholders Meetings were held in 2018, and a high level of shareholders' attendance was maintained.

Shareholders demonstrated strong support for each of the Board's resolutions on agenda items of the Company's General Shareholders Meetings. Votes in favor on all agenda items¹ ranged between 98.5% and 99.9%.

Continued successful use of electronic voting at the meetings held in 2018 enabled shareholders to vote regardless of where their rights were recorded. Electronic voting is available both on the gosuslugi.ru website accessible to the general public and via the Shareholder's Personal Account,

The share² of General Shareholders Meetings participants who used electronic voting services in 2017–2018

%



² Includes e-voting via the Registrar and e-proxy-voting via nominee shareholders.

a dedicated online resource for LUKOIL shareholders. Notably, the number of shareholders who used this service grew in 2018, especially at meetings held in absentia.

Electronic voting booths were made available again at the Annual General Shareholders Meeting in 2018 to ensure extra convenience and promptness of voting at meetings.

¹ The percentage of participant votes during the General Meetings on agenda items, excluding the election of PJSC LUKOIL Board members.

BOARD OF DIRECTORS

The Board of Directors is responsible for the general management of LUKOIL's operations, excluding matters reserved for the General Shareholders Meeting. The Board of Directors plays a crucial role in designing and developing the corporate governance system, ensures the protection and exercise of shareholders rights, and supervises executive bodies.

The Board's authority and formation process as well as procedures for convening and holding Board meetings are determined by the Charter and Regulations on the Board of Directors of PJSC LUKOIL.

The Board of Directors is responsible for:

- Establishment of the Company's business priorities
- Convocation of Annual and Extraordinary General Shareholders Meetings and preparations for General Shareholders Meetings
- Formation of the Management Committee, the Company's collective executive body
- Approval of the Company's internal documents, excluding the internal regulations to be approved by the General Shareholders Meeting and the Company's executive bodies
- Approval of the Company's registrar and terms of the contract with the registrar and its termination
- Consent to transactions or subsequent approval of transactions in cases stipulated by law and the Company's Charter
- Decisions on appointment and dismissal of the Company's Corporate Secretary and Head of the Internal Audit Service

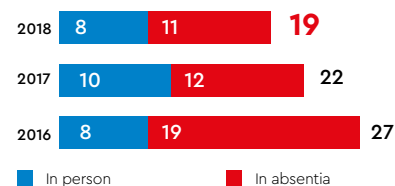
Consisting of 11 members, the Board of Directors is elected during the General Shareholders Meeting through cumulative voting, whereby nominees with the highest number of votes are elected to the Board of Directors. Director elections must be included in the agenda for the Annual General Shareholders Meeting. Shareholders holding in aggregate at least 2% of the Company's voting shares may submit their nominations to the Board of Directors within 60 days from the end of the reporting year. The Company's Charter was amended in 2018 to establish the right of the Board of Directors to include matters on the agenda for the General Shareholders Meeting and/or propose nominees to the Board of Directors at its discretion.

Meeting of the Board of Directors are held in person or in absentia as per the approved plan and as necessary, but in any case at least once in six weeks.

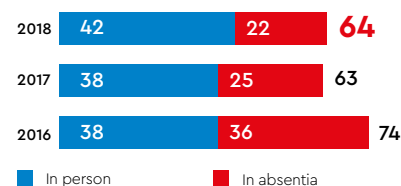
Board of Directors' performance

The Board of Directors held 19 meetings in 2018, comprising 8 meetings held in person and 11 meetings held in absentia. Notably, the number of matters discussed at the meetings held in person increased year-on-year. Most of the matters were associated with corporate governance. The number of matters related to consent to or approval of transactions was reduced. At the same time, the Board of Directors approved all interested party transactions before they were completed.

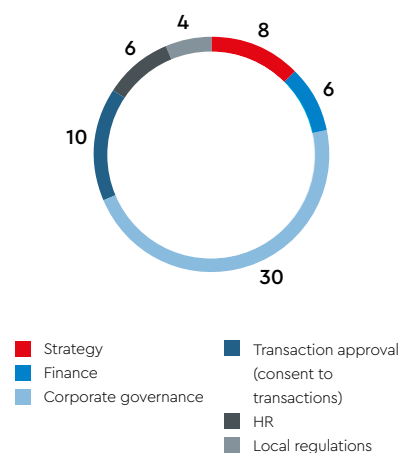
Meetings



Matters discussed



Matters discussed by the Board of Directors in 2018



Key decisions of the Board of Directors in 2018

Agenda and decisions	Preview by the Committee of the Board of Directors
Corporate governance	
• Decisions were adopted as part of preparing and holding the Company's Annual and Extraordinary General Shareholders Meetings.	SIC, AC, HRCC ¹
• The Report on the Submission of Applications by Shareholders of Public Joint-Stock Company "Oil company 'LUKOIL'" for the Sale of Their Shares to PJSC LUKOIL was approved.	
• The Board of Directors Performance Report for 2017–2018 was approved.	
• The Corporate Secretary's 2017–2018 Performance Report was taken into account.	HRCC
• Independence of members of the Board of Directors of PJSC LUKOIL was discussed.	HRCC
• The recognition of Victor Blazheev and Igor Ivanov as independent members of the PJSC LUKOIL Board of Directors was discussed.	
• Matters governing the internal audit were discussed.	AC
• The operation and improvement of the corporate risk management and internal control system was discussed.	AC
• The Code of Business Conduct and Ethics of PJSC LUKOIL was approved.	HRCC
• PJSC LUKOIL investor and shareholder relations were discussed.	SIC
• The Shareholder Relations Policy of PJSC LUKOIL was amended.	SIC
• The matter of monitoring of the Company's compliance in the previous year with Federal Law No. 224-FZ On Countering the Misuse of Insider Information and Market Manipulation and on Amending Certain Laws of the Russian Federation dated July 27, 2010 was discussed.	
• The Regulations on PJSC LUKOIL Management Remuneration and Incentive System were amended.	HRCC
• Preliminary approval of PJSC LUKOIL 2017 Annual Report to be subsequently presented to the Annual General Shareholders Meeting was discussed.	AC
• An addendum was made to the Regulations on the Strategy and Investment Committee of the Board of Directors of PJSC LUKOIL.	SIC
• LUKOIL Group Sustainability Report 2017 was discussed.	SIC
Strategy, operating activity, and finance	
• LUKOIL Group's 2017 results, objectives for 2018, and near-term objectives were discussed. LUKOIL Group's results for the first half of 2018 and performance of the Budget and the Investment Program for 2018 were discussed.	
• IT Strategy of LUKOIL Group was approved.	SIC
• The LUKOIL Group Budget's key targets for 2019–2021 were approved.	SIC
• Recommendations were provided on the distribution of Company profits and losses based on the 2017 full-year results, on the size of dividends on PJSC LUKOIL shares based on the 2017 full-year results, and the dividend payout procedure.	SIC
• The matter of determining dividends for nine months of 2018 was discussed.	SIC
• Implementation of international E&P Projects was discussed.	
• Approaches to Group-wide harmonization of reserves appraisal and hydrocarbon production plans in line with Russian laws and international reporting requirements were discussed.	SIC
• Monetization of LUKOIL Group's gas reserves was discussed.	SIC
• Measures to enhance oil recovery and improve technologies of oil and gas field development were discussed.	SIC
• Health and safety performance and efforts to improve occupational safety were discussed.	

¹ SIC – Strategy and Investment Committee, AC – Audit Committee, HRCC – HR and Compensation Committee.

In 2018, members of the Board of Directors actively attended Board of Directors and Committee meetings.

In-person participation of Directors in BoD and its Committees meetings in 2018

BoD members	In person (8 meetings)	Strategy and Investment Committee (6 meetings)	Audit Committee (8 meetings)	HR and Compensation Committee (5 meetings)
Valery Grayfer	7/8			
Vagit Alekperov	6/8			
Victor Blazheev	8/8		7/8	5/5
Toby Gati	8/8 (2)	6/6 (3)		
Igor Ivanov	6/8	5/6	7/8 (2)	
Ravil Maganov	5/8	5/6		
Roger Munnings	8/8			5/5 (2)
Richard Matzke	8/8			5/5
Ivan Pictet	7/8 (1)		8/8 (7)	
Leonid Fedun	7/8	6/6		
Lyubov Khoba	8/8			

Note: Participation in a meeting held in the form of joint attendance via telephone or a video conference call shall qualify as attendance in person. "7/8 (1)" layout in the table signifies attendance at seven out of eight meetings held, including one meeting via a conference call. Matching numbers of held and attended meetings generally indicate that the Director was highly involved in the activities of the Board of Directors and/or its Committee.

The Board of Directors' performance assessment

The Board of Directors relies on the assessment procedure to ensure constant improvement of its performance. In 2018, the Board of Directors conducted a self-assessment of its performance, whereby the members of the Board of Directors were surveyed through questionnaires on the Board's performance as a governance body during their tenure (from the date of

election to the Board of Directors in June 2017 and to the date of termination of powers in June 2018).

The Board of Directors' performance assessment includes an overall assessment of its activities and the activities of each of its Committees. Key objectives of the Board of Directors' performance assessment include:

- Improve the performance of the Board of Directors and its members

- Provide an objective basis for determining the remuneration payable to the members the Board of Directors

The questionnaire on the annual performance assessment of the Board of Directors and its Committees included 52 questions split into several groups.

Criteria groups for the Board of Directors	Criteria groups for the Board of Directors' Committees
<ul style="list-style-type: none"> • Board of Directors' composition • Overall performance of the Board of Directors • Exercising key functions of the Board of Directors • Proceedings and awareness of the Board of Directors 	<ul style="list-style-type: none"> • Composition and administration of the Board of Directors' Committee • Exercising key functions of the Board of Directors' Committee • Initiatives to improve performance of the Board of Directors' Committee

The assessment results are summarized based on the questionnaires filled out by the members of the Board of Directors. As part of the assessment, the Chairman of the Board of Directors discusses the results of relevant Committees' performance assessment with the Committee Chairmen and

members, and reports these results at the meeting of the Board of Directors during the discussion of the aggregate annual assessment results. Granular discussion with the members of the Board of Directors serves to analyze matters that require special attention from the Board of Directors, and map out possible solutions.

Based on the latest self-assessment, the Board of Directors achieved positive results in 2017–2018.

Board of Directors' composition

PJSC LUKOIL's Board of Directors consists of highly professional individuals. We believe that our Board of Directors has the optimal number of members and is both well-balanced in the number of independent, executive, and non-executive directors, and well-diversified in terms of Directors' professional qualifications.

A high share of independent members of the Board of Directors (45%) ensures impartial consideration of matters while Directors' independent judgements help improve the Board's performance and the Company's corporate governance system as a whole.

By the end of 2018, the Board of Directors included three executive directors, thus enabling deep integration of the Board and PJSC LUKOIL's executive bodies, and promoting well-informed managerial decision-making.

The Board of Directors' composition remained unchanged in 2018. In March 2018, Lyubov Khoba resigned as Vice President and Chief Accountant, which allowed her to fully focus on her service on the Board of Directors as a non-executive director.

Chairman's role

The Chairman of the Board of Directors plays the key role in ensuring strong performance of the Board of Directors and its Committees. The Chairman of the Board of Directors organizes the Board's work, convenes and chairs meetings, and arranges for keeping the minutes of meetings. The Chairman proposes nominees to the Committees of the Board of Directors based on Directors' professional and personal qualities and taking into consideration Directors' individual proposals on committee setup.

The Chairman of the Board of Directors also performs other functions set out in the applicable laws, PJSC LUKOIL's Charter, Regulations on the Board of Directors, and other internal documents. In the absence of the Chairman, these functions are performed by the Deputy Chairman.

The Chairman is elected from among the members of the Board of Directors as the most experienced and respected director. The Chairman's work is aimed at creating a constructive environment at the Board meetings and ensuring free discussion of the matters reviewed by the Board to develop highly informed and efficient solutions.

PJSC LUKOIL's corporate governance system has been formulated in line with the Bank of Russia's principles and recommendations outlined in the Corporate Governance Code. The Code regulations take into account the international corporate governance practice as well as the corporate governance principles developed by the Organization for Economic Co-operation and Development (OECD).

Board of Directors' membership as at December 31, 2018

Executive directors ¹	Vagit Alekperov, Ravil Maganov, Leonid Fedun
Non-executive directors, including the Chairman of the Board of Directors	Valery Grayfer, Richard Matzke, Lyubov Khoba
Independent directors	Victor Blazheev ² , Toby Gati, Igor Ivanov ² , Roger Munnings, Ivan Pictet
Total	11 members

¹ In line with the Corporate Governance Code recommendations, executive directors are not only members of the Management Committee of PJSC LUKOIL but also Company employees.

² Considered independent directors by the Resolution of the Board of Directors dated June 21, 2018 (Minutes No. 8).

Key skills of Board members

Board members	Status	Key skills									Share in the charter capital, %
		Strategy	Finance and audit	Oil and gas	Law and corporate governance	Risk management	GR/IR/PR	HSE	HR management	Industry experience, years	
Valery Grayfer	Chairman Non-executive	•	•	•	•	•	•	•	•	66	0.01
Vagit Alekperov	Executive	•	•	•	•	•	•	•	•	50	2.84 (26.07 ⁴)
Victor Blazheev	Independent ³		•		•	•	•		•	9	
Toby Gati	Independent	•			•	•	•	•	•	2	
Igor Ivanov	Independent ³	•	•			•	•	•	•	9	
Ravil Maganov	Deputy Chairman Executive	•	•	•	•	•	•	•	•	41	0.44
Roger Munnings	Independent	•	•	•	•	•	•	•	•	26	
Richard Matzke	Non-executive	•	•	•	•	•	•	•	•	57	(0.0003 ⁴)
Ivan Pictet	Independent	•	•		•	•	•	•	•	6	
Leonid Fedun	Executive	•	•	•	•	•	•	•	•	25	1.34 (8.70 ⁴)
Lyubov Khoba	Non-executive	•	•	•	•	•	•	•	•	36	0.41

³ Considered independent directors by the Resolution of the Board of Directors dated June 21, 2018 (Minutes No. 8).

⁴ Percentage of PJSC LUKOIL shares which the person owns directly and/or indirectly, and/or has a beneficial economic interest in.

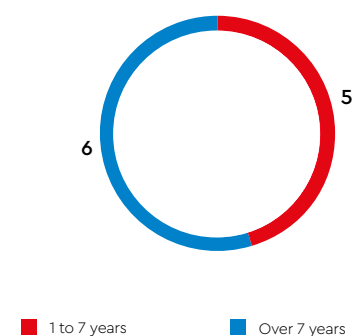
According to the Corporate Governance Code, nominees to LUKOIL's governance bodies are elected primarily based on their relevant professional qualifications, knowledge, experience, expertise, and business skills.

The Code does not outline recommendations on ensuring a fair representation of gender, age, or any other diversity in corporate governance bodies. Therefore, PJSC LUKOIL does not currently have policies or internal regulations formalizing the application of such approaches.

At the end of 2018, the Board of Directors included two women – Toby Gati and Lyubov Khoba, thereby making the representation of women among the Board members at 18% of the total.

Four of the eleven members of the Board of Directors are foreign nationals, comprising 36% of the total. Foreign directors' participation in the Board aids international business networking and helps integrate business best practices into LUKOIL's existing corporate culture.

Length of service on the Board of Directors as at December 31, 2018



Independent directors

Independent directors play an important role in effective implementation of the duties of the Board of Directors, particularly those developing the Company's growth and sustainability strategy and managing risks, as well as protecting the interests of both shareholders and investors.

The Company's Board of Directors comprised eleven members at the end of the reporting year, five of which were independent directors – a sufficient number for significantly influencing the objective and well-informed decision-making process. All independent directors are members of Committees of the Board of Directors, and two of them are members of two Committees simultaneously.

Induction of new members of the Board of Directors

Newly elected Directors complete an induction training program no later than 30 days following their election date.

Key elements of the program:

- **Personal meetings** with PJSC LUKOIL's President, the elected Chairman of the Board of Directors, the Corporate Secretary, top management, and/or heads of corporate business units
- **Familiarization with internal documents**
- **Familiarization with operations**, including on-site visits to the Group's production facilities

The Corporate Secretary runs the induction training program for newly elected Directors of PJSC LUKOIL and coordinates interaction between all involved parties with the assistance and management of the HR and Compensation Committee.

DETERMINATION OF DIRECTORS' INDEPENDENCE

The independence of each Director and nominee to the Board of Directors was assessed as per the Listing Rules of PJSC Moscow Exchange and provisions of the Corporate Governance Code, through questionnaires filled out by Board members. The HR and Remuneration Committee assessed Directors' independence twice in 2018.

In March 2018, the HR and Compensation Committee assessed the professional qualifications and independence of all nominees to PJSC LUKOIL's Board of Directors. The analysis of the nominees' biographies proved their impeccable business reputation and professional qualifications, knowledge, expertise, and experience necessary to make decisions within the authority of the Board and essential to performing its functions efficiently.

In October 2018, the HR and Remuneration Committee assessed the independence of incumbent Board members and made recommendations to the Board of Directors on the assessment of Directors' independence. Later in October, the independence of all members of the Board of Directors was reviewed by the Board for the first time.

Furthermore, by the Resolution of the Board of Directors dated June 21, 2018 (Minutes No. 8), two Directors, Victor Blazheev and Igor Ivanov, were considered independent, although they met the formal criteria of being related to the Company due to having exceeded the seven-year tenure as Directors stipulated in the Corporate Governance Code and the Listing Rules of PJSC Moscow Exchange. The resolution was adopted since Mr. Blazheev's and Mr. Ivanov's terms in office as members of PJSC LUKOIL's Board of Directors had not exceeded twelve years in aggregate. Mr. Blazheev and Mr. Ivanov are not, and have never been members of either the Company's executive bodies or any entity controlled by the Company, they do not hold the Company's shares, they neither provide nor have ever provided services to the Company, and have always taken a responsible approach to their duties as members of PJSC LUKOIL's Board of Directors, which is a testament to their independence, objective and fair opinions and judgements.

To ensure an efficient procedure for notifying Directors, PJSC LUKOIL uses up-to-date information and technical resources, including specialized software in the Russian and English languages.

Biographical details of members of the Board of Directors¹



VALERY GRAYFER

- Chairman of the Board of Directors
- Non-Executive Director

Born in 1929.

Graduated from I.M. Gubkin Moscow Oil Institute in 1952. Candidate of Technical Sciences (PhD). Awarded seven orders, four medals, awarded a Certificate of Honor of the Supreme Soviet of the Tatar ASSR, and a Certificate of Honor from the President of the Russian Federation. Lenin Prize and Russian Government Prize Winner. Professor at the Gubkin Russian State University of Oil and Gas.

- 1985–1992: USSR Deputy Minister of Oil Industry in charge of the Chief Tyumen Production Division for the oil and gas industry.
- 1992–2010: General Director of OJSC RITEK.
- Since 2000: Chairman of the Board of Directors of PJSC LUKOIL.

Since 1996: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).

Membership in the governance bodies of other organizations:

Since 2010: Chairman of the Board of Directors of OOO RITEK.



RAVIL MAGANOV

- Deputy Chairman of the Board of Directors
- Executive Director
- Member of the Strategy and Investment Committee
- Member of the Management Committee
- First Executive Vice President (Exploration and Production)

Born in 1954.

Graduated from the I.M. Gubkin Moscow Institute of the Petrochemical and Gas Industry in 1977. Distinguished Oil and Gas Specialist of the Russian Federation, Honored Oil Specialist, Distinguished Energy Industry Specialist. Awarded four orders and five medals, awarded a Certificate of Honor from the President of the Russian Federation. Has a Letter of Acknowledgement from the Government of the Russian Federation. Three times winner of the Russian Government Prize in Science and Engineering. Distinguished employee of the Company.

- 1988–1993: Chief Engineer, Deputy General Director, General Director of Production Association Langepasneftegaz.
- 1993–1994: Vice President for Oil Production of OAO LUKOIL.
- 1994–2006: First Vice President of OAO LUKOIL (E&P).
- 2006–2015: First Executive Vice President of OAO LUKOIL (E&P).
- Since 2015: First Executive Vice President of PJSC LUKOIL (E&P).
- Since 2016: Deputy Chairman of the Board of Directors of PJSC LUKOIL.

Since 1993: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).

Membership in the governance bodies of other organizations:

Since 2000: Member of the Supervisory Board of LUKOIL INTERNATIONAL GmbH.



VAGIT ALEKPEROV

- Executive Director
- President
- Chairman of the Management Committee

Born in 1950.

Graduated from M. Azizbekov Azerbaijan Oil and Chemistry Institute in 1974.

Doctor of Economics. Full member of the Russian Academy of Natural Sciences. Distinguished Energy Industry Specialist, Honored Oil Specialist. Awarded five orders and eight medals, awarded a Certificate of Honor, three Letters of Acknowledgement from the President of the Russian Federation, and a Certificate of Honor from the Government of the Russian Federation. Two times winner of the Russian Government Prize. Distinguished employee of the Company.

- 1968: started to work at oil fields in Azerbaijan and West Siberia.
- 1987–1990: General Director of Production Association Kogalymneftegaz of Glavtyumenneftegaz of the USSR Ministry of Oil and Gas.
- 1990–1991: Deputy Minister; First Deputy Minister of the USSR Ministry of Oil and Gas.
- 1992–1993: President of the Oil Concern Langepasuraikogalymneft.
- 1993–2000: Chairman of the Board of Directors of OAO LUKOIL.
- 1993–2015: President of OAO LUKOIL.
- Since 2015: President of PJSC LUKOIL.

Since 1993: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).

Membership in the governance bodies of other organizations:

Since 2000: Chairman of the Supervisory Board at LUKOIL INTERNATIONAL GmbH.

Since 2012: Chairman of the Community Council at Our Future Fund for regional social programs.

Since 2012: Member of the Board Bureau of the Russian Union of Industrialists and Entrepreneurs.

¹ As at December 31, 2018.

**VICTOR BLAZHEEV**

- Independent Director
- Chairman of the Audit Committee
- Member of the HR and Compensation Committee

Born in 1961.

Graduated from the evening department of All-Union Extra-Mural Law Institute (AELI) in 1987.

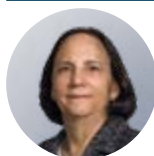
Completed a postgraduate program at AELI-Moscow Law Institute, the department of civil litigation, in 1990. Candidate of Legal Sciences (PhD), Professor. Awarded the titles of the Distinguished Lawyer, Honored Worker of Higher Professional Education of the Russian Federation, and Honored Worker of Science and Technology of the Russian Federation, awarded a Medal of the Order "For Merit to the Fatherland", 2nd class. Since 1999, he has combined his teaching activities with various official administrative positions at Moscow State Law Academy (MSAL).

- 1999–2001: Dean of the full-time department at MSAL.
- 2001–2002: Academic Vice President at MSAL.
- 2002–2007: First Academic Vice President at MSAL.

Since 2009: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).

Membership in the governance bodies of other organizations:

Since 2007: President of O.E. Kutafin Moscow State Law University (MSAL).

**TOBY GATI**

- Independent Director
- Member of the Strategy and Investment Committee

Born in 1946.

Graduated from Pennsylvania State University in 1967 (Bachelor's degree in Russian Literature and Language).

Graduated from Columbia University in 1970 (Master's Degree in Russian Literature).

Graduated from the Harriman Institute at Columbia University in 1972 (Master's degree in International Affairs and Certificate in Russian Studies).

- 1997–2016: Senior Advisor on matters of international cooperation and international relations at Akin Gump Strauss Haver & Feld LLP.
- Participant of the Valdai International Discussion Club.

Since 2016: Member of the Board of Directors of PJSC LUKOIL.

Membership in the governance bodies of other organizations:

Since 2012: member of the Council on Foreign Relations and the U.S.–Russia Business Council (USRBC).

Since 2016: President of TTG Global LLC.

**IGOR IVANOV**

- Independent Director¹
- Chairman of the Strategy and Investment Committee
- Member of the Audit Committee

Born in 1945.

Graduated from the Maurice Thorez Moscow State Institute of Foreign Languages in 1969. Corresponding Member of the Russian Academy of Sciences. Doctor of History, Professor. Ambassador Extraordinary and Plenipotentiary of the Russian Federation. Awarded Russian and international orders and medals.

- 1993–1998: First Deputy Minister of Foreign Affairs of the Russian Federation.
- 1998–2004: Minister of Foreign Affairs of the Russian Federation.
- 2004–2007: Secretary of the Security Council of the Russian Federation.
- Since 2005: Professor at the Chair of Global Political Processes of the Moscow State Institute of International Relations of the Russian Ministry of Foreign Affairs.

Since 2009: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).

Membership in the governance bodies of other organizations:

Since 2011: President of the Russian International Affairs Council (RIAC) not-for-profit partnership.

Since 2013: Member of the Board of Managing Directors of Rissa Investments N.V.

¹ Determined to be independent by the Resolution of the Board of Directors dated June 21, 2018 (Minutes No. 8).

**ROGER MUNNINGS**

- Independent Director
- Chairman of the HR and Compensation Committee

Born in 1950.

Graduated from the University of Oxford in 1972 with a Master of Arts degree in Politics, Philosophy, and Economics. Fellow of the Institute of Chartered Accountants in England and Wales, made a Commander of the Most Excellent Order of the British Empire, by HM the Queen. Former Deputy Chairman of the Management Board of the Association of European Business (AEB) in Russia; member of the Management Board of the American-Russian Business Council; Chairman of the Institute of Audit Committees in Russia; member of the UK Government's working group on trade and investments between Great Britain and Russia.

- 1993–2008: Chairman of KPMG's Global Energy and Natural Resources Practice.
- 1996–2008: President and CEO of KPMG Russia/CIS.
- 1998–2008: Member of KPMG's International Council (ultimate governance body).
- Currently a member of the Russian National Council on Corporate Governance, member of the Expert Council of the Russian Institute of Directors, and of the Russian Union of Industrialists and Entrepreneurs.

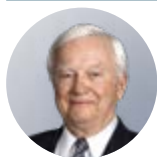
Since 2015: Member of the Board of Directors of PJSC LUKOIL.

Membership in the governance bodies of other organizations:

Since 2010: Independent member of the Board of Directors of Sistema PJSC.

Since 2012: Chairman of the Russian-British Chamber of Commerce.

Since 2018: Independent member of the Board of Directors of PJSC MMC NORILSK NICKEL.

**RICHARD MATZKE**

- Non-Executive Director
- Member of the HR and Compensation Committee

Born in 1937.

Graduated from Iowa State University in 1959, Pennsylvania State University in 1961, and St. Mary's College of California in 1977. MSc in Geology, Master of Business Administration.

Awarded a public non-governmental medal "For the Development of the Oil and Gas Complex of Russia" and the "Director of the Year 2006" National Award, Russia, in the "Independent Director of the Year" category sponsored by the Independent Directors Association (IDA) and PricewaterhouseCoopers.

- 1989–1999: President of Chevron Overseas Petroleum, member of the Board of Directors of Chevron Corporation.
- 2000–2002: Vice Chairman of Chevron, Chevron-Texaco Corporation.
- 2005–2008: Board member of SBM Offshore NV.
- 2013–2013: Board member of Eurasia Drilling Company.
- 2014–2017: Independent non-executive member of the Board of Directors of PetroChina Company Limited.

Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL) in 2002–2009 and since 2011.

Membership in the governance bodies of other organizations:

Since 2001: Board member of PHI, Inc.

Since 2015: Member of the Advisory Board of the Energy Intelligence Group.

Since 2016: Member of the Advisory Board of Directors of the US-Russia Chamber of Commerce.

**IVAN PICTET**

- Independent Director
- Member of the Audit Committee

Born in 1944.

Graduated from the School of Business Administration at the University of St. Gallen in 1970 (Master of Economics).

- 1982–2010: Managing Partner of Pictet & Cie.
- 1995–2014: Member of the International Advisory Board of Blackstone Group International Limited.
- 2005–2015: Member of the Investments Committee of the UN Joint Staff Pension Fund.
- 2011–2015: Member of the AEA Investors LP Global Advisory Board (NY, USA).
- 2014–2015: Chairman of the Investments Committee of the UN Joint Staff Pension Fund.

Since 2012: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).

Membership in the governance bodies of other organizations:

Since 2009: President of Fondation pour Geneve and Chairman of the Fondation Pictet pour le développement.

Since 2010: Member of the AEA European Advisory Board.

Since 2011: Member of the Board of Directors of Symbiotics, Chairman of the Board of Directors since 2015.

Since 2012: Chairman of the Board of Directors of PSA International SA.

**LEONID FEDUN**

- Executive Director
- Member of the Strategy and Investment Committee
- Vice President for Strategic Development

Born in 1956.

Graduated from M.I. Nedelin Higher Military Command School in Rostov in 1977. Graduated from the Higher School of Privatization and Entrepreneurship in 1993. Candidate of Philosophy (PhD). Honored Oil Specialist. Awarded two orders and four medals.

- 1993–1994: CEO of JSC LUKOIL-Consulting.
- 1994–2012: Vice President, Head of the Main Division of Strategic Development and Investment Analysis of OAO LUKOIL.
- 2012–2015: Vice President for Strategic Development of PJSC LUKOIL.
- Since 2015: Vice President for Strategic Development of PJSC LUKOIL.

Since 2013: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).

Membership in the governance bodies of other organizations:

Since 2012: Chairman of the Board of Directors of Football Club Spartak Moscow.

Since 2012: Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs.

**LYUBOV KHOBA**

- Non-Executive Director

Born in 1957.

Graduated from the Sverdlovsk Institute of National Economy in 1992. Candidate of Economics (PhD). Distinguished Economist of the Russian Federation. Honored Oil Specialist, Distinguished Energy Industry Specialist. Awarded two orders and two medals.

- 1991–1993: Chief Accountant of Production Association Kogalymneftegaz.
- 1993–2000: Chief Accountant of OAO LUKOIL.
- 2000–2003: Vice President of OAO LUKOIL, Head of the Main Division of Financial Accounting of OAO LUKOIL.
- 2003–2004: Chief Accountant/Vice President of OAO LUKOIL.
- 2004–2012: Chief Accountant of OAO LUKOIL.
- 2012–2015: Vice President/Chief Accountant of OAO LUKOIL.
- 2015–2018: Vice President/Chief Accountant of PJSC LUKOIL.

Since 2017: Member of the Board of Directors of PJSC LUKOIL.

Membership in the governance bodies of other organizations:

Since 2001: Member of the Supervisory Board of LUKOIL INTERNATIONAL GmbH.

Since 2012: Chairperson of the Supervisory Board of LUKOIL Accounting and Finance Europe s.r.o.

Liability insurance of Board members

Pursuant to the Policy (contract) on insuring the liability of directors, officers, and corporations for 2018–2019, PJSC LUKOIL insures the liability of:

- the sole executive body, members of governance bodies, employees of PJSC LUKOIL and/or its subsidiaries and/or other organizations with an interest of PJSC LUKOIL and/or its subsidiaries whose candidates were elected sole executive body and/or members of the governance bodies of such organizations (Coverage A)
- PJSC LUKOIL, PJSC LUKOIL subsidiaries, other organizations with an interest of PJSC LUKOIL and/or its subsidiaries whose candidates were elected as sole executive body and/or members of the governance bodies of such organizations (Coverage B)
- PJSC LUKOIL and its subsidiaries against claims relating to securities (Coverage C)

The insured amount (liability limit) makes up at least USD 150 million in aggregate for Coverages A, B, and C, including legal defense costs. The total insurance premium is up to USD 430 thousand.

Board committees

LUKOIL's three Board Committees improve the effectiveness of resolutions passed by the Board of Directors and are engaged in the preliminary detailed review of the most significant issues while preparing relevant recommendations:

- Strategy and Investment Committee (SIC)¹
- Audit Committee (AC)
- HR and Compensation Committee (HRCC)

Committee activities are governed by applicable regulations.

LUKOIL's Board Committee regulations are available on the Company's website.

The Committees are fully accountable to the Board of Directors. Committee members are elected from among the Board members, and in line with both best practice and the requirements of the Listing Rules of Moscow Exchange, each Committee comprises a significant share of independent directors. This approach fosters objective and well-balanced recommendations. All Committee members have an adequate combination of strong expertise and extensive experience, including hands-on experience.

The Audit Committee is comprised exclusively of independent directors. The HR and Compensation Committee is primarily made up of independent directors (including the Chairman) and has one non-executive director. Independent directors also make up half of the Strategy and Investment Committee, where two members out of a total four are independent, including the Chairman. The Board believes that the Strategy and Investment Committee also requires independent directors, as they can greatly contribute to the decision-making process when setting strategic goals, identifying PJSC LUKOIL's business priorities, ensuring sustainable development, or making other important decisions that may affect shareholder interests.

Both LUKOIL employees and third parties may attend Committee meetings upon invitation from a Committee Chairman.

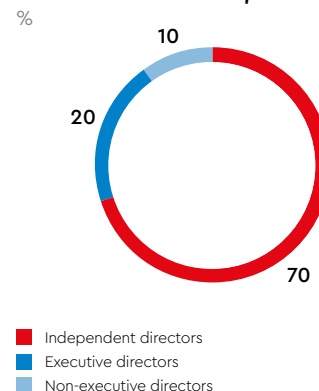
More than half of all matters discussed by the Board of Directors were previewed by the Board Committees, ensuring detailed discussions on the most essential matters brought up for the Board's approval.

The number of in-person Committee meetings increased in 2018, demonstrating the members' more active involvement in their Committee's work.

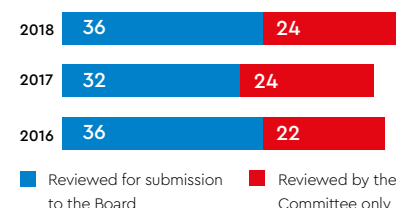
However, they may not vote on agenda items.

Secretarial duties of the Board of Directors' Committees are performed by the Corporate Secretary.

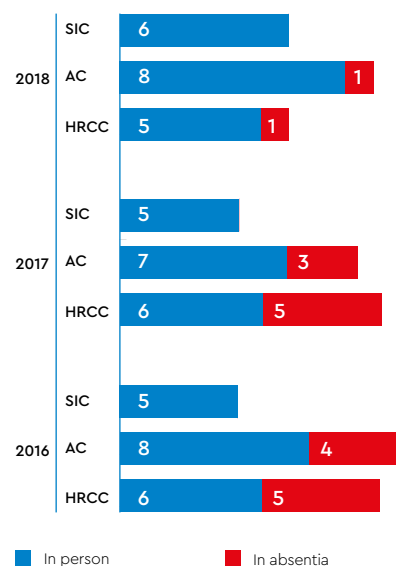
Committee membership as at December 31, 2018



Matters discussed



Committee meetings



¹ In March 2019, the Committee was renamed the Strategy, Investment, and Sustainability Committee (by Resolution of the Board of Directors dated March 6, 2019, Minutes No. 4).

Strategy and Investment Committee

Committee tasks	Key topics covered in 2018 ¹
<ul style="list-style-type: none"> • Making recommendations to the Board of Directors on: <ul style="list-style-type: none"> – defining the strategic objectives of the Company's business – defining the Company's business priorities – the Dividend Policy, dividend per share, and dividend payout procedure – the distribution of the Company's profit (losses) for the reporting year • Assessment of the Company's long-term performance • Involvement in monitoring the progress against the Company's Strategic Development Program • Discussion on LUKOIL Group's Sustainability Report preparation 	<ul style="list-style-type: none"> • Use of the Integrated Management System (IMS) to support and maintain business processes • The efficiency of foreign investments in upstream • Development of the bitumen business in LUKOIL Group in line with the bitumen business development strategy • The report on cost optimization practices

Taking into account the ever-growing importance of sustainable development and social responsibility, a decision was made in early 2019 to rename the Strategy and Investment Committee to the Strategy, Investment, and Sustainability Committee.

Committee membership

Independent Directors	<ul style="list-style-type: none"> • Igor Ivanov (Committee Chairman) • Toby Gati
Executive Directors	<ul style="list-style-type: none"> • Ravil Maganov • Leonid Fedun



In 2018, the work of the Strategy and Investment Committee was primarily focused on issues related to the implementation of the LUKOIL Group's Strategic Development Program for 2018–2027 and sustainable development.

As part of monitoring the implementation of the new business strategy adopted at the end of 2017, the Company's activities in different areas were considered, including the efficiency of investments in exploration and production projects, methods of enhanced oil recovery, improvement of oil and gas field development technologies, and development of bituminous materials business.

Today it is hard to imagine sustainable development of the Company, development of new opportunities, and access to markets without information technologies, the use of which increases efficiency of activities in all areas. Digitalization is becoming an important factor in retaining

competitive advantages in a rapidly changing external environment, and increases the quality of decisions made. In light of this, in the reporting year the Committee considered issues related to the implementation of information technologies in order to increase the efficiency of the Company's business processes and ensure the smooth operation of all its systems. The Committee recommended that the Board of Directors approves the IT Strategy of LUKOIL Group, including a list of digitalization initiatives aimed at achieving significant economic impacts in the context of a general increase in cyber-resistance.

The Committee began to pay more attention to improving the quality and level of details of non-financial information disclosed in the sustainability report. As a result, the Sustainability Report of PJSC LUKOIL for 2017 received a positive assessment from the target audience and became the winner in the relevant category

of the prestigious contest organized by the Moscow Exchange. Realizing the importance of such work for the Company and its stakeholders, the Committee made recommendations to the Board of Directors on the reasonability of amending the Regulation on the Committee, resulting in the enhanced role of the Committee in the preparation of this report. In early 2019, taking into account the increasing attention to sustainable development, a decision was made to expand the functions of the Committee and rename it the Strategy, Investment and Sustainability Committee.

The Committee traditionally prepared recommendations to the Board of Directors on the distribution of profits and dividend payments, taking into account the principles set out in the Dividend Policy. »

IGOR IVANOV

Chairman of the Strategy
and Investment Committee

¹ For a list of key decisions made by the Board of Directors based on the Committee's recommendations, see the Board of Directors section on page 87.

Audit Committee

Committee tasks	Key topics covered in 2018 ¹
<ul style="list-style-type: none"> • Reviewing the Company's accounting (financial) statements for completeness, accuracy, and reliability • Making recommendations on the Company's proposed independent auditor and the auditor's remuneration • Reviewing the independent auditor's opinion and determining the auditor's independence, objectivity, and absence of a conflict of interest • Assessing the internal audit, reviewing the effectiveness of control and audit procedures, and considering proposals for improvement • Reviewing the Company's internal audit activity plans and budget • Assessing the effectiveness of the Company's risk management and internal control procedures and reviewing the reliability and performance of both the risk management and internal control system and the corporate governance system • Making recommendations for the Board's preliminary approval of the Company's Annual Report 	<ul style="list-style-type: none"> • Discussing material accounting issues, including the Company's accounting policy • Material matters arising during the external audit • Review of the Temporary Procedure for Audit Assessment of the Corporate Governance Process Productivity at PJSC LUKOIL • Review of draft consolidated financial statements of PJSC LUKOIL prepared under IFRS • Information on material litigations and claims related to the operations of LUKOIL or other LUKOIL Group entities • Review of the auditor's final opinion on the efficiency of the internal control system, the risk management system, and the corporate governance system in 2017, based on the annual report by LUKOIL's Head of the Internal Audit Service

Committee membership

Independent Directors

- **Victor Blazheev (Committee Chairman)**
- Igor Ivanov
- Ivan Pictet



The main function of the Audit Committee is to assist the Board of Directors in matters related to the control over financial and economic activities, accounting procedures and the preparation of the Company's financial statements. As part of this function, the Committee carried out a periodic review of the completeness and accuracy of the consolidated financial statements, made recommendations on the candidacy of the external auditor, the amount of payment for its services, and studied issues arising during the conduct of an independent external audit.

During 2018, the Committee reviewed and analyzed issues related to the improvement of the internal audit system, improving the efficiency and reliability of the risk management and internal control system. During the year, the Company carried out approbation of temporary audit methods in the framework of evaluating the processes of internal control, risk management and corporate governance, as well as approbation of audit procedures.

We paid special attention to the measures taken by the Company to develop the risk management and internal control system, which, among other things, were aimed at preparing a number of LUKOIL Group organizations to switch to the tax monitoring regime. This regime, implemented by the tax authorities, establishes special requirements for the organization of the Internal Control System of large taxpayers.

As Chairman of the Committee, I give great importance to ensuring the functional interaction between the Audit Committee and the Internal Audit Service of the Company, since it plays an important role in shaping the Committee's members with an objective view of the state of the internal audit system, the risk management and internal control system of the Company, and also allows reliable risk-focused information.

It can be noted that in recent years, in general, the audit committees of joint-stock companies face more complex

tasks due to increased expectations from investors and shareholders and other stakeholders regarding the transparency of accounting and financial statements. These trends were partly reflected in the changes in the Federal Law On Joint-Stock Companies in 2018, according to which a public joint-stock company establishes a mandatory requirement for presence of internal audit. Such steps at the legislative level once again underline the importance of internal audit as one of the elements of the corporate governance system and the important role of the respective committees of boards of directors in ensuring the independence of internal audit from the Company's management. »

VICTOR BLAZHEEV

Chairman of the Audit Committee

HR and Compensation Committee

Committee tasks	Key topics covered in 2018 ¹
<ul style="list-style-type: none"> Assessing the performance of the Board of Directors, its members, and Committees; identifying priority areas to strengthen Board composition Communicating with shareholders to prepare recommendations for voting in the election of the Board of Directors Making recommendations on staff appointments Development and regular reviews of the Company's policy on remunerating members of the Board of Directors, the Management Committee, and the President Making recommendations to the Board of Directors on determining the remuneration of the Corporate Secretary Pre-assessing the performance of the Management Committee members and the President throughout the year in line with the Company's remuneration policy 	<ul style="list-style-type: none"> Assessment of professional qualifications and independence of all nominees to the Company's Board of Directors Recommendations to the Company's shareholders on voting in the election of the Company's Board of Directors Human resources management across LUKOIL Group Personnel turnover at LUKOIL Group

Committee membership

Independent Directors	<ul style="list-style-type: none"> Roger Munnings (Committee Chairman) Victor Blazhev
Non-Executive Director	<ul style="list-style-type: none"> Richard Matzke



In 2018 the HR and Compensation Committee carried out work in fulfillment of its responsibilities, including, among other things, a thorough review of issues submitted to the Board for Directors for consideration.

With a view further to enhance the corporate culture and reinforce the system of corporate values, the Committee reviewed a new version of the Business Ethics Code of the Company. This document sets out the framework for individual and joint behavior and outlines the principles of business ethics and business behavior which must be followed by members of management bodies and employees of the Company and which we expect our partners and other stakeholders to follow. The Code covers major ethics aspects of relations between personnel of LUKOIL Group companies as well as relations with shareholders, government bodies, business partners, competitors and customers.

The Committee carried out a preliminary review of the performance of the Board of Directors members in 2017–2018 in terms of the criteria set out in the Regulations on the System of Compensation and

Incentives for Management Personnel of PJSC "LUKOIL" and assessed candidates nominated by the Company President to be members of the Management Committee of the Company.

The efficient motivation of senior management is critical for the achievement of the business goals of the Company, and, accordingly, the Committee has reviewed and prepared recommendations for the Board of Directors on approving amendments to the Regulations on the System of Compensation and Incentives for Management Personnel of PJSC "LUKOIL" which aim at improving the methodology of bonus calculation depending on corporate and individual performance indicators.

The Committee has assessed the professional qualifications and experience of candidates being considered to serve on the Board of Directors. The issue of the independence of candidates/members of the Board of Directors was considered twice over the year. Also, at the proposal of the Committee, the issue of the independence of all members of the Board of Directors was considered

at a Board of Directors meeting and appropriate recommendations were prepared by the Committee for the Board of Directors.

The Committee regularly received reports from the Company executives on issues related to personnel management in the Company and entities of the LUKOIL Group and prepared recommendations for the Board of Directors of the Company.

In the reporting year our work was aimed at ensuring that the Company complies with best practice as well as regulatory provisions. We intend that amendments introduced into the Charter in 2018 will enhance the role of the HR and Compensation Committee in succession planning for the Board of Directors and will, therefore, add to the quality of corporate governance. »

ROGER MUNNINGS

Chairman of the HR
and Compensation Committee

¹ For a list of key decisions made by the Board of Directors based on the Committee's recommendations, see the Board of Directors section on page 87.

Corporate Secretary

The Corporate Secretary role is designed to support efficient communication between PJSC LUKOIL's shareholders, Board of Directors, and executive management. As part of this internal communication, the Corporate Secretary acts as the guarantor for PJSC LUKOIL management's and governance bodies' compliance with the Group's procedures, thereby ensuring that the legitimate rights and interests of shareholders are being exercised. The Corporate Secretary ensures proper operation of the Board and its Committees.

The Corporate Secretary functionally reports to the Board while being sufficiently independent of PJSC LUKOIL's executive bodies. The Corporate Secretary of PJSC LUKOIL is appointed by the Company's President based on a resolution of the Board of Directors, and acts in line with PJSC LUKOIL's Charter and Regulations on the Corporate Secretary. The office of the Corporate Secretary has been set up to assist in the position's duties.

The Corporate Secretary's key functions:

- Ensuring operation of the Board of Directors and its Committees
- Involvement in preparing and holding General Shareholders Meetings
- Ensuring communication between PJSC LUKOIL and its shareholders and involvement in preventing corporate conflicts
- Involvement in the Company's relations with regulators, market operators, the registrar, and other professional security traders
- Involvement in ensuring PJSC LUKOIL's Information Disclosure Policy is being implemented
- Notifying the Board of Directors about detected violations of the law and the Company's internal documents (within the scope of the Corporate Secretary's responsibility)
- Contributing to the implementation of the Company's established procedures ensuring and monitoring the exercise of rights and legitimate interests of shareholders
- Involvement in enhancing PJSC LUKOIL's corporate governance system



**NATALIA
PODOLSKAYA**

Corporate
Secretary

Born in 1960.

Graduated from the Maurice Thorez Moscow State Institute of Foreign Languages in 1983 and from the Diplomatic Academy under the RF Ministry of Foreign Affairs (majoring in International Economics) in 2003. Passed a Corporate Secretary Advanced Training Program at the HSE Corporate Governance Center in 2007. Candidate of Philological Sciences (Ph.D.) from Moscow State Linguistic University since 1998.

- 1983–1998: engaged in translation/interpreting, lecturing, and research.
- 1998–2002: Manager, KPMG.
- 2002–2016: Chief Liaison Officer (Office of the Board of Directors), OAO LUKOIL, PJSC LUKOIL.
- Since 2016: Corporate Secretary of PJSC LUKOIL.



Since its adoption of the Corporate Governance Code, PJSC LUKOIL has been making a consistent effort to align its internal corporate procedures and regulations with the principles and recommendations specified in the Code. We consider this evolutionary approach the best way to achieve well-developed corporate governance. »

NATALIA PODOLSKAYA

Corporate Secretary of PJSC LUKOIL

The Corporate Secretary monitors compliance with the Company's internal documents and immediately notifies the Board of Directors of any violations detected. The Corporate Secretary also supervises compliance with the procedure for preventing conflicts of interest at the Board level set forth in the Regulations on the Board of Directors of PJSC LUKOIL.

The Corporate Secretary's duties:

- Cooperation with the Company's governance bodies, business units, and employees
- Coordinating the actions of PJSC LUKOIL's business units in compliance with the corporate governance principles which are stipulated by law
- Monitoring employees' compliance with PJSC LUKOIL's Charter and internal documents and notifying the Chairman of the Board of Directors about all cases preventing full compliance with the procedures the Corporate Secretary is to ensure

Throughout 2018, the Corporate Secretary paid close attention to sustainability as one of LUKOIL's strategic focus areas. Being a member of the team responsible for sustainability report preparation, the Corporate Secretary actively participated in coordinating the preparation of LUKOIL Group Sustainability Report 2017.

In 2018, the Corporate Secretary delivered a presentation on establishing and developing a corporate system of sustainability and non-financial report preparation management at the annual International Corporate Secretaries Forum, and gave a presentation on Board retreats being a crucial component of supervising PJSC LUKOIL's strategy and business plan at the National Association of Corporate Secretaries meeting.

In 2017–2018 the Corporate Secretary was trained under the IoD Chartered Director program (Certificate in Company Direction).

The Company's top management noted and appreciated the Corporate Secretary's efforts and results, and Natalia Podolskaya was presented with a high-ranking corporate award for her service to the Company.

EXPERT ASSESSMENT

In 2018, Corporate Secretary of PJSC LUKOIL Natalia Podolskaya won the "Best Corporate Governance Director / Corporate Secretary" category of the 13th "Director of the Year" National Award.

PRESIDENT AND MANAGEMENT COMMITTEE

The Company's executive bodies, the President and the Management Committee, play a key role in ensuring the timely and efficient performance of its operating and strategic tasks. According to the Company's Charter, the scope of authority of its executive bodies covers all day-to-day operations, except for matters reserved for the Company's General Shareholders Meeting or Board of Directors.

President

The President, the Company's sole executive body, is appointed by the General Shareholders Meeting for a term of five years and serves as the Chairman of the Management Committee. The key provisions of the contract with the President are subject to preview by the HR and Compensation Committee of the Board of Directors and final approval by the Board of Directors.

Vagit Alekperov has been the President of PJSC LUKOIL since 1993.

The President is responsible for operational management of the Company as prescribed by the Charter of PJSC LUKOIL. The President's authority covers:

- Representing the Company's interests
- Entering into transactions on behalf of the Company
- Management of the Company's assets to support its day-to-day operations (within the limits set by the Charter)
- Signing financial documents
- Approving the staff schedule, signing employment contracts, applying rewards and sanctions
- Approving the Company's organization
- Approving the Company's internal documents regulating its day-to-day operations, save for internal documents to be approved by the Company's Management Committee as prescribed by the Charter
- Issuing binding orders and instructions

- Organizing the activities of the Management Committee
- Other functions established by the Company's Charter

Management Committee

The Management Committee is a collective executive body in charge of PJSC LUKOIL's day-to-day operations, as well as the development and implementation of the overall development strategy of the Company's subsidiaries. The President of PJSC LUKOIL is the Chairman of the Management Committee.

The Management Committee is guided by applicable laws, the Charter of PJSC LUKOIL, and the Regulations on the Management Committee of PJSC LUKOIL (the new version approved by the Resolution of the Annual General Shareholders Meeting of PJSC LUKOIL dated June 23, 2016).

The authority of the Management Committee covers:

- Developing and implementing the Company's current business policy
- Developing, approving, and monitoring the performance of the Company's quarterly, annual, and long-term activity plans, budget, and investment program
- Making decisions on establishment by the Company of other legal entities, as well as on acquisitions and disposals of equity interests in other entities
- A number of powers related to development and implementation of the overall development strategy of the Company's subsidiaries
- Other powers set out by the Company's Charter

Following on the President's proposals, the Management Committee is formed by the Board of Directors on an annual basis. Proposals are submitted within one month following the election of the Board of Directors by the Annual

General Shareholders Meeting.

The Board of Directors may reject certain nominees to the Management Committee but may not approve nominees who have not been proposed by the President.

The number of members on the Management Committee was approved as 14 in July 2018. Meetings of the Management Committee are convened as necessary. All meetings are held only in the form of joint attendance. At the same time, the Regulations on the Management Committee of PJSC LUKOIL provide for participation in Management Committee meetings via telephone or a video conference call. Participation in a meeting via the aforementioned means of communications qualifies as attendance in person. Attendance at Management Committee meetings in 2018 remained high at 92.4%.

In 2018, the Management Committee held 26 meetings, same as in 2017, but the number of matters discussed increased to 126. Among others, the following matters were discussed:

- Approval of key budget indicators for LUKOIL Group
- Taking resolutions on the operations of LUKOIL Group subsidiaries
- Optimizing the production capabilities and the corporate structure of LUKOIL Group
- HR decisions on key executives of Russian entities of LUKOIL Group controlled by the Company by more than 50%
- Approval of business process management principles
- Approval of the Company's local regulations underlying the Company's core businesses

Management Committee membership as at December 31, 2018

	Length of service on the Management Committee, years ¹	Share in charter capital of PJSC LUKOIL
Vagit Alekperov	25	2.84 (26.07 ²)
Vadim Vorobyev	8	0.02
Denis Dolgov	Elected to the Management Committee on July 19, 2018	0.04
Ravil Maganov	25	0.44
Ilya Mandrik	1	0.02
Ivan Maslyayev	25	0.04
Alexander Matytsyn	21	0.35
Anatoly Moskalenko	15	0.02
Stanislav Nikitin	1	0.02
Oleg Pashaev	2	0.008
Denis Rogachev	3	0.004
Gennady Fedotov	8	0.01
Evgeny Khavkin	15	0.009
Azat Shamsuarov	5	0.008

¹ Full years as of December 31, 2018.

² Percentage of the Company shares which the person directly owns and in which they have a beneficial economic interest.
The Company is not aware of any loans (credits) received (from a legal entity within the group of entities that include the Company) by members of the Management Committee.

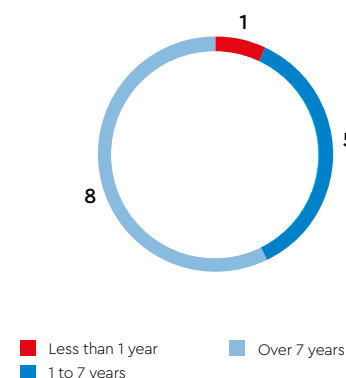
Statistics of Management Committee meetings



Matters discussed



Length of service on the Management Committee as at December 31, 2018



Changes in the membership of the Management Committee

Changes to the membership of the Management Committee of PJSC LUKOIL during 2018 were as follows:

- The powers of member of the Management Committee Vladimir Nekrasov were terminated (Resolution of the Board of Directors dated April 24, 2018, Minutes No. 5). The resolution was passed due to the position transfer of Vladimir Nekrasov from First Vice President and his appointment as Advisor to the President of PJSC LUKOIL on April 2, 2018.

- Denis Dolgov, Vice President for Power Generation, was elected to the Management Committee (Resolution of the Board of Directors dated July 19, 2018, Minutes No. 10).

Changes in the positions held by members of the Management Committee of PJSC LUKOIL during 2018 were as follows:

- On April 1, 2018, Vadim Vorobyev was transferred from the position of Senior Vice President for Sales and Supplies to the position of First Vice President (Refining, Marketing and Distribution).
- On May 14, 2018, Oleg Pashaev was transferred from the position of Vice President for Oil Product Sales to the position of Senior Vice-President for Sales and Supplies.

Vladimir Nekrasov's biography is available in PJSC LUKOIL 2017 Annual Report on the Company's website.



Biographical details of members of the Management Committee and of the President



VAGIT ALEKPEROV

- President
- Chairman of the Management Committee
- Executive Director

Born in 1950.

Graduated from M. Azizbekov Azerbaijan Oil and Chemistry Institute in 1974. Doctor of Economics. Full member of the Russian Academy of Natural Sciences. Distinguished Energy Industry Specialist, Honored Oil Specialist. Awarded five orders and eight medals, awarded a Certificate of Honor, three Letters of Acknowledgement from the President of the Russian Federation, and a Certificate of Honor from the Government of the Russian Federation. Two times winner of the Russian Government Prize.

Distinguished employee of the Company.

- 1968: started to work at oil fields in Azerbaijan and West Siberia.
- 1987–1990: General Director of Production Association Kogalymneftegaz of Glavtyumenneftegaz of the USSR Ministry of Oil and Gas.
- 1990–1991: Deputy Minister; First Deputy Minister of the USSR Ministry of Oil and Gas.
- 1992–1993: President of the Oil Concern Langepasuraikogalymneft.
- 1993–2000: Chairman of the Board of Directors of OAO LUKOIL.
- Since 1993: President of PJSC LUKOIL.
- Since 2000: Chairman of the Supervisory Board at LUKOIL INTERNATIONAL GmbH.
- Since 2012: Chairman of the Community Council at Our Future Fund for regional social programs.
- Since 2012: Member of the Board Bureau of the Russian Union of Industrialists and Entrepreneurs.

Since 1993: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).



VADIM VOROBYEV

- Member of the Management Committee
- First Vice President (Refining, Marketing and Distribution)

Born in 1961.

Graduated from N.I. Lobachevsky Gorky State University in 1983 and N.I. Lobachevsky Nizhny Novgorod State University in 1998. Candidate of Economics (PhD). Honored Oil Specialist. Awarded Medals of the Order "For Merit to the Fatherland", 1st and 2nd class, and the Order of Friendship. Distinguished employee of the Company.

- 1981–1992: elected to local youth and party bodies.
- 1992–1998: in management positions at Nizhny Novgorod insurance and banking institutions.
- 1998–2002: Vice President, President of JSC Oil Company NORIS-OIL.
- 2002–2005: General Director of OOO LUKOIL Volganefteprodukt.
- 2005–2009: Vice President, Head of the Main Division of Petroleum Product Sales Coordination of OAO LUKOIL.
- 2009–2012: Vice President, Head of the Main Division of Petroleum Product Sales Coordination of OAO LUKOIL.
- 2012–2016: Vice President for Petroleum Product Sales Coordination of PJSC LUKOIL.
- 2016–2017: Vice President for Oil Refining, Gas Processing, and Petrochemicals of PJSC LUKOIL.
- 2017–2018: Senior Vice President for Sales and Supplies of PJSC LUKOIL.

Since 2018: First Vice President of PJSC LUKOIL.



DENIS DOLGOV

- Member of the Management Committee since July 19, 2018
- Vice President for Power Generation

Born in 1974.

Graduated from Tyumen State Oil and Gas University in 1996 and 2004. Candidate of Technical Sciences (PhD). Awarded two medals.

- Since 1995: employed at entities in West Siberia.
- 2002–2006: Deputy General Director for Production, First Deputy General Director – Chief Engineer of TPU Langepasneftegaz of OOO LUKOIL-West Siberia.
- 2006–2009: General Director of TPU Langepasneftegaz of OOO LUKOIL-West Siberia.
- 2009–2011: First Deputy Head of the Main Division of Power Generation of OAO LUKOIL.
- 2011–2012: Head of the Main Division of Power Generation of OAO LUKOIL.

Since 2012: Vice President for Power Generation of PJSC LUKOIL.

**RAVIL MAGANOV**

- Member of the Management Committee
- First Executive Vice President (Exploration and Production)
- Executive Director
- Deputy Chairman of the Board of Directors
- Member of the Strategy and Investment Committee of the Board of Directors of PJSC LUKOIL

Born in 1954.

Graduated from the I.M. Gubkin Moscow Institute of the Petrochemical and Gas Industry in 1977. Distinguished Oil and Gas Specialist of the Russian Federation, Honored Oil Specialist, Distinguished Energy Industry Specialist. Awarded four orders and five medals, awarded a Certificate of Honor from the President of the Russian Federation. Has a Letter of Acknowledgement from the Government of the Russian Federation. Three times winner of the Russian Government Prize in Science and Engineering. Distinguished employee of the Company.

- 1988–1993: Chief Engineer, Deputy General Director, General Director of Production Association Langepasneftegaz.
- 1993–1994: Vice President of OAO LUKOIL.
- 1994–2006: First Vice President of OAO LUKOIL (E&P).
- Since 2000: Member of the Supervisory Board of LUKOIL INTERNATIONAL GmbH.
- Since 2006: First Executive Vice President of PJSC LUKOIL (E&P).
- Since 2016: Deputy Chairman of the Board of Directors of PJSC LUKOIL.

Since 1993: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).

**ILYA MANDRIK**

- Member of the Management Committee
- Vice President for Geological Exploration and Development

Born in 1960.

Graduated from Ivano-Frankovsk Oil and Gas Institute in 1982. Graduated from Tyumen Industrial Institute in 1994. Candidate of Geology and Mineralogy (PhD). Doctor of Technical Sciences. Distinguished Energy Industry Specialist, Honored Oil Specialist. Awarded an order and three medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class. Russian Government Prize Winner. Distinguished employee of the Company.

- 1982–1997: worked at oil fields in West Siberia.
- 1998–2007: Head of the Division, Deputy Head of the Main Division of Geology and Field Development of OAO LUKOIL.
- 2007–2012: Vice President, Head of the Main Exploration Division of OAO LUKOIL.
- 2012–2017: Vice President for Exploration.

Since 2017: Vice President for Geological Exploration and Development of PJSC LUKOIL.

**IVAN MASLYAEV**

- Member of the Management Committee
- Vice President, General Counsel

Born in 1958.

Graduated from Lomonosov Moscow State University in 1980. Candidate of Law (PhD). Distinguished Lawyer of the Russian Federation. Distinguished Energy Industry Specialist, Honored Oil Specialist. Awarded four medals. Distinguished employee of the Company.

- 1992–1993: Head of the Legal Department of the Oil Concern Langepasuraikogalymneft.
- 1994–1999: Head of the Legal Division of OAO LUKOIL.
- 2000–2012: Head of the Main Division of Legal Support of OAO LUKOIL.

Since 2012: Vice President, General Counsel of PJSC LUKOIL.

**ALEXANDER MATYTSYN**

- Member of the Management Committee
- First Vice President (Economics and Finance)

Born in 1961.

Graduated from Lomonosov Moscow State University in 1984. Candidate of Economics (PhD). Master of Business Administration (Bristol University, 1997). Distinguished Economist of the Russian Federation. Awarded two medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class, and the Order of Honor. Distinguished employee of the Company.

- 1994–1997: General Director of KPMG, international auditors.
- 1997–2012: Vice President – Head of the Main Division of Treasury and Corporate Finance of OAO LUKOIL.
- 2012–2013: Vice President for Finance of OAO LUKOIL.
- 2013–2017: Senior Vice President for Finance of PJSC LUKOIL.

Since 2017: First Vice President of PJSC LUKOIL.


**ANATOLY
MOSKALENKO**

- Member of the Management Committee
- Vice President for Human Resources Management and Corporate Structure Development

Born in 1959.

Graduated from Supreme Soviet of the RSFSR Moscow Higher Combined Arms Academy in 1980, Military Diplomatic Academy in 1987, Frunze Military Academy in 1991, and the Russian Presidential Academy of Public Administration in 2005. Candidate of Economics (PhD). Awarded five orders and twenty medals. Russian Government Prize Winner. Distinguished employee of the Company.

- 1976–2001: service in the Armed Forces of Russia.
- 2001–2003: Head of HR, Head of the HR Management Department of OAO LUKOIL.
- 2003–2012: Head of the Main Division of Human Resources of OAO LUKOIL.
- 2012–2016: Vice President, Human Resources Management and Corporate Structure Development of PJSC LUKOIL.
- 2016–2017: Vice President for Human Resources Management and Security of PJSC LUKOIL.

Since 2017: Vice President for Human Resources Management and Corporate Structure Development of PJSC LUKOIL.


STANISLAV NIKITIN

- Member of the Management Committee
- Vice President – Treasurer

Born in 1959.

Graduated from the USSR Extramural Institute of Finance and Economics in 1984. Awarded three medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class.

- 1977–1979: service in the Armed Forces of Russia.
- 1979–1998: employed by various banks of the USSR and Russia.
- 1998–2012: Head of Division, Deputy Head of the Main Division of Treasury and Corporate Financing – Head of Treasury Department of OAO LUKOIL.
- 2012–2013: Director for Treasury Operations of OAO LUKOIL.

Since 2013: Vice President – Treasurer of PJSC LUKOIL.


OLEG PASHAEV

- Member of the Management Committee
- Senior Vice President for Sales and Supplies

Born in 1967.

Graduated from M.V. Frunze Higher Naval College in 1989. Awarded two medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class, and the Order of Honor.

- 1984–1993: service in the Armed Forces of Russia.
- 1993–1997: worked for Northern Shipping Company.
- 1998–2002: General Director of OOO Quorum-SK.
- 2002–2004: General Director of OOO LUKOIL Severnefteprodukt.
- 2004: First Deputy General Director for Aircraft Refueling of OOO LUKOIL Tsentrnefteprodukt.
- 2004–2016: General Director of OOO LUKOIL AERO.
- 2016: Vice President for Petroleum Product Sales Coordination of PJSC LUKOIL.
- 2016–2018: Vice President for Oil Product Sales of PJSC LUKOIL.

Since 2018: Senior Vice President for Sales and Supplies of PJSC LUKOIL.


DENIS ROGACHEV

- Member of the Management Committee
- Vice President for Procurement

Born in 1977.

Graduated from I.M. Gubkin Russian State Oil and Gas University in 2000.

- 2000–2003: employed by the Main Division of Geology and Exploration of OAO LUKOIL, OOO LUKOIL-West Siberia.
- 2003–2009: employed by Schlumberger Logelco and Baker Hughes B.V.
- 2009–2012: Deputy Head, First Deputy Head of the Administrative Office of the Board of Directors of OAO LUKOIL, Executive Assistant to the President of OAO LUKOIL.
- 2012–2013: General Director of OOO Trading House LUKOIL

Since 2013: Vice President for Procurement of PJSC LUKOIL.


GENNADY FEDOTOV

- Member of the Management Committee
- Vice President for Economics and Planning

Born in 1970.

Graduated from the Moscow Institute of Physics and Technology in 1993. Honored Oil Specialist. Awarded two medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class, and the Order of Friendship.

- 1994–2002: employed by Halliburton and Shell.
- 2002–2007: Head of Division, Deputy Head, Head of the Main Division of Corporate Budget Planning and Investments of OAO LUKOIL.
- 2007–2012: Vice President, Head of the Main Division of Economics and Planning.

Since 2012: Vice President for Economics and Planning of PJSC LUKOIL.

**EVGENY KHAVKIN**

- Member of the Management Committee
- Vice President, Chief of Staff of PJSC LUKOIL

Born in 1964.

Graduated from the Moscow Institute of Economics, Management, and Law in 2003. Candidate of Economics (PhD). Graduated from Moscow State Law University in 2014. Awarded two medals and awarded a Certificate of Gratitude from the President of the Russian Federation. Distinguished employee of the Company.

- Since 1988: employed at entities in West Siberia.
- 1997–2003: Deputy Head, First Deputy Head of the Administrative Office of the Board of Directors of OAO LUKOIL.
- 2003–2012: Secretary of the Board of Directors, Head of the Administrative Office of the Board of Directors of OAO LUKOIL.
- 2012–2015: Vice President, Chief of Staff of OAO LUKOIL.

Since 2015: Vice President, Chief of Staff of PJSC LUKOIL.

**AZAT SHAMSUAROV**

- Member of the Management Committee
- Senior Vice President for Oil and Gas Production

Born in 1963.

Graduated from Ufa Oil Institute in 1986. Candidate of Technical Sciences (PhD). Honored Oil Specialist. Awarded a Medal of the Order "For Merit to the Fatherland," 2nd class. Russian Government Prize Winner. Distinguished employee of the Company.

- 1997–2000: Chief Engineer of Oil and Gas Production Board (OGPB) of Pokachevneft, Deputy General Director for Production of TPU Langepasneftegaz – Head of OGPB Pokachevneft, General Director of TPU Uraineftgaz.
- 2000–2001: President of Orenburg Oil Joint-Stock Company (ONAKO).
- 2001–2008: Vice President, Senior Vice President of LUKOIL Overseas Holding Ltd.
- 2008–2012: Vice President of OAO LUKOIL, General Director of OOO LUKOIL-West Siberia.
- 2012–2013: Vice President of OAO LUKOIL for Oil and Gas Production.

Since 2013: Senior Vice President of PJSC LUKOIL for Oil and Gas Production.

REMUNERATION SYSTEM FOR MEMBERS OF THE COMPANY'S GOVERNANCE BODIES

When shaping the remuneration system and determining the particular remuneration for members of PJSC LUKOIL's governance bodies, the actual amounts payable are expected to be sufficient to engage, motivate to work efficiently, and retain persons having skills and qualifications required by the Company.

Remuneration system for members of the Board of Directors

The guidelines on remuneration and compensation of members of the Board of Directors, including their structure and terms of payment, are formalized in the Director Compensation and Expense Reimbursement Policy of PJSC LUKOIL (hereinafter, the "Remuneration Policy").

The Remuneration Policy has been developed based on the Corporate Governance Code and reflects the practices of remuneration and compensation accrual currently in place at the Company.

Considering that the Board of Directors is responsible for the general management of LUKOIL's operations and supervises executive bodies, the amount of remuneration paid to

Directors should be sufficient to attract high-skilled individuals and provide them with proper compensation for their time and efforts spent on preparing for, and participating in, the Board meetings.

The Company believes that its preferred form of monetary remuneration payable to members of the Board of Directors is fixed annual remuneration not linked to any operational, financial, or other performance of the Company. Furthermore, the Company pays additional remuneration for the higher responsibility levels and additional time spent on Directors' involvement in Committee activities, discharging the functions of the Chairman of the Board of Directors and Committee Chairmen.

In 2017, pursuant to the recommendations of the Corporate Governance Code, the Company established fixed remuneration for proper fulfillment of the duties of a Board Committee member instead of the previously applied remuneration for in-person attendance at each meeting. At the same time, the Company preserved remuneration for in-person attendance at Board or Committee meetings requiring a transcontinental flight, since some Directors have to take long flights

to attend meetings of the Board of Directors in person, which leads to additional time commitment and causes significant changes in their work schedule.

Directors also have remuneration for each conference and other meetings attended by written proxy of the Chairman of the Board of Directors.

Directors' remuneration does not include short- and long-term incentive payments or additional benefits, including any insurance except for the liability insurance of members of the Board of Directors, pension and other social benefits.

The Company does not provide for any extra payments or compensations in the event of early termination of Directors' tenure.

Remunerations are determined by the General Shareholders Meeting and reflect proposals of the Board of Directors which are based on recommendations of the HR and Compensation Committee.

The Annual General Shareholders Meeting held on June 21, 2018 resolved to pay the following amounts of remuneration to elected members of the Board of Directors (for 2018–2019):

- Remuneration to the member of the Board of Directors – RUB 6,750,000
- Remuneration to the Board Chairman – RUB 5,200,000
- Remuneration to the Chairman of a Board Committee – RUB 1,050,000
- Remuneration to the member of a Board Committee – RUB 1,050,000
- Remuneration for in-person attendance at Board or Committee meetings requiring a transcontinental flight – RUB 350,000
- Remuneration for conferences and other events attended by written proxy of the Chairman of the Board of Directors – RUB 150,000

The Company also compensates the costs incurred by members of the Board of Directors to perform their duties, such as:

- Cost of travelling to and from the Board meeting venue and the cost of attending the venue
- Cost of joining the Board meeting by phone or video conference call, or the cost of sending a written opinion or voting in absentia

- Cost of discharging the Director's functions between Board meetings
- Cost of engaging advisors and experts and obtaining their opinions on matters pertaining to the activities of the Board of Directors, with the total not exceeding the budget allocated by the Company
- Costs incurred by persons accompanying the member of the Board of Directors who is discharging his or her functions (interpreter, advisor, personal assistant) or by representatives of such member on matters pertaining to the activities of the Board of Directors, in the amount of actual and documented expenses of no more than one person accompanying or representing the Director per trip

Members of the Board of Directors who are concurrently employed by the Company also receive other payments from the Company (salary, bonuses, additional social benefits) and, if they are members of the Management Committee, remuneration for performing the duties of Management Committee members (in 2018, two members of the Board of Directors were also members of the Management Committee).

In 2017, the bonuses paid to Directors who are employed by the Company but are not members of the Management Committee increased in line with the Regulations on Long-Term Incentives for Employees of PJSC LUKOIL and its Subsidiaries in 2013–2017.

Top management remuneration system¹

The Top Management Remuneration System was developed to ensure the delivery of business targets, promote strategic businesses, support a uniform, systemic and consistent approach to financial incentives for key executives. The balance of interests of the Company's management and shareholders is key to the Top Management Remuneration System in place at the Company.

The Top Management Remuneration System is included in the Regulations on PJSC LUKOIL's Management Remuneration and Incentive System.

Top management remuneration comprises fixed and variable components.

Payments to the Board of Directors

RUB thousand

	2016	2017	2018
Total	192,421	262,091	816,787
Remuneration of members of the Board of Directors	71,920	87,067	100,375
Compensation of costs	28,099	29,146	34,119
Payments to Directors who are employed by the Company but are not members of the Management Committee, including	92,402	145,878	682,293
salary	28,523	48,059	35,968
bonus	53,935	87,832	607,372
other types of remuneration	9,944	9,987	38,953

For Directors who concurrently sit on the Management Committee, this table includes only remuneration related to performing their duties of Directors; remuneration for performing the duties of Management Committee members and other payments made by the Company are included in the Payments to the Management Committee table.

¹ Top manager (executive employee) – President, First Executive Vice President, First Vice Presidents, Senior Vice Presidents, Vice Presidents of the Company, Chief Accountant, and executives responsible for certain business lines.

The fixed component consists of a salary determined taking into account the complexity of tasks and duties to perform, the scope of work under the direct influence of a key executive, and the extent of such influence. The fixed component also includes additional payments for discharging the duties of other temporarily absent key executives. The salaries are in line with the market, which ensures the retention of key executives.

The variable component consists of annual bonuses and long-term incentive payments, and may also include one-off and target bonus payments and other payments.

Annual bonuses are paid as end-of-year bonuses and are intended to incentivize top managers to meet year-on-year targets. The motivational value of such payments is particularly high given the highly volatile external environment. To determine annual bonuses, the performance against the pre-set Key Performance Indicators is analyzed and approved. There are two types of KPIs: Group-wide (team performance) and individual (key executive's performance within the business line he or she is responsible for).

The balance of the Group-wide and individual components is determined for each function the key executive is responsible for. Annual bonuses paid to the President of PJSC LUKOIL are based on corporate performance. The weightings of Group-wide and individual components and annual salary-based bonus targets are set out in the Regulations on PJSC LUKOIL's Management Remuneration and Incentive System. In November 2018, the Board made amendments to these regulations that were primarily aimed at more closely aligning annual bonus calculation with the Company's strategic goals. For instance, the amendments introduced the concept of priority KPIs, which affect the size of bonuses to a greater degree than other KPIs. The Group-wide priority KPIs are LUKOIL Group's net income and free cash flow. Individual KPIs used for certain key executives also include the free cash flow of relevant business segments and sectors.

For more details, see the Key Performance Indicators and the Performance Assessment System sections on **page 37, 113**.



Our management remuneration system also uses long-term incentives to drive performance in the medium and long term. The incentives are intended to build strategic interest in the Company's performance, enhance its investment appeal, and create shareholder value.

In 2018, according to the Regulations on Long-Term Incentives for Employees of PJSC LUKOIL and its Subsidiaries for 2013–2017 (approved by Resolution of the Board of Directors dated December 4, 2012, Minutes No. 24) participants of the long-term incentive program received remuneration in the form of phantom Company shares. The remuneration consisted of two parts. The first part was an annual payment linked to PJSC LUKOIL's per share dividend for the previous year. The second part was a one-time payment following the end of the program and linked to the difference between the average stock exchange price of PJSC LUKOIL shares in 2017 and 2012.

Performance indicators used for annual bonus payments to key executives

Item group	Item	Group weight
Group-wide ²	<ul style="list-style-type: none"> • LUKOIL Group's net income for the year • LUKOIL Group's free cash flow • Hydrocarbon production volume • Ensuring HSE compliance across LUKOIL Group entities 	From 50 to 100%
Individual	Personalized for each executive in accordance with targets and objectives of his or her business line	Under 50%

² The Key Performance Indicators from the Set of KPIs approved by the Management Committee of PJSC LUKOIL are used as corporate indicators.

According to the terms of the Program, at least half of the received bonus is to be used for purchasing PJSC LUKOIL shares.

In 2017, PJSC LUKOIL developed its Long-Term Incentive Program for Key Employees of LUKOIL Group for 2018–2022 (approved by Resolution of the Board of Directors dated December 14, 2017, Minutes No. 21; the new version approved by Resolution of the Board of Directors dated November 27, 2018, Minutes No. 16). The Program involves about 40 million PJSC LUKOIL shares.

Management Committee remuneration system

Each of the Management Committee members received remuneration for performing the duties of a Management Committee member in 2018, equal to the monthly official salary in their main position. The remuneration is provided for by contracts made with

the Management Committee members and is paid against achievement of Group-wide KPIs over the reporting period. On top of that, the Management Committee members received:

- Base salary for performing their main position
- Annual bonuses for their year-round performance
- Long-term bonuses under the Long-Term Incentive Program
- Additional social benefits

The increase in bonuses paid to Management Committee members was applied in execution of the Regulations on Long-Term Incentives for Employees of PJSC LUKOIL and its Subsidiaries in 2013–2017.

Severance pay for top management

In the event of early termination of the employment contract, a key executive officer is entitled to a severance pay in the amount of 12 months' basic salary.

The contract of PJSC LUKOIL's President has the term of five years and may be terminated early subject to giving not less than one month's written notice of termination. In the event of early termination of the employment contract, the President is entitled to a severance pay equal to 24 months' basic salary.

Payments¹ to the Management Committee

RUB thousand

	2016	2017	2018
Total payments to the members of the Management Committee	1,636,289	1,738,788	5,502,415
Remuneration to Management Committee members	46,236	54,307	54,744
Salary	528,028	524,056	440,644
Bonuses (annual and long-term bonuses)	907,871	957,268	4,618,592
Other payments	154,154	203,157	388,434

¹ Including remuneration to the President of PJSC LUKOIL.

PERFORMANCE ASSESSMENT SYSTEM

Starting from 2003, the Company has in place a corporate performance assessment system based on Key Performance Indicators (KPIs).

KPIs are a set of indicators that reflect an organization's industry-specific critical success factors and demonstrate its progress towards achieving its strategic goals.

The corporate performance assessment system is governed by the following local regulations:

- LUKOIL Group's Main Principles for Designing the Corporate Performance Assessment System – determine the main principles for, and approaches to, designing the KPI system
- Set of Key Performance Indicators – a document containing a list of KPIs by LUKOIL Group's business segment, business sector, and entity, along with a guide to their calculation. This set is approved by the Management Committee of PJSC LUKOIL and reviewed once every two years

The procedure for using KPIs in individual corporate processes is governed by relevant local regulations:

- LUKOIL Group's Growth Strategy Development Regulations
- LUKOIL Group's Corporate Planning Regulations
- LUKOIL Group's Corporate Management Reporting Regulations

By introducing KPIs in its corporate governance system, the Company can:

- Formalize goals and objectives as a specific set of indicators at different planning horizons (from developing the Strategy to current planning)
- Assess the overall performance of LUKOIL Group as well as individual performance of its business segments, business sectors, and assets
- Motivate managers and employees to achieve targets and objectives by incorporating KPIs into their incentive system

For more details on KPIs, see the Top Management Remuneration System section on **page 111**.



LUKOIL Group's Set of KPIs has about 60 unique indicators. The total number of KPIs for LUKOIL Group across business segments, business sectors, and entities is over 400. KPIs are adjusted and updated as necessary, taking into account LUKOIL's revised strategic goals and plans, changes in its asset portfolio, and the external environment. For instance, in late 2017, the performance assessment system was adjusted to include free cash flow into the Set of KPIs for the Group's key production entities. Similar adjustments were made to the corporate incentive system to improve control over the Group's cash flows. These have been used since 2018.

KPIs in planning

To ensure connection between the goals and objectives at different timelines, a designated set of indicators within the KPI system is applied at all planning stages. As the planning horizon becomes shorter, the set of applicable KPIs expands.

In budget planning, KPIs are used as target guides both at the stage of target development for top-down planning and at the stage of final formalization of targets and objectives as benchmark indicators against which subsequent performance assessment is carried out.

Performance management through KPIs

KPIs are crucial for managing both the overall performance of LUKOIL Group and the individual performance of its assets. Performance assessment is carried out on a regular basis and includes:

- Monitoring current results of operations on a monthly (and in some cases, weekly) basis
- Summing up the results of operations quarterly and annually

Certain indicators – first of all, financial ones – are subject to factor analysis which identifies controllable and uncontrollable factors. It helps give an objective assessment of how executives impact LUKOIL Group entities' performance.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management and internal control system

LUKOIL's Risk Management and Internal Control System (RMICS) is an integral part of its corporate governance.

The RMICS is organized and operates to assure that the following targets and objectives are achieved despite uncertainties and negative factors:

- The Company's strategic and business goals
- Asset integrity
- Compliance of all types of reports with established requirements
- Compliance with the applicable laws and the regulations of LUKOIL Group entities

Risk management and internal control processes are interrelated ongoing processes followed by governance bodies and employees while performing their functions. They are integrated into the operations of LUKOIL Group entities, i.e. they are implemented

The RMICS is organized and operates in accordance with the following key principles

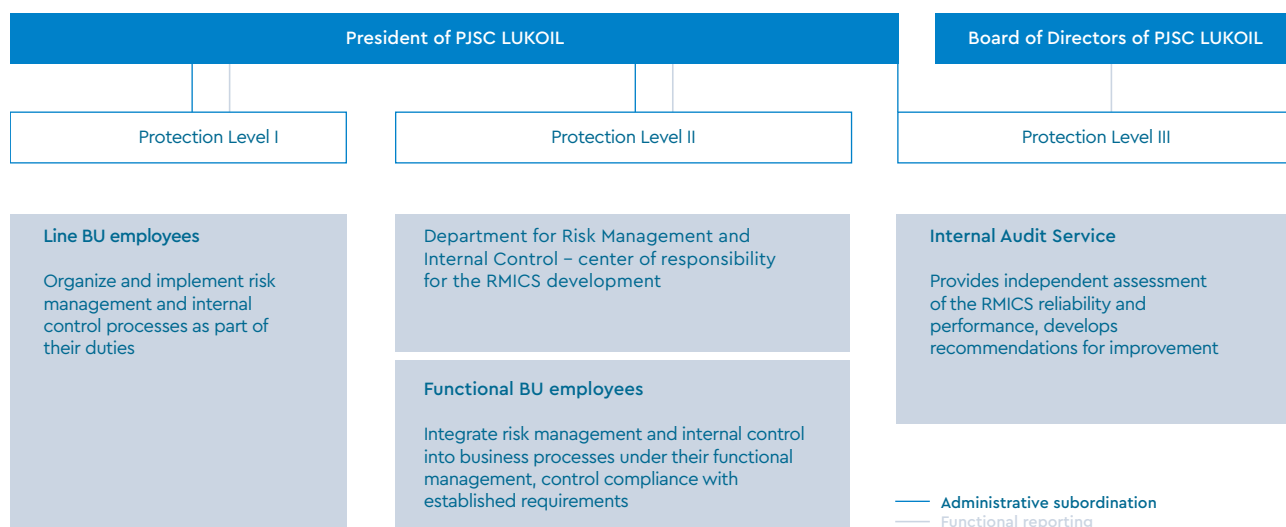
- | | |
|---|--|
| <ul style="list-style-type: none"> • Integration with the corporate governance system • Focus on risk • Business continuity • Full coverage of the Group's business • Adaptivity through self-improvement and development • Uniform methodology | <ul style="list-style-type: none"> • Employee responsibility for risk management and internal control performance • Sufficiency of actions to achieve goals • Economic feasibility • Division of roles, duties, and responsibilities • Process formalization • Informative value |
|---|--|

along with all other business processes and projects, rather than separately. The Company ensures effective interaction between process participants, taking into account the division of roles and responsibilities.

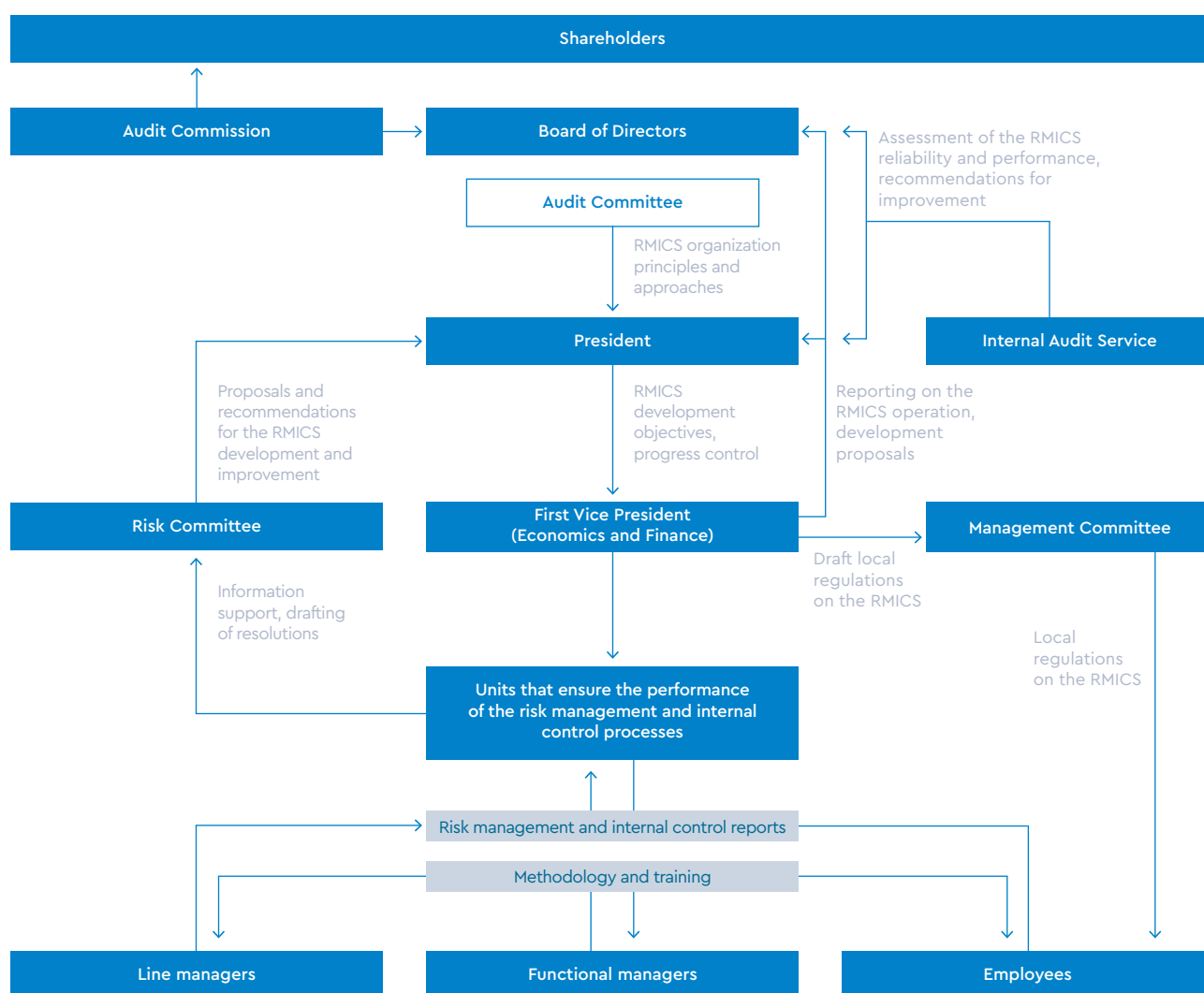
Key principles of, and approaches to, the RMICS organization at LUKOIL Group entities are detailed in the Risk Management and Internal Control Policy of PJSC LUKOIL which complies with the generally accepted rules and details key targets and objectives of the RMICS participants.

LUKOIL has implemented an approach to organizing the RMICS as a three-level system to protect the Company's interests (see the LUKOIL's interests protection system diagram). LUKOIL believes that organizing a system of responsibility for achieving the Company's goals is justified by enhanced reliability achieved through eliminating redundancies, with each level complementing the others by focusing on its specific functions.

LUKOIL's interests protection system



RMICS at PJSC LUKOIL



Functional map of RMICS participants



Risk management

PJSC LUKOIL continuously improves its risk management system. In 2018, our key efforts were focused on improving the corporate enterprise risk management (ERM) system to match the international best practices. Risk management development and improvement focus on:

- Reviews, customization, and implementation of new risk management approaches proposed by the Committee of Sponsoring Organizations of the Treadway Commission in its concept "Enterprise Risk Management – Integrating with Strategy and Performance" (COSO, 2017)
- Integration of the risk management process into major management decision-making such as taking on major investment projects and proceeding to the active investment phase based on the results of the quantitative risk analysis
- Introduction of the portfolio optimization process in the investment program development

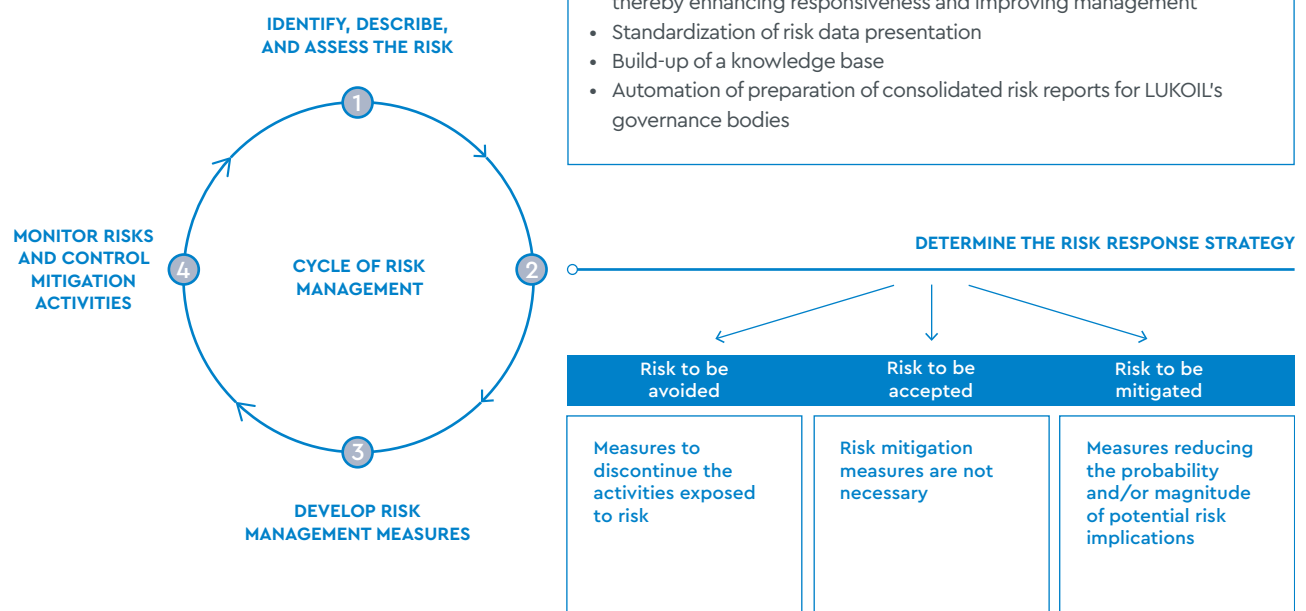
- Integration of post-investment analysis results into the risk management system to increase the quality of project risk assessment
- Introduction of the risk-return tradeoff in investment analysis and decision-making for certain projects
- Integration of the risk management process into the corporate governance system through risk orientation of LUKOIL Group's Budgeting process
- Development of guidelines for the Risk Management business process, including the application of probabilistic modeling and its use guidance in major management decision-making within LUKOIL's management practice, and development of specific risk management guides
- Improvement of trading risk management efficiency
- Improvement of risk information quality through harmonization, standardization, and making recommendations on standard risk description

- Optimizations in information sharing, response to external and internal environment changes, and monitoring risk management activities

LUKOIL consistently improves its risk management guidelines, which establish uniform requirements to the end-to-end risk management process across LUKOIL Group entities and determine management standards for individual most critical risk categories.

The Board of Directors and the Management Committee place a special focus on risk management to provide reasonable assurance of achieving objectives despite uncertainties and negative impacts. PJSC LUKOIL continuously identifies, describes, assesses, and monitors risks and develops measures to mitigate their adverse effect on our business. At the same time, our risk management forms an essential part of our business and corporate governance system and involves employees across all management levels.

Risk management process at LUKOIL Group



We regularly assess the aggregate risks of LUKOIL Group entities, with the risk profile included in annual reports reviewed by the Board of Directors. We identified most material risk categories impacting LUKOIL Group entity businesses, which are consistently assessed in terms of quantity, determined acceptable levels for each material risk, and developed measures to mitigate or prevent their adverse effect. LUKOIL monitors the progress and effectiveness of its risk mitigation measures.

Taking into account the probabilistic and external nature of LUKOIL's risks, we cannot fully guarantee that risk management measures will reduce their adverse effect to an acceptable level. When disclosing identified risks, LUKOIL informs stakeholders about certain circumstances inherent to its operations, which may have an adverse effect on its business performance.

We take all possible measures to monitor and prevent such events, and should they occur, will strive to mitigate their implications in order to minimize damage to the Company.

Risk Committee

PJSC LUKOIL established its Risk Committee in 2011 to address the matters of improving the risk management system and effectiveness of the risk management process. It is a collective risk management body under the Company's President. The goal, functions, rights, responsibilities, and procedures of the Risk Committee are determined by the Regulations on the Risk Committee. The membership structure of the Risk Committee is approved by the Company's President and includes Vice Presidents in charge of business segments. The Committee's functions include:

- Coordinating the Company's risk management activities
- Appointing owners of the Company's material cross-functional risks

- Developing proposals and recommendations on the implementation of the Risk Management and Internal Control Policy

For more details on risks, see Appendix 2: Risks.



Internal control

In 2018, we developed organizational measures to integrate the standards of the Risk Management and Internal Control Policy of PJSC LUKOIL and the Regulations on Internal Control at PJSC LUKOIL into LUKOIL Group entities' day-to-day operations. The following measures were aimed at optimizing the use of available resources and minimizing avoidable losses through improving the efficiency of internal controls:

- Introduction of the unified mandatory standards of, and requirements to, organization of a reliable and efficient internal control system (ICS) into the operations of PJSC LUKOIL and LUKOIL Group entities
- Assessment of the adequacy and reliability of the internal controls applicable for each material risk
- Analysis of risks identified in the process of achieving operational goals
- Update of the local regulations of PJSC LUKOIL and LUKOIL Group entities to harmonize them with the standards specified in the Regulations on Internal Control
- Implementation of a unified mechanism for planning internal control development and enhancement within LUKOIL Group entities, and monitoring plan execution

A special focus is placed on monitoring the quality of controls applied in LUKOIL Group entities across all management levels. Annual assessment of the ICS is carried out in LUKOIL Group entities, and its results are submitted to the Board of Directors to make decisions aimed at improving the ICS' efficiency.

In 2018, over 2 thousand employees of LUKOIL Group entities familiarized themselves with the methodology, corporate standards of, and requirements to, the internal controls through workshops, including via conference calls and distance learning.

Achievements and effects of the ICS development in 2018:

- Managerial decision-making by functional and line managers based on the requirements to risk identification and development of control procedures aimed at mitigating the respective risk
- Stronger employee competencies in risk management and internal control
- Determination of focus areas for improvement and development of the corporate risk management system based on the criteria for the ICS status assessment

The key 2019 and short-term objectives of the internal control system improvement are as follows:

- Update of the local regulations of PJSC LUKOIL and LUKOIL Group entities to harmonize them with the actual business processes
- Creation of a unified Risk and Control Library for PJSC LUKOIL and LUKOIL Group entities
- Development of a series of documents confirming compliance with the standard control procedures
- Automation of preparing and verifying data for the internal control report as part of tax monitoring
- Automation of documenting control procedures and their results

Internal controls in preparing financial statements

LUKOIL uses different internal controls at each stage of organizing the accounting process and preparing its consolidated financial statements, thereby ensuring the reliability of financial information, both published and used by the Company's management. LUKOIL applies the following key procedures and methods to organize its internal controls.

Distribution of roles and responsibilities.

LUKOIL Group has clear distribution of responsibilities at each stage of preparing its financial statements (both at the standalone subsidiary and consolidated levels). Entities may prepare their RAS statements independently or procure respective services from the Company's Regional Accounting Centers. IFRS statements of the Company's subsidiaries may be prepared independently, by the Accounting Service of PJSC LUKOIL, or by European Settlement Centers. The Company's President and Chief Accountant are responsible for preparing its consolidated financial statements.

Internal audits. In performing audits in accordance with the approved annual activity plan, the Internal Audit Service assesses the effectiveness of internal control over the reliability of accounting (financial) statements and management reporting of LUKOIL Group entities.

The procedures ensuring additional control over the correctness of the Group entities' financial statements include:

- On-site audits
- Providing accounting advisory services to Group entities, solving complex accounting issues
- Organizing auditing and reconciliation procedures, controlling the correctness and reliability of the Group entities' statements
- Follow-up audit of the financial and operating figures on a regular basis

The Group's unified accounting

policy. The Company has in place the unified IFRS accounting policy which is reviewed at least once a year. It is binding on all LUKOIL Group entities that prepare their IFRS statements independently.

The Company's President approves, on an annual basis, the corporate RAS accounting policy and requirements to the accounting policies of the Company's Russian subsidiaries.

Centralized development of RAS and IFRS accounting policies ensures application of unified principles of accounting and reporting for similar transactions and the comparability of results of LUKOIL Group entities.

Centralized decision-making. The Group makes centralized decisions on the following accounting and reporting matters:

- Organizing the activities of subsidiary accounting services (independently or through a dedicated subsidiary)
- Selecting the auditor (for the Company's material subsidiaries)
- Dates of preparation of the Group entities' accounting (financial) statements, end dates of their audit
- RAS and IFRS accounting policies
- Appointment of subsidiaries' chief accountants
- Accounting process automation

Employee training. All employees of the Company's Accounting Service engaged in the preparation of IFRS consolidated financial statements have a degree in accounting or finance and regularly enhance their qualifications. Many of them are certified accountants

(according to Russian and international standards) and are members of professional accountants' associations in Russia, the UK, and the USA. Some employees have academic degrees in accounting and finance.

Audit commission

The Audit Commission of PJSC LUKOIL is a permanent elected body in control of the Company's financial and business operations. Its activities are regulated by the Charter and the Regulations on the Audit Commission of OAO LUKOIL. The Annual General Shareholders Meeting elects the three members of the Audit Commission on an annual basis, for a term of office expiring upon the convocation of the next Annual General Shareholders Meeting.

In 2018, the Audit Commission confirmed the reliability of data in the Company's 2017 accounting (financial) statements and Annual Report, and the data in the Report on PJSC LUKOIL's Interested party Transactions in 2017. The Company had no unscheduled audits. The Audit Commission held four meetings in the reporting year.

In 2018, the Annual General Shareholders Meeting determined the remuneration for newly elected Audit Commission members in the amount of RUB 3.5 million for each member.

Audit Commission membership in 2018

	Position
Pavel Suloev Chairman of the Audit Commission of PJSC LUKOIL	Internal Control and Audit Director of CJSC Management Center Managing Company
Ivan Vrublevsky	Managing Director of LUKOIL Accounting and Finance Europe s.r.o. (Czech Republic)
Alexander Surkov Secretary of the Audit Commission of PJSC LUKOIL	General Director at OOO LUKOIL-Volgograd Regional Accounting Center; since November 2018, Head of the Internal Control Department of PJSC LUKOIL

INTERNAL AUDIT

The purpose of LUKOIL Group's internal audit is to protect the Company's shareholder rights and interests, assist in achieving strategic goals and objectives through applying a holistic consistent approach to assessment and improvement of the corporate governance, risk management, and internal control processes.

The Internal Audit Service of PJSC LUKOIL complies with all applicable International Standards for the Professional Practice of Internal Auditing and the Code of Ethics for internal auditors adopted by the International Institute of Internal Auditors, and is guided by the local regulations on internal audit approved at PJSC LUKOIL.

The Company applies the generally accepted conceptual model of internal audit which complies with the International Standards for the Professional Practice of Internal Auditing and separates internal audit functions from internal controls and risk management. A special mode of functional and administrative reporting and accountability has been established for internal audits to ensure the auditors' unbiased approach and the independence of audit units, thereby providing the Company's governance bodies with reliable and up-to-date information on the effectiveness of its internal control, corporate governance, and risk management systems.

Within LUKOIL Group, internal audit is performed by:

- the Internal Audit Service of PJSC LUKOIL headed by Vice President – Head of the Internal Audit Service (hereinafter, also the "Head of IAS")
- dedicated internal audit units of LUKOIL Group entities (hereinafter, also the "DIAUs").

The Head of IAS directly manages the IAS activities; the DIAUs functionally report to the Head of IAS.

The Head of IAS reports to the Audit Committee of PJSC LUKOIL's Board of Directors (functional reporting) and the Company's President (administrative subordination).

2018 Results

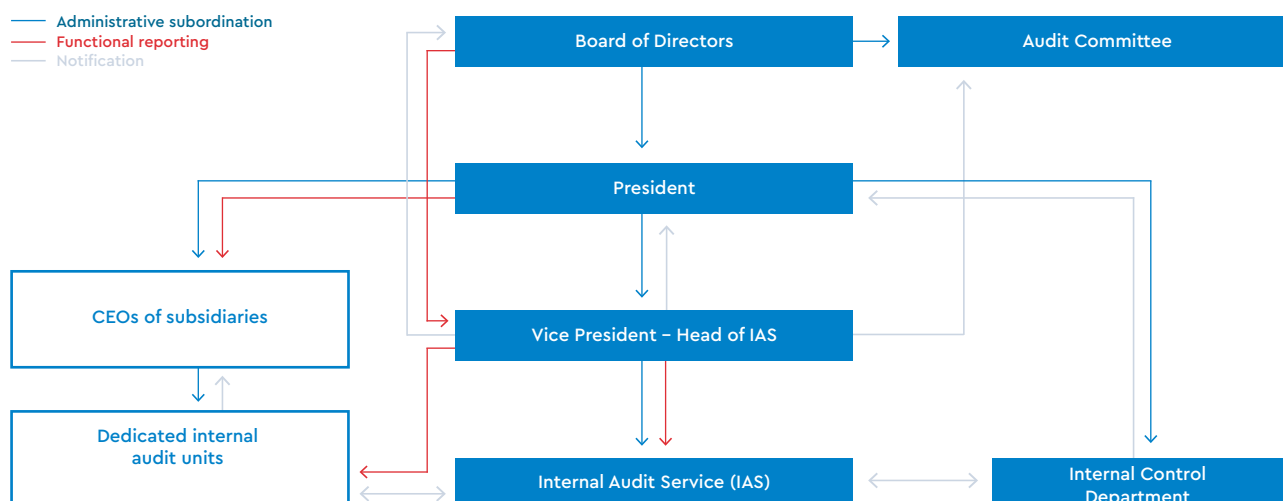
By the end of 2018, DIAUs existed at 18 LUKOIL Group entities (including 12 Russian and 6 international ones), including 9 regional units which additionally provide internal audit services to 16 LUKOIL Group entities.

The actual headcount of internal audit units at the end of 2018 was 218 employees (94 IAS employees and 124 DIAU employees).

In 2018, the Internal Audit Service and dedicated internal audit units at subsidiaries achieved the following key results.

- **Controls & audits at LUKOIL Group entities.** In 2018, the Internal Audit Service conducted 19 audits of which 4 were unscheduled, and the auditors of dedicated internal audit units carried out 137 controls & audits of which one was unscheduled. The audits revealed deviations/gaps in the operations of LUKOIL Group entities, assessed the monitoring environment, identified persons involved in violations, and served as basis for providing audit recommendations to CEOs of relevant Group entities and heads of the Company's business units on eliminating the identified violations/gaps and improving risk management, internal control, and corporate governance processes.
- **Monitoring of initiatives resulting from audits.** Internal audit units (IAS and DIAUs) consistently monitor the development and implementation of initiatives, adopted in line with recommendations of the internal audit, to prevent, eliminate, or remedy violations and gaps in the operations of LUKOIL Group entities.
- **Improvement of the guidelines supporting internal audit across LUKOIL Group.** In 2018, the Group updated its audit reporting

Corporate internal audit system



requirements, as well as document forms specified in the Regulations on Organizing and Conducting Audits at PJSC LUKOIL.

The Internal Audit Service's activities to carry out objective assessment of internal control, risk management, and corporate governance processes included tests of relevant procedures. In addition, the IAS continued to develop and update procedures for audits (controls & audits) applied by internal auditors.

• **As assessment of the internal control, risk management, and corporate governance systems.**

In early 2018, the Internal Audit Service carried out the relevant audit evaluations of 2017 performance; the results were submitted to the Audit Committee of the Company's Board of Directors (Minutes No. 2 dated April 10, 2018) and the Board of Directors of PJSC LUKOIL (Minutes No. 6 dated May 15, 2018).

Following the audit evaluation of risk management, internal control, and corporate governance processes at LUKOIL Group for the year 2018 conducted at the beginning of 2019, it was determined that the Company complied with all applicable corporate governance requirements and

no significant gaps in risk management, internal control, and corporate governance processes were revealed. This proves efficiency of LUKOIL Group's internal control, risk management and corporate governance processes.

Plans to improve internal audit

The key 2019 and mid-term objectives of the Internal Audit Service are as follows:

- Consistently implement the Program to Improve the Quality of Internal Audit at PJSC LUKOIL for 2017–2021
- Implement the approved annual audit and advisory plans
- Perform regular monitoring of LUKOIL Group entities' execution of the resolutions of the Company's governance bodies and internal audit recommendations based on audit results
- Improve the regulatory and procedural framework for internal audits
- Test the approved temporary procedures and controls & audits
- Enhance the performance of dedicated internal audit units at LUKOIL Group entities, including through the advisory assistance and guidelines provided by the Internal Audit Service
- Introduce and further improve automated internal audit

July 2020 will see the coming into effect of mandatory requirements for public joint-stock companies' internal audit procedures set out in paragraph 2, Article 87.1 of the Federal Law On Joint-Stock Companies (the version of Federal Law No. 209-FZ dated July 19, 2018).

Since the Listing Rules of the Moscow Exchange contain mandatory requirements for internal audit units of issuers included in its Level One quotation list, PJSC LUKOIL's Extraordinary General Shareholders Meeting held in December 2015 (Minutes No. 2 dated December 14, 2015) adopted a set of changes (amendments) to PJSC LUKOIL's Charter regarding the Board of Directors' powers to ensure functional management of internal audit.

Relevant requirements were also included in the Regulations on Internal Audit at PJSC LUKOIL approved by resolution of the Company's Board of Directors in January 2016.

Thus, the internal audit requirements for public joint-stock companies stipulated by the Federal Law On Joint-Stock Companies are set out in PJSC LUKOIL's regulations and complied with in practice, which means that our internal audit system meets the regulatory requirements coming into effect on July 1, 2020.

Controls & Audits

Year	Audits by the Internal Audit Service			Audits by Dedicated Internal Audit Units		
	TOTAL	INCLUDING: scheduled	INCLUDING: unscheduled	TOTAL	INCLUDING: scheduled	INCLUDING: unscheduled
2018	19	15	4	137	136	1
2017	18	16	2	164	161	3
2016	18	15	3	183	177	6

processes, including step-by-step implementation of the project to automate internal audit procedures, and improvement of the corporate IT system for automation of risk management, internal control, and internal audit processes

- Carry out independent external assessment of the Company's internal audit in 2019

When preparing for independent external assessment of internal audit in 2018, the Internal Audit Service reviewed proposals submitted by leading audit and consulting firms that had the required expertise and experience in carrying out such assessments at major companies, including oil and gas players.

After reviewing the proposals in accordance with the requirements set out in the Regulations on Assessment of Internal Audit at PJSC LUKOIL, in 2019 the Audit Committee of PJSC LUKOIL's Board of Directors made a decision on the appointment of the external appraiser.

EXTERNAL AUDIT

LUKOIL selects its independent auditor based on proposals made by the Audit Committee of the Board of Directors and approves the auditor at the General Shareholders Meeting on an annual basis, in line with Russian laws.

The auditor's independence is determined by the Federal law 307-FZ "About auditors activities" as of December 30, 2008, Auditors and audit organizations independence rules, Auditors professional ethics code and Professional accountants ethics code of the International Ethics Standards Board for Accountants.

To maintain independence and comply with audit standards, the Company's auditor regularly, at least once in seven years, changes its key audit partner. Rotation of the auditor's partner was last made in 2014. In June 2018, the Annual General Shareholders Meeting approved AO KPMG as the auditor of PJSC LUKOIL.

The fee payable to AO KPMG for auditing the Company's IFRS consolidated financial statements for 2018 was RUB 246,778 thousand

(excluding VAT), for auditing the Company's RAS financial statements for 2018 was RUB 10,286 thousand (excluding VAT).

The share of remuneration unrelated to audits in the total fee payable to the auditor does not exceed 30%.

SUSTAINABILITY MANAGEMENT SYSTEM

The Company's long-term development model aims to meet the energy needs of society in an economically, environmentally, and socially acceptable way. Environmental, industrial, social, and personal safety has always been a top priority for the Company. The Strategic Development Program of LUKOIL Group for 2018–2027 considers sustainability as one of the Company's strategic targets.

The achievement of sustainability objectives is controlled strategically (by the Board of Directors, the Strategy and Investment Committee of the Board of Directors¹, the Management Committee, the Health, Safety, and Environmental Committee of PJSC LUKOIL) and operationally (by heads of functions and business units at the Head Office; executives of LUKOIL Group entities are responsible for application of sustainable development tools at their relevant entities). Sustainable development objectives are included in the employee motivation system and are applicable to employees at all levels across the Head Office of the Company, and to executives and managers at LUKOIL Group entities.

The corporate sustainability management system comprises the following:

Members	Role
Board of Directors	<ul style="list-style-type: none"> Defines general principles and approaches Determines the Company's business priorities Aligns and approves long- and mid-term strategic development plans and programs Monitors the implementation of strategic sustainability objectives, plans, and development programs
Strategy and Investment Committee of the Board of Directors	<ul style="list-style-type: none"> Develops recommendations on setting up strategic goals Develops recommendations on determining business priorities Analyzes the existing corporate development concepts, programs, and plans, as well as the competitive environment Reviews the preparation of LUKOIL Group's Sustainability Report
Audit Committee of the Board of Directors	<ul style="list-style-type: none"> Monitors the reliability and performance of the risk management and internal control system, as well as the corporate governance system Analyzes and assesses compliance with the Risk Management and Internal Control Policy Monitors procedures that ensure legislative compliance Analyzes and assesses compliance with the conflicts of interest management policy
HR and Compensation Committee of the Board of Directors	<ul style="list-style-type: none"> Develops priority areas related to human resources management Monitors the introduction and implementation of the Company's remuneration policy and various motivation programs, including long-term incentive plans for employees of the Company and its subsidiaries Plans staff appointments, provides recommendations on nominees to the positions of the Corporate Secretary, Management Committee members, and the President of the Company.
Management Committee	<ul style="list-style-type: none"> Elaborates and approves the Company's quarterly, annual, and long-term activity plans Develops and approves budgets and investment programs Monitors progress against activity plans Develops and implements the overall strategy of the Company's subsidiaries
Health, Safety, and Environmental Committee of PJSC LUKOIL	<ul style="list-style-type: none"> Develops the HSE Policy, objectives, targets, and key performance indicators of LUKOIL Group entities Analyzes the effect of HSE initiatives Develops proposals to improve the HSE Management System of LUKOIL Group, including the efficient allocation of resources to comply with the HSE requirements Reviews measures for management of material HSE risks and environmental sustainability, including HSE initiatives.

¹ In March 2019, the Committee was renamed the Strategy, Investment and Sustainability Committee (Resolution of the Board of Directors dated March 6, 2019, Minutes No. 4).

BUSINESS ETHICS

PJSC LUKOIL's business ethics is a crucial element of its corporate governance system. Being the cornerstone of its activities, the Company's corporate values help ensure commitment to the highest ethical standards, including strict adherence to human rights, full legislative compliance, and zero tolerance for any form of corruption.

In 2018, having reviewed the international best practices and standards for systematizing business conduct rules, PJSC LUKOIL approved its new Code of Business Conduct and Ethics (Resolution of the Board of Directors dated December 11, 2018, Minutes No. 17), which is a compilation of standards and rules for individual and collective behavior regulating the moral and ethical aspects of the internal relations across teams and describing requirements and expectations for ethical business practices when dealing with external parties. The Code¹ also includes social responsibility provisions formalized by UN and International Labor Organization conventions.

The full text of the Code of Business Conduct and Ethics of PJSC LUKOIL is available on the Company's website.

To regulate corporate ethics and ensure compliance with the Code, the Company has established the Business Ethics Commission.

For contact details to address on business ethics issues, see the Reference Information section on **page 136**.

Preventing conflicts of interest involving Board members

To prevent potential conflicts of interest, the Company introduced certain limitations and requirements to members of the Board of Directors. In particular, in case of a conflict of interest, a member of the Board of Directors shall notify the Board of

Directors of such conflict of interest prior to the discussion of the relevant agenda item and shall abstain from voting on any item in connection with which they have a conflict of interest. In addition, for the avoidance of a conflict of interest, a member of the Board of Directors shall notify the Board of Directors about his/her intention to serve on the governance bodies of other entities (apart from entities controlled by the Company and other entities in which the Company has an equity interest), and of being elected (appointed) to such governance bodies.

The Corporate Secretary monitors the compliance with the procedure for preventing conflicts of interest involving Board members.

For more details on preventing conflicts of interest involving Board members, see the Regulations on the Board of Directors of PJSC LUKOIL on the Company's website.

Preventing abuse and fraud by the Company employees

Pursuant to the Corporate Security Policy of LUKOIL Group, abuse of official position, fraud, and a conflict of interest are recognized as internal threats to the security of the Company and are defined as intentional or unintentional actions by employees causing financial, economic, material, reputational, or other damage to LUKOIL Group entities.

In line with recommendations set out in the Corporate Governance Code, the Company's corporate governance system has been enhanced with a set of preventive and control procedures designed to prevent abuse of official positions, conflict of interest situations, and other violations.

To mitigate reputational risks, the Company implements relevant preventive, organizational, control, and inspection measures, including through interaction with law enforcement agencies.

Upon discovering indications or facts of unlawful behavior, abuse, or conflicts of interest, official investigations and, if necessary, additional measures are carried out to identify the root causes and circumstances of violations committed.

LUKOIL's employees comply with the requirements of internal regulations on corporate security and assist in identifying risks and security threats.

To ensure compliance with the requirements of the Code of Business Conduct and Ethics of PJSC LUKOIL and establish a uniform procedure for preventing conflict of interest situations, as well as eliminate the negative impact of any actual conflict of interest situation on the process and results of the Group's operations, the Management Committee adopted the Regulations on the Actions of LUKOIL Group Entities and Their Employees in Conflict of Interest Situations. Compliance with these Regulations is mandatory for all employees at Group entities.

Employees are required to assess their official activities to identify any conflicts of their private interests with the Group's interests and prevent and avoid such situations. Potential conflicts of interest may be identified through personal relations, affiliation, social communications, property and financial relations. Employees and their managers shall report any existing conflict of interest situation immediately, as soon as they become aware of such conflict of interest. Consideration of a conflict of interest situation is performed subject to the terms of confidentiality and on a case-by-case basis.

¹ Hereinafter, the Code of Business Conduct and Ethics.

The distribution of functions related to organizing preventive measures, identifying and preventing ethical standard violations, corporate fraud and corruption

Members	Functions
Business Ethics Commission	Supervision of corporate ethical business relations and implementation of the standards and rules of the Code of Business Conduct and Ethics of PJSC LUKOIL and the Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations
Internal Audit Service	<p>Audits and advisory services include:</p> <ul style="list-style-type: none"> analysis of the reliability and efficiency of the internal control, corporate governance, and risk management procedures applied in LUKOIL Group entities engagement in the development and control of measures to increase the efficiency of corporate governance, internal control, and risk management identification of the reasons, conditions, and circumstances which led to the violation of internal control, corporate governance, and risk management procedures, with an assessment of the actual and potential damage of such violations
Department for Internal Control	<p>Overall coordination of LUKOIL's efforts to enhance and develop the internal control system (ICS) Development of corporate standards of, and requirements to, the ICS, allowing to:</p> <ul style="list-style-type: none"> prevent (mitigate) opportunities of corporate fraud related to the misrepresentation of financial statements, and illegal use of resources or assets, during risk identification and assessment provide for a separation of functions, authorities, and duties in control procedure development, which should reduce the risk of ill-intentioned avoidance of control procedures by employees in order to engage in corporate fraud or corrupt activities <p>Supervision of corporate standards of, and requirements to, the ICS, through:</p> <ul style="list-style-type: none"> analyzing regular reports from LUKOIL's business units and subsidiaries on the results of internal control monitoring, as well as the reports on identified violations and shortcomings of the internal control and response measures reviewing LUKOIL's draft regulations brought up for approval by its governance bodies
Department for Corporate Security	<p>Coordination of LUKOIL Group's activities to ensure economic and internal security, and implementation of expert analytics and inspection measures at the following stages:</p> <ul style="list-style-type: none"> Bidding and contract signing Reviewing candidates for positions at LUKOIL Rotating and appointing managers

During these activities, we carry out a risk assessment to identify potential conflict of interest situations or abuse by employees. Should a risk be identified, we notify the head of the relevant business unit to review the risk and make a decision on its mitigation.

If a manager comes to the conclusion that a conflict of interest exists or is possible in the future, his or her written report shall contain proposals regarding measures required to prevent the conflict of interest and its negative impact on the operations of a Group entity.

A conflict of interest situation is assessed through industry (line) and functional internal control and through audits carried out by the Internal Audit Service of PJSC LUKOIL. The facts and risks of negative implications of conflicts of interest identified through internal control and internal audit are

duly reported to LUKOIL's President and, if necessary, to the Business Ethics Commission.

LUKOIL's employees undergo regular professional trainings, trainings on ethical standards and anti-corruption conduct. Key executives of LUKOIL

Group entities and employees of corporate security units are examined annually for the knowledge of methods to identify and respond to conflict of interest situations. As part of the induction process, new hires have to read the local anti-corruption regulations.

In their relations with business partners, LUKOIL's employees are required to comply with the Code of Business Conduct and Ethics. When selecting business partners, suppliers, and contractors, LUKOIL verifies their business reputation and encourages their compliance with the ethical standards set out in Code of Business Conduct and Ethics of PJSC LUKOIL.

LUKOIL's business ethics policy applies to its subsidiaries. Requirements of LUKOIL's internal documents to business ethics and anti-corruption procedures translate into internal documents of LUKOIL Group entities.

As a global company, LUKOIL is committed to ethical business practices and compliance with anti-corruption laws applicable in countries of operation of LUKOIL Group entities. The Company has zero tolerance for any form or manifestation of corruption in its operating activities, with the management acting as a role model to employees in combating corruption.

Insider information control

As an issuer whose securities are traded on regulated markets both in Russia and in the UK, PJSC LUKOIL pays special attention to measures aimed at preventing the misuse of insider information.

The Company's relevant activities are regulated by:

- Federal Law No. 224-FZ On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation dated July 27, 2010

ANTI-CORRUPTION MEASURES IN COUNTERPARTY COOPERATION

LUKOIL uses an automated tender procedure management system which ensures corruption risk management reduction through increasing the transparency of tender procedures and limited access to tender documentation.

Pursuant to the Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Entities, potential bidders that directly or indirectly offer, or agree to give any type of remuneration (financial or non-financial) to an employee of the organizer of the tender or a client, or a member of LUKOIL's Tender Committee or Procurement Committee in order to influence the tender procedure, the decision-making, or any other actions in relation to this tender, are screened out of the tendering process.

The assessment of bidders to identify the above-mentioned factors, as well as the presence or absence of a conflict of interest situation, is carried out by LUKOIL's Department for Corporate Security or the corporate security unit of the relevant Group entity.

LUKOIL has in place a set of internal documents regulating its anti-corruption efforts:


- Code of Business Conduct and Ethics of PJSC LUKOIL
- Corporate Security Policy of LUKOIL Group
- Risk Management and Internal Control Policy of PJSC LUKOIL
- LUKOIL Group Antimonopoly Policy
- Regulations on Internal Control at PJSC LUKOIL
- Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations
- Corporate Culture Rules at LUKOIL Group Entities
- Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Entities
- Contracting Rules of Public Joint-Stock Company "Oil company 'LUKOIL'"
- Regulations on Confidentiality at PJSC LUKOIL
- Requirements to Computer and Information Security at LUKOIL Group Entities

- EU Market Abuse Regulation No. 596/2014 adopted by the European Parliament and the EU Council on April 16, 2014
- LUKOIL has in place the Insider Information Regulations of Public Joint-Stock Company "Oil company 'LUKOIL'" and a number of other local regulations, also applicable to LUKOIL Group entities. These documents set out rules for circulating and disclosing insider information, as well as accessing insider information, and establish a procedure for performing transactions with Company securities.

Pursuant to the EU Market Abuse Regulation, a special procedure applies to transactions with Company securities performed by Directors and Management Committee members. Newly elected Directors and Management

Committee members are informed about requirements regarding the procedure and timing for notifying regulatory agencies and the Company about securities transactions applicable to them and to persons closely related to them, as well as about the prohibition on performing transactions with Company securities during close periods. Pursuant to the international best practices, limitations on securities transactions during close periods are also set for insiders who are not members of the Company's governance bodies.

To monitor compliance with the applicable Russian and foreign laws aiming to counteract the misuse of insider information and market manipulation, the Board of Directors considers matters related to compliance with such requirements on an annual basis.



For more details on transactions with PJSC LUKOIL shares by members of the Company's governance bodies in 2018, see Appendix 4: Transactions with PJSC LUKOIL Ordinary Shares by Members of the Board of Directors and Management Committee of PJSC LUKOIL.

INFORMATION SECURITY

PJSC LUKOIL considers its information security role in protecting the Company information, ensuring the accuracy, completeness, and reliability of external data, safeguarding the data provided by government authorities, personal data, and customer and partner data.

Information security relies on:

- Regulations on exercising such information security processes as managing access to information resources, processing information security incidents, managing mobile devices, and arranging for information security trainings
- Requirements to set up software and technical data processing tools to ensure their information security
- Instructions and guidelines for administrators and operators of information security tools
- Instructions and guidelines for users to ensure information security when using computers and office equipment
- Technical regulations and regulations on providing information security services, and service level agreements

Company employees have a personal responsibility for taking security measures and are trained in information security on a regular basis.

In 2019, we plan to continue developing regulations on IT and information security, as well as monitoring compliance with the existing regulations and the requirements of the applicable IT legislation.

SUBSIDIARY MANAGEMENT SYSTEM

Being the corporate center of LUKOIL Group, PJSC LUKOIL coordinates the operations of Group subsidiaries.

The corporate governance model of its subsidiaries is aligned with that of PJSC LUKOIL and includes the general shareholders (members) meetings, the board of directors (supervisory board), and the sole executive body (chief executive officer). The Company's governance bodies at all levels are involved in governing subsidiaries of PJSC LUKOIL within their respective authority.

Strategic subsidiary management

The Board of Directors determines the priority areas of the Group's overall development.

In accordance with the Charter, the scope of authority of the Company's Management Committee covers the development and implementation of the general strategy for the Company's subsidiaries, in particular:

- Organizing the implementation of a uniform operational, technical, financial, pricing, marketing, social, and HR policy
- Preliminary approval of decisions of the Company's subsidiaries regarding stakes in other entities, as well as decisions on subsoil use
- Coordinating the operations of the Company's subsidiaries

The President (or his/her authorized representative) represents the Company at general shareholders (members) meetings of subsidiaries and other entities in which the Company holds an interest, and votes on agenda items.

Therefore, decisions made by the Management Committee in respect of subsidiaries are subsequently implemented in the decisions of the governance bodies of the subsidiaries

in which the President or his/her authorized representative acts as LUKOIL representative.

Improvement of the Group's organization

The Management Committee consistently works to improve the organization of LUKOIL Group in order to ensure optimal conditions for strategic goal achievement. We have the LUKOIL Group Restructuring Commission which annually reports to the Management Committee on restructuring progress within the Group.

The LUKOIL Group Restructuring Commission previews proposed acquisitions of stakes in other entities before escalating them to the Management Committee. The Management Committee makes decisions on the Company acquiring stakes in other entities within the scope of authority determined by the Company's Charter. In addition, the Management Committee approves measures for further restructuring of LUKOIL Group entities and other entities in which they directly hold an interest.

In 2018, we restructured our retail network in Russia through reducing the number of entities from eight to four, and merging and redistributing our distribution assets to increase efficiency and optimize costs. We also reorganized the IT function and established LLC LUKOIL-Technologii (a wholly-owned subsidiary of PJSC LUKOIL). This entity specializes in critical IT services, including services for integrated management systems, information security, and corporate IT infrastructure maintenance. Thereby LUKOIL Group strengthened its skills in critical IT services that drive the Company's competitive edge.

Approval of subsidiaries' material transactions¹

For the purpose of enhancing control over material transactions made by its subsidiaries, the Company employs the Procedure for Approving Material Transactions Performed by Subsidiaries. Such transactions are made by subsidiaries only after their consideration and approval by the Management Committee in accordance with the Procedure. The Procedure does not apply to intra-group transactions.

At the same time, material transactions made as part of investment projects affirmed by the Management Committee of PJSC LUKOIL, are approved according to the procedure established by the Company's local regulations governing the Group's investment activities.

Development of the subsidiary management system

In 2018, to improve LUKOIL's regulations, the Management Committee of PJSC LUKOIL updated the following local regulations enabling the corporate center to exercise efficient control over its subsidiaries:

- Procedure for Decision-Making on Participation in Other Entities
- Regulations on the Procedure for Appointing PJSC LUKOIL Representatives, their Engagement in Governance Bodies of Other Group Entities, and Accountability to the Company

For the Group's organization and a list of its key entities, see the Key Subsidiaries section on **page 134**.



¹ Material transactions of subsidiaries include transactions of the Company's subsidiaries (excluding transactions to which PJSC LUKOIL and/or its subsidiary was the counterparty), where they acquire, or (may) dispose of, directly or indirectly, fixed assets and/or intangible assets with a (book) value exceeding USD 20 million, or 10% of the book value of the subsidiary's fixed assets (if the said value is below USD 20 million); provide loans, credit facilities, guarantees, sureties, and special-purpose financing for amounts exceeding USD 20 million or to receive loans and credit facilities for over USD 20 million, except for short-term (less than one year) loans and credit facilities obtained in the ordinary course of business on an arm's length basis.

SHARE CAPITAL

As at December 31, 2018, PJSC LUKOIL had a charter capital of 750,000,000 ordinary shares with a nominal value of RUB 0.025 each. In 2018, the charter capital was reduced by 100,563,255 ordinary shares.

As at December 31, 2018, DRs were issued to represent 37.5% of the Company ordinary shares.

LUKOIL ranks among the top 10 companies with the highest free float among the issuers listed on the Moscow Exchange.

The list of shareholders of PJSC LUKOIL whose names are on the shareholder register is regularly updated and is available on the Company's website.

For more details on the share capital, see the Company's website.

Share buyback

In September 2018, the Company launched its share buyback program in an aggregate amount of up to USD 3 billion as part of the new policy of returning capital to shareholders.

The program is scheduled to last from September 3, 2018 to December 30, 2022. In 2018, 12.7 million shares and depositary receipts in an aggregate amount of RUB 63 billion were bought back in the open market.

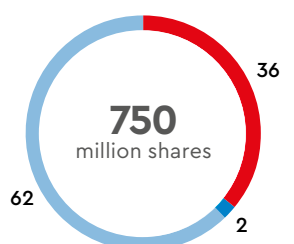
Major institutional investors in shares and DRs as at December 31, 2018

Name	Free float, %
Vanguard Group	4.5
BlackRock	3.4
Schroders	2.5
Dimensional Fund Advisors	1.1
LSV Asset Management	1.0
OppenheimerFunds	0.8
FMR	0.8
Standard Life Aberdeen	0.8
Lazard	0.8
Goldman Sachs	0.8

Source: Bloomberg.

PJSC LUKOIL share capital structure as at December 31, 2018

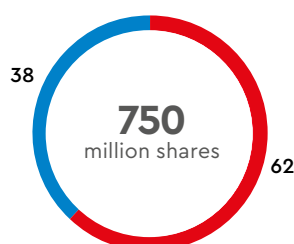
%



■ Management²
 ■ LUKOIL SECURITIES LIMITED³
 ■ Other shareholders⁴

Shares and depositary receipts of PJSC LUKOIL as at December 31, 2018

%



■ Shares
 ■ Depositary receipts

² Percentage of PJSC LUKOIL shares which the members of the Board of Directors or Management Committee own directly and/or indirectly, and/or have a beneficial economic interest in. Except for the persons listed above, management is not aware of any shareholders holding more than 5% in the Company's charter capital on pages 93, 105.

³ LUKOIL SECURITIES LIMITED is a 100% subsidiary of the Company, which carries out shares purchases in the framework of the buyback program.

⁴ Including 5% – CYPROMAN SERVICES LIMITED. Except for the persons listed above, the Company management is not aware of any shareholders (holders of shares) holding more than 5% in the Company's charter capital.

Ordinary shares and depositary receipts tickers of PJSC LUKOIL

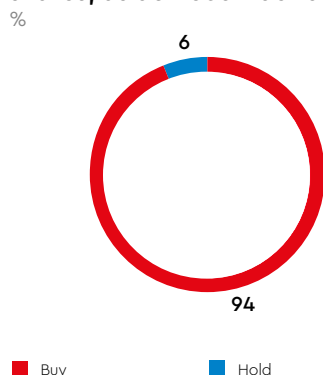
Ticker	Exchange	Type	Listing
LKOH	Moscow Exchange	Ordinary shares	1st level
The ordinary shares are admitted to the Moscow Exchange, included in the Level One quotation list, and are one of the most liquid instruments in the Russian equity market.			
LKOD	London Stock Exchange	Depositary receipts	Standard
The depositary receipts (DRs) of PJSC LUKOIL are listed on the London Stock Exchange where the largest part of Company securities is traded. One DR issued for PJSC LUKOIL shares equals one ordinary share issued by PJSC LUKOIL. Company depositary receipts are one of the most liquid Eastern European stocks.			
LUK	Frankfurt Stock Exchange	Depositary receipts	
LUKOY	US OTC market		

On top of that, PJSC LUKOIL depositary receipts are traded on the Munich and Stuttgart Stock Exchanges.

Indices which include PJSC LUKOIL shares

Index	The Company's weight as at December 31, 2018, %
FTSE Russia IOB	23.8
MOEX Russia Index	15.5
MSCI Russia	19.6
MSCI Emerging Markets Eastern Europe	13.3
MSCI Emerging Markets EMEA	5.0

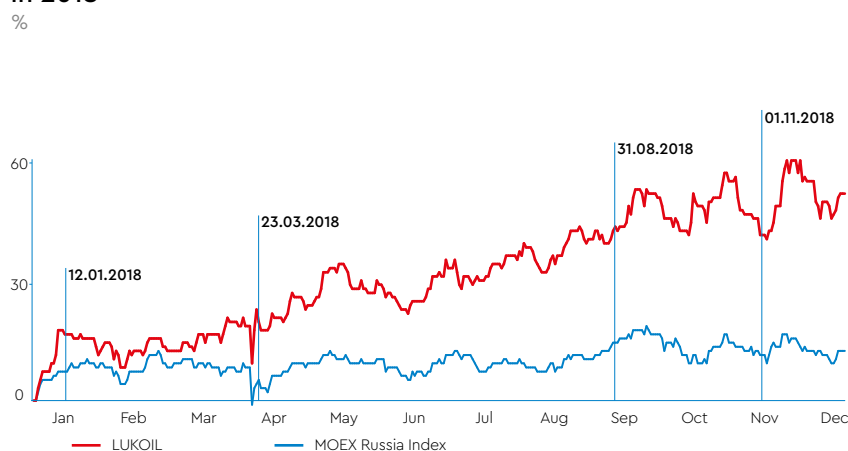
Recommendations of analysts of investment banks and financial companies for LUKOIL shares, as at December 31, 2018



Including: Bank of America Merrill Lynch, Citigroup, Goldman Sachs, HSBC, JP Morgan, Morgan Stanley, Raiffeisen Bank, Renaissance Capital, UBS, WOOD & Company, ATON, BCS, Gazprombank, VTB Capital, Sovia Capital, Sberbank CIB, Veles Capital, Uralsib.

The list of analysts covering Company securities is available on the Company's website.

PJSC LUKOIL share price performance in 2018



- **January 12, 2018:** announcement of the plans to cancel most of quasi-treasury shares and launch a share buyback program
- **March 23, 2018:** presentation of PJSC LUKOIL's long-term development strategy at the Investor Day in London
- **August 31, 2018:** announcement of the buyback program launch
- **November 1, 2018:** cancellation of 100,563,255 ordinary shares

Stock price performance. In 2018, the majority of country indices comprising key developed and emerging economies went down. At the same time, the Russian market was ahead of most of emerging markets in stock price performance. In 2018, the US dollar-denominated RTS Index was down by 7%, whereas the Russian ruble-denominated MOEX Russia Index was up by 12%. LUKOIL shares were up on the

Moscow Exchange by 50% year-on-year to RUB 4,997 per share, ahead of the MOEX Oil & Gas Index which was up by 36%. PJSC LUKOIL depositary receipts on the London Stock Exchange went up by 25% to \$71.5 per DR. Throughout the year, ruble-denominated price of Company shares reached historical peaks several times while US dollar-denominated price hit its highest peak since mid-2008. At the end of 2018,

almost all analysts of investment banks and financial companies recommended to buy LUKOIL shares.

Bonds. The Company pursues a flexible debt portfolio management policy and borrows in the Russian and international capital markets.

All three leading international rating agencies have assigned investment-grade ratings to LUKOIL:

	Rating	Outlook	Review date
Fitch	BBB+	Stable	November 2, 2017
Standard & Poors	BBB	Stable	September 19, 2017
Moody's	Baa2	Stable	February 12, 2019

Outstanding Eurobonds as at December 31, 2018

Placement/maturity date	Years to maturity	Coupon, % per annum	Coupon payment frequency	Issue size, US dollars	ISIN: Regulation S/ Rule 144A
November 2, 2016 November 2, 2026	10	4.750	semiannual	1,000,000,000	XS1514045886/ US549876AL44
April 24, 2013 April 24, 2023	10	4.563	semiannual	1,500,000,000	XS0919504562/ US549876AH32
November 9, 2010 November 9, 2020	10	6.125	semiannual	1,000,000,000	XS0554659671/ US549876AE01
November 5, 2009 November 5, 2019	10	7.250	semiannual	600,000,000	XS0461926569/ US549876AD28
June 7, 2007 June 7, 2022	15	6.656	semiannual	500,000,000	XS0304274599/ US549876AA88

The bonds were issued by LUKOIL International Finance B.V., a wholly-owned subsidiary of PJSC LUKOIL registered in the Netherlands.

DIVIDENDS

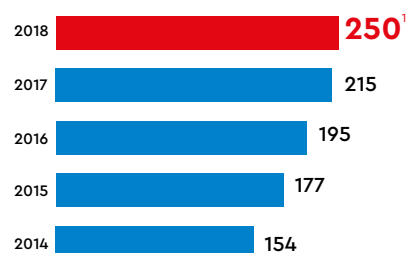
LUKOIL's Dividend Policy is based on balancing the interests of the Company and its shareholders. Key principles underlying PJSC LUKOIL's Dividend Policy are as follows:

- Priority of dividends in profit distributions
- Commitment to provide the dividend payout ratio of not less than 25% of the consolidated IFRS profit which can be adjusted for non-recurring losses and gains
- Intention to provide the annual growth of the ruble-denominated dividend per share at least in line with the ruble inflation in the reporting year

In early 2019, the Board of Directors amended the Regulations on the Dividend Policy of PJSC LUKOIL to consider the effect

Dividend per share

RUB



¹ Total dividend amount recommended by the Board of Directors for the 2018 results.

of share buyback when determining the amount of dividends. A new principle was added stipulating that the Company intends to provide the annual growth of

the total amount of dividends calculated to be paid on the Company's outstanding shares less the shares held by LUKOIL Group entities at a rate not lower than the ruble inflation in the reporting period.

To maintain steady dividend payouts, the Company strives to pay out dividends to its shareholders at least twice a year.

Based on 2018 full-year results, the Board of Directors recommended to the General Shareholders Meeting to increase the dividend per share by 16% to RUB 250 (taking into account the interim dividend).

For more details, see the Share Capital, Share Prices, and Dividends section of the Analyst Databook.



The report on dividends accrued and paid

Period	2016			2017			2018		
	9M 2016	FY2016	TOTAL	9M 2017	FY2017	TOTAL:	9M 2018	FY2018	TOTAL
Accrued dividend per share, RUB	75	120	195	85	130	215	95	155 ⁴	250 [*]
Accrued dividend, RUB million	63,792	102,068	165,860	72,298	110,573	182,871	71,250		
The issuer's governance body deciding on dividend payouts	Extraordinary General Shareholders Meeting	Annual General Shareholders Meeting		Extraordinary General Shareholders Meeting	Annual General Shareholders Meeting		Extraordinary General Shareholders Meeting		
Date of the meeting of the issuer's governance body deciding on the dividend payout	December 5, 2016 Minutes No. 2 dated December 7, 2016	June 21, 2017 Minutes No. 1 dated June 23, 2017		December 4, 2017 Minutes No. 2 dated December 6, 2017	June 21, 2018 Minutes No. 1 dated June 25, 2018		December 3, 2018 Minutes No. 3 dated December 5, 2018		
Declared dividend payout period	up to January 12, 2017 / up to February 2, 2017 ²	up to July 21, 2017 / up to August 11, 2017 ²		up to January 12, 2018 / up to February 2, 2018 ²	up to July 23, 2018 / up to August 13, 2018 ²		up to January 11, 2019 / up to February 1, 2019 ²		
Ratio of unpaid to accrued dividends, % ³	0.039473	0.041327	0.040614	0.060271	0.046467	0.051925	0.060167		

² Nominee shareholders and trustees (professional security traders) whose names are on the shareholder register of PJSC LUKOIL / other shareholders whose names are on the shareholder register of PJSC LUKOIL.

³ No dividend payouts were made to the shareholders who had failed to provide their payout details as per Article 42 of Federal Law No. 208-FZ On Joint-Stock Companies dated December 26, 1995.

⁴ Dividend amount recommended by the Board of Directors for the 2018.

Total accrued dividends are calculated through multiplication of the total number of PJSC LUKOIL shares by the amount of dividends per share.

INFORMATION OPENNESS AND TRANSPARENCY

As an issuer of publicly traded securities, PJSC LUKOIL makes regular mandatory disclosures, providing equal access to all stakeholders in accordance with Russian laws and the requirements of the Moscow Exchange and the London Stock Exchange. The Company effects regular and timely publications of press releases and disclosures of material facts on major developments within the Group.

The Company strives to continuously increase its informational openness and transparency through publishing a wide range of information products beyond applicable statutory requirements. For example, in addition to the mandatory annual publication of its Annual Report, the Company publishes the Analyst Databook containing detailed digital data on its

operational and financial performance. On a quarterly basis, in addition to statutory financial statements prepared under Russian and international standards, the Company publishes financial presentations and aggregated financial and operational performance results in Excel format.

To enhance its openness, the Company presents its financial statements during quarterly conference calls, conducts other presentations, organizes site visits, senior management speeches at conferences, face-to-face meetings, and communications with stakeholders. The Company regularly responds to inquiries made by stakeholders, including the media, institutional investors, environmental organizations, and shareholders.

EXPERT ASSESSMENT

PJSC LUKOIL was among the winners of the Annual Report Competition hosted by the Moscow Exchange and RCB Media Group.

The Company's 2017 Annual Report was named the winner in the most prestigious category, Best Annual Report of a Company with a Market Capitalization of More Than RUB 200 Billion.

LUKOIL Group's 2017 Sustainability Report was awarded as the Best Report on Corporate Social Responsibility and Sustainable Development in a special category established by the Russian Union of Industrialists and Entrepreneurs.

Additionally, the Company's 2017 Annual Report was ranked among the best annual reports by ReportWatch and won the Design and Printing category of Expert RA's Best Annual Reports contest.

PJSC LUKOIL also won a diploma for the Best Non-Financial Report of an Oil&Gas Company with Over 100,000 Employees in a competition held by the Russian Ministry of Energy to award the most socially responsible company in the oil and gas industry in 2018.

2019 financial calendar

Strategy Day	
Presentation of 2018 results	March 5, 2019
Financial results announcement:	
FY2018	March 4, 2019
Q1 2019	May 29, 2019
Q2 2019	August 2019
Q3 2019	November 2019
2018 dividends	
Recommendation by the Board of Directors	April 25, 2019
Dividend record date	July 9, 2019
9M 2019 interim dividends	
Recommendation by the Board of Directors	October 2019
Dividend record date	December 2019
General Shareholders Meeting	
Annual General Shareholders Meeting	June 20, 2019
Extraordinary General Shareholders Meeting	December 2019
Annual publications	
Annual report	May 17, 2019
Analyst Databook	May 17, 2019

KEY SUBSIDIARIES AND OTHER ENTITIES WITHIN THE GROUP

EXPLORATION AND PRODUCTION

Russia

West Siberia

- LLC LUKOIL-West Siberia
- LLC RITEK:
TPE RITEK-Beloyarskneft
- LLC LUKOIL-AIK
- LLC TURSUNT
- LLC ChumpassNefteDobycha

Timan-Pechora

- LLC LUKOIL-Komi
- LLC Bashneft-Polyus (25.1%)

Urals

- LLC LUKOIL-PERM
- LLC UralOil
- LLC PermTOTIneft (50%)

Volga

- LLC LUKOIL-Nizhnevolzhskneft
- LLC RITEK:
TPE Volgogradneftegaz,
TPE RITEK-Samara-Nafta
- LLC JV Wolgodeminoil (50%)

Other

- LLC LUKOIL-KMN
- LLC RITEK:
TPE TatRITEKneft
- LLC Oil Company Priazovneft (49%)

Kazakhstan

- LUKOIL Overseas Karachaganak B.V.
- LUKARCO B.V.
- JSC TURGAI PETROLEUM (50%)
- LUKOIL Overseas Kumkol B.V.
- LLP LUKOIL Kazakhstan Upstream
- LUKOIL Kazakhstan Limited

Uzbekistan

- LUKOIL Overseas Uzbekistan Ltd.
- LLC LUKOIL Uzbekistan Operating Company

Iraq

- LUKOIL Overseas Iraq Exploration B.V.
- LUKOIL MID-EAST LIMITED

Egypt

- LUKOIL OVERSEAS EGYPT LIMITED

Azerbaijan

- LUKOIL Overseas Shah Deniz Ltd.

Norway

- LUKOIL Overseas North Shelf AS

Nigeria

- LUKOIL Overseas Nigeria Limited
- LUKOIL UPSTREAM PRODUCTION NIGERIA LTD

Romania

- LUKOIL Overseas Atash B.V.

Ghana

- LUKOIL OVERSEAS GHANA TANO LIMITED

Cameroon

- LUKOIL Overseas Etinde Cameroon Sarl

Mexico

- LUKOIL UPSTREAM MEXICO,
S. de R.L. de C.V.

REFINING, MARKETING, AND DISTRIBUTION

OIL AND GAS PROCESSING

Russia

- LLC LUKOIL-Volgogradneftepererabotka (Volgograd Refinery)
- LLC LUKOIL-Nizhegorodnefteorgsintez (Nizhny Novgorod Refinery)
- LLC LUKOIL-Permnefteorgsintez (Perm Refinery)
- LLC LUKOIL-UNP (Ukhta Refinery)
- LLC LUKOIL-KGPZ (Korobkovsky GPP)

Italy

- ISAB S.r.l. (ISAB Refinery)

Bulgaria

- LUKOIL Neftohim Burgas AD (99.85%) (Burgas Refinery)

Netherlands

- Zeeland Refinery N.V. (45%) (Zeeland Refinery)

Romania

- PETROTEL-LUKOIL S.A. (99.72%) (Ploiești Refinery)

PETROCHEMICALS

Russia

- LLC Saratovorgsintez (Saratovorgsintez)
- LLC Stavrolen (Stavrolen)

BUNKERING

Russia

- LLC LUKOIL-BUNKER
- OOO LUKOIL MarinBunker

Bulgaria

- LUKOIL-Bulgaria Bunker EOOD

AIRCRAFT REFUELING

Russia

- LLC LUKOIL-AERO
- LLC LUKOIL-Varandey-AVIA

Bulgaria

- LUKOIL Aviation Bulgaria EOOD

LUBRICANTS

Russia

- LLC LLK-International
- LLC INTESMO (75%)
- LUKOIL LUBRICANTS EAST EUROPE S.R.L.
- LUKOIL Lubricants Europe GmbH

Turkey

- LUKOIL Lubricants Middle East Madeni Yag Sanayi ve Ticaret Limited Sirketi

Austria

- LUKOIL Lubricants Europe GmbH

Romania

- LUKOIL LUBRICANTS EAST EUROPE S.R.L.

Belarus

- SOOO LLK-NAFTAN

POWER GENERATION

Russia

- LLC LUKOIL-Astrakhanenergo (L-Astrakhanenergo, LUKOIL-Astrakhanenergo)
- LLC LUKOIL-Volgogradenergo (L-Volgogradenergo, LUKOIL-Volgogradenergo)
- LLC LUKOIL-Kubanenergo (L-Kubanenergo, LUKOIL-Kubanenergo)
- LLC LUKOIL-Rostovenergo (L-Rostovenergo, LUKOIL-Rostovenergo)
- LLC LUKOIL-Stavropolenergo (L-Stavropolenergo, LUKOIL-Stavropolenergo)
- LLC LUKOIL-Ecoenergo (LUKOIL-Ecoenergo)
- OOO Volgodonskaya Teplovaya Generatsia
- LLC Kamyshin CHPP
- LLC Astrakhan Heat Supply Networks
- LLC Volgodonsk Heat Supply Networks
- LLC Volzhsk Heat Supply Networks
- LLC Rostov Heat Supply Networks
- OJSC KTE
- LLC LUKOIL-ENERGOSETI
- OOO Teplovaya Generatsia G. Volzhskogo
- LLC LUKOIL-TsUR
- LLC LUKOIL-ENERGOSERVIS
- LLC LUKOIL-Energopengineering

Romania

- LAND POWER S.A.
- S.C. LUKOIL ENERGY & GAS ROMANIA S.R.L. (Energy and Gas Romania)

Full list of subsidiaries and other entities within the Group is available on the Company's web site.



LUKOIL Group entities and their names used in the report

TRANSPORTATION**Russia**

- LLC LUKOIL-Trans
- LLC Varandey Terminal
(Varandey terminal)
- LLC LUKOIL-KNT
- LLC RPK-Vysotsk LUKOIL-II
(Terminal in Vysotsk)
- JSC LUKOIL-Chernomorye

Latvia

- VARS

DISTRIBUTION**Russia**

- LLC LUKOIL-Severo-Zapadnefteprodukt
- LLC LUKOIL-Uralnefteprodukt
- LLC LUKOIL-Tsentrnefteprodukt
- LLC LUKOIL-Yugnefteprodukt
- OOO LICARD
- OOO LUKOIL-Reservnefteprodukt

Azerbaijan

- CJSC LUKOIL-Azerbaijan

Belarus

- IOOO LUKOIL-Belarus

Belgium, Luxembourg

- LUKOIL Belgium N.V.

Bulgaria

- LUKOIL BULGARIA EOOD

Georgia

- LLC LUKOIL-GEORGIA

Italy

- LUKOIL Italia S.r.l.

Macedonia

- LUKOIL MAKEDONIJA DOOEL Skopje

Moldova

- LUKOIL-Moldova S.R.L.

Netherlands

- LUKOIL Netherlands B.V.

Romania

- LUKOIL ROMANIA S.R.L.

Serbia

- LUKOIL SRBIJA AD Beograd (99.42%)

USA

- LUKOIL NORTH AMERICA LLC

Turkey

- LUKOIL Eurasia Petrol Anonim Sirketi

Finland

- Oy Teboil Ab

Croatia

- LUKOIL Croatia Ltd.

Montenegro

- LUKOIL MONTENEGRO DOO, Podgorica

TRADING**Switzerland**

- LITASCO S.A.
(LITASCO)

REFERENCE INFORMATION

About the Company

Public Joint Stock Company "Oil company "LUKOIL" (hereinafter, referred to as the "Company") was established in accordance with Decree No. 1403 of the President of the Russian Federation On Specific Features of the Privatization and Transformation into Joint-Stock Companies of State Enterprises and Industrial and Research-Industrial Associations in the Oil and Oil-Refining Industries and Oil Product Supply, dated November 17, 1992 and Directive No. 299 of the Council of Ministers – Government of the Russian Federation On the Establishment of Open Joint Stock Company "Oil company "LUKOIL," dated April 5, 1993, for the purpose of industrial, economic, financial, and investment activity.

PJSC LUKOIL is the corporate center of LUKOIL Group (hereinafter, also the "Group") which coordinates the operations of the Group entities. It focuses on coordination and management of subsidiaries in terms of organizational set-up, investments and financial operations.

Legal address and head office

11, Sretensky Boulevard,
Moscow, 101000, Russia

Website:

www.lukoil.ru (Russian)
www.lukoil.com (English)

Central Information Service

Tel.: +7 495 627 4444
+7 495 628 9841
Fax: +7 495 625 7016

Shareholder Relations

Tel.: +7 800 200 9402
Fax: +7 495 627 4564
Email: shareholder@lukoil.com
Shareholder's Personal Account: <https://lk.reggarant.ru/lkaluk/Account/Login>

Investor Relations

Tel.: +7 495 627 1696
Email: ir@lukoil.com

Press Service

Tel.: +7 495 627 1677
Email: media@lukoil.com

Filling Stations Hotline

Tel.: +7 800 100 0911
Email: hotline@lukoil.com

Business Ethics Commission

Tel.: +7 495 627 8259
Email: ethics@lukoil.com

Lukoil Stock Consulting Center

PJSC LUKOIL
11, Sretensky Boulevard,
Moscow, 101000, Russia
Tel.: +7 495 780 1943
+7 800 200 9402
Email: fkc@lukoil.com

Registrar Company

LLC Registrator "Garant"
6, Krasnopresnenskaya Embankment,
Moscow, 123100, Russia
Tel.: +7 495 221 3112
+7 800 500 2947
Fax: +7 495 646 9236
Email: mail@reggarant.ru

Depository

Citibank, N.A.
Russian office: 6, Gasheka Street,
Moscow, 125047, Russia
UK office: GB E14 5LB, London,
25 Canada Square
US offices: 10013, New York, NY,
388 Greenwich Street; NJ 07310, Jersey
City, NJ, 480 Washington Boulevard,
30th Floor
Tel: +7 495 642 7644
Email: michael.klochkov@citi.com
drdividends@citi.com

Auditor

AO KPMG (Joint-Stock Company KPMG)
18/1, Olimpiyskiy Avenue, office 3035,
Moscow, 129110, Russia
Tel: +7 495 937 4477
Fax: +7 495 937 4499
Email: moscow@kpmg.ru

Self-Regulatory Organization of Auditors

Russian Union of Auditors (Association)
8, Petrovskiy Side Street, Building 2,
Moscow, 107031, Russia
Tel.: +7 495 694 0156
Fax: +7 495 694 0108

Business proposals

Postal address: 11, Sretensky Boulevard,
Moscow, 101000, Russia
Fax.: +7 495 625 7016
+7 495 627 4999

Business proposals are to be made in writing on the official letterhead and sent by mail or fax. Business proposals submitted by email will not be considered.

About the Report

PJSC LUKOIL Annual Report presents key information on LUKOIL Group's overall performance in 2018 by business line, as well as corporate governance and corporate responsibility. The report complies with the requirements of the Russian securities market regulations, recommendations of the Corporate Governance Code, Disclosure and Transparency Rules of the UK Financial Conduct Authority and based on the Group's consolidated financial statements under IFRS.

The Company's other reports

- Analyst Databook (operational and financial statistics, Excel version)
- LUKOIL Group Sustainability Report (information on the Company's environmental efforts, industrial safety and social responsibility)

Reports are available on the Company's website.



Feedback

You are welcome to send any comments and/or suggestions as regards the Group's reports to our IR email ir@lukoil.com. Feedback from the shareholders and other stakeholders helps us improve information transparency and enhance the reporting quality.

Forward-looking statements

- Some of the statements made in this report are not statements of fact, but rather represent forward-looking statements. These statements include, specifically:
 - plans and forecasts relating to income, profits (losses), earnings (losses) per share, dividends, capital structure, other financial indicators and ratios
 - the plans, goals and objectives of PJSC LUKOIL, including those related to products and services
 - future economic indicators
 - the prerequisites on which the statements are based.
- Words such as "believes," "expects," "assumes," "plans," "intends," "anticipates" and others are used in those cases when we are talking about forward-looking statements. However, the proposed options for solving the problems included in the statements are neither singular nor exclusive.
- Forward-looking statements inherently imply certain unavoidable risks and ambiguous issues, both general and specific. There is a risk that the plans, expectations, forecasts, and some of the forward-looking statements will not be realized. Due to a number of different factors, the actual results may differ materially from the plans, goals, expectations, assessments and intentions expressed in such statements.

Conversion factors

Percentage changes in operating results for 2018 presented in million tonnes are based on respective figures in thousand tonnes.

Oil resources and production include oil, gas condensate and natural gas liquids.

The average RUB/USD exchange rate for 2018 (RUB 62.7 per USD) is used for converting figures in rubles into US dollars, unless otherwise indicated.

1 boe = 6 thousand cubic feet of gas.

The segment split used in the Report is in line with the information in the Group's IFRS consolidated financial statements.

Largest international oil companies include Royal Dutch Shell, Total, Chevron, ExxonMobil.

Production metrics for joint projects in Russia, as well as for international projects, are included in total production of LUKOIL Group in proportion to the Company's share.

Due to rounding, some totals may not correspond with the sum of the separate figures.

TERMS, ACRONYMS AND ABBREVIATIONS

AC – Audit Committee
AI – Russian gasoline grades indicating the research octane number (RON)
AO (JSC) – joint-stock company
APG – associated petroleum gas
Asia Pacific – the Asia Pacific region
bcm – billion cubic meters
BoD – Board of Directors
boe – barrel of oil equivalent
CCGT – combined-cycle gas turbine
CDP – Carbon Disclosure Project
CDU TEK – Central Dispatching Unit of the Fuel and Energy Complex of Russia
CHPP – combined heat and power plant
CIS – Commonwealth of Independent States
CO₂ – carbon dioxide
CPC – Caspian Pipeline Consortium
DIAU – dedicated internal audit unit
DR – depositary receipt

E&P – exploration and production
EBITDA – earnings before interest, taxation, depreciation and amortization
EOR – enhanced oil recovery
EPC – engineering, procurement, and construction
EPT – excess profit tax
ERM – enterprise risk management
ESPO – East Siberia – Pacific Ocean pipeline
EU – European Union
FER – fuel and energy
FX – foreign exchange rate
Gcal – gigacalorie
GHG – greenhouse gas
GPC – gas processing complex
GPP – gas processing plant
GR – government relations
GSM – General Shareholders Meeting
GTPP – gas turbine power plant

GW – gigawatt
HDPE – high-density polyethylene
HPP – hydroelectric power plant
HR – human resources
HRCC – HR and Compensation Committee
HSE – health, safety, and environment
HSE – health, safety, and environment
IAS – Internal Audit Service
IATF – International Automotive Task Force
IFRS – International Financial Reporting Standards
IMO – International Maritime Organization
IMS – Integrated Management System
IR – investor relations
ISO – International Organization for Standardization
IT – information technology
JV – joint venture

km – kilometer

KPI – key performance indicator

kWh – kilowatt-hour

MARPOL – International Convention
for the Prevention of
Pollution from Ships

mcm – thousand cubic meters

MET – mineral extraction tax

MOEX – Moscow Exchange

MW – megawatt

MZHF – multi-zone hydraulic fracturing

OAQ (OJSC) – open joint-stock
company

OECD – Organization for Economic Co-
operation and Development

OEM – original equipment manufacturer

OHSAS – Occupational Health and
Safety Assessment Series

OOO (LLC) – limited liability company

OPEC – Organization of Petroleum
Exporting Countries

PAQ (PJSC) – public joint-stock
company

PLMA – Plans to Localize and Mitigate
the Consequences of Accidents
at Hazardous Production
Facilities

PMSM – permanent magnet motor

PR – public relations

PSA – production sharing agreement

R&D – research and development

RAS – Russian Accounting Standards

RITEK – Russian Innovation Fuel and
Energy Company

RMICS – Risk Management and Internal
Control System

RPA – robotic process automation

RSPP – Russian Union of Industrialists
and Entrepreneurs

RTS – Russia Trading System (Index)

RUB – Russian ruble

SAGD – steam-assisted gravity drainage

SDW – small-diameter well

SEC – Securities and Exchange
Commission

SIC – Strategy and Investment
Committee

SPCC – Spill Prevention, Control, and
Countermeasure Plan

TAML – Technology Advancement
for Multi-Laterals

UN – United Nations

USA – United States of America

USD (\$) – US dollar

VDA – German Association of the
Automotive Industry

The Annual Report of PJSC LUKOIL is preliminarily approved by the Board of Directors of PJSC LUKOIL (Minutes No. 9 dated May 16, 2019). The Audit Commission of PJSC LUKOIL has confirmed the reliability of data contained in this Annual Report.



Vagit Alekperov

President, Chairman of the
Management Committee of PJSC LUKOIL