LUKOIL

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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ABOUT THE COMPANY

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CORPORATE RESPONSIBILITY

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.

For more details on LUKOIL, see the Reference Information section **on page 136**

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 2018[1]

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.

[1] Excluding 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

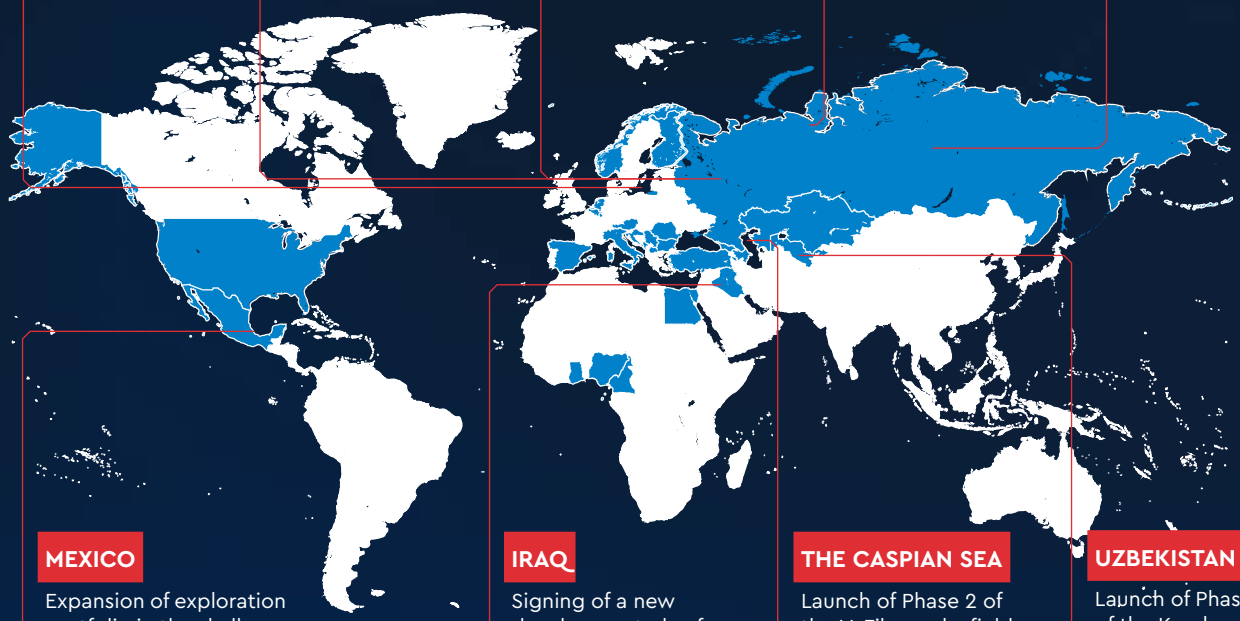
THE BALTIC SEA
Drilling of the first well at the D41 field.

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.

EXPLORATION AND PRODUCTION

15.9
billion boe
proved hydrocarbon reserves as at December 31, 2018

2.3 KPI
million boe per day
hydrocarbon production in 2018

REFINING MARKETING AND DISTRIBUTION

1.4
million barrels per day
refinery throughput in 2018

15.1
million tonnes
retail sales of petroleum products in 2018

FINANCE

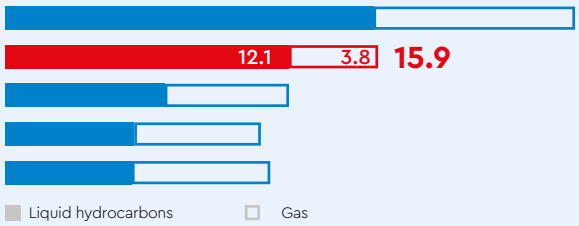
1,115 KPI
RUB billion
EBITDA in 2018

250 KPI
RUB
dividend per share in 2018[1]

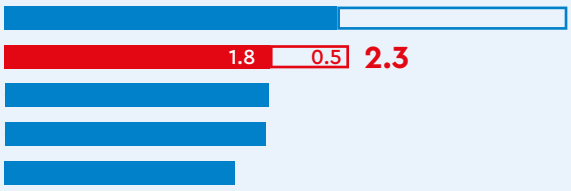
KPI Key performance indicators of the Group, which define the level of achievement of strategic targets. For more details on KPIs, see **page 36**.

STRONG COMPETITIVE ADVANTAGES

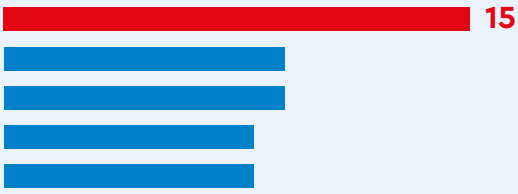
Proved hydrocarbon reserves as at December 31, 2018
billion boe



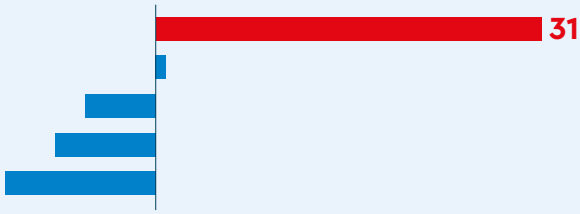
Hydrocarbon production in 2018
million boe per day



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

+4 p.p.

15%

ROACE in 2018

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 Yury 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

+125%

555

RUB billion

Free cash flow in 2018

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%.

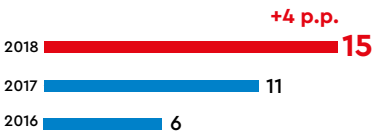
RESPONSIBLE BUSINESS CONDUCT and commitment to sustainable development principles are important priorities in our business activity. We aim at minimizing the environmental impact of our production activities and in the reporting year we were able to improve our performance against all key environmental 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.

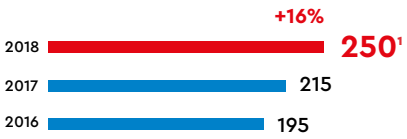
ROACE

%



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 duties[1]

SHAREHOLDERS

5.7%

dividend yield[2]

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.

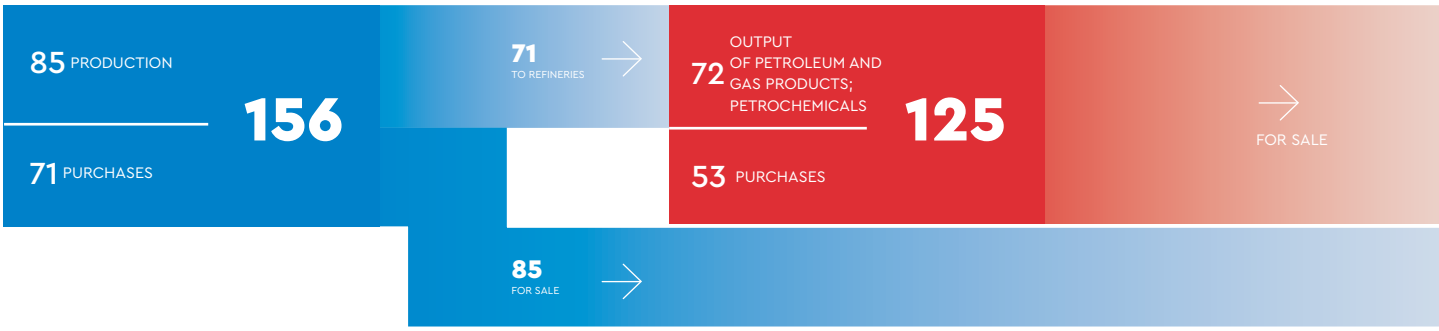
15.9 billion boe
proved reserves as at December 31, 2018

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.

MARKETING AND DISTRIBUTION

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.

5.2 thousand — filling stations as at December 31, 2018

3.2 million tonnes — jet fuel sales

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

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

POWER GENERATION

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

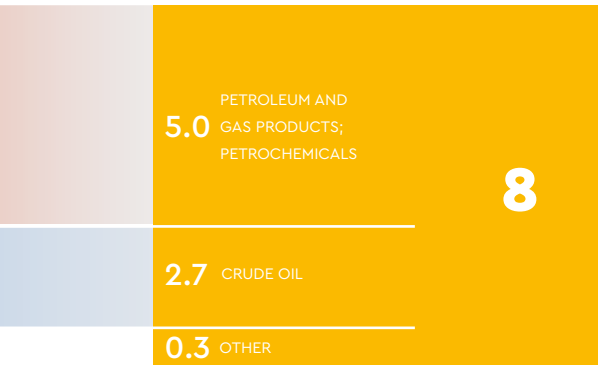
Electric power and heat energy generated from sunlight, wind, and water.

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

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

REVENUE

RUB trillion



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.

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.

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

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

EXPLORATION AND PRODUCTION STRATEGY

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

REFINING, MARKETING, AND DISTRIBUTION STRATEGY

FUNDAMENTAL FACTORS

- New global limits on the sulfur content in bunker fuels (MARPOL[1])
- 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

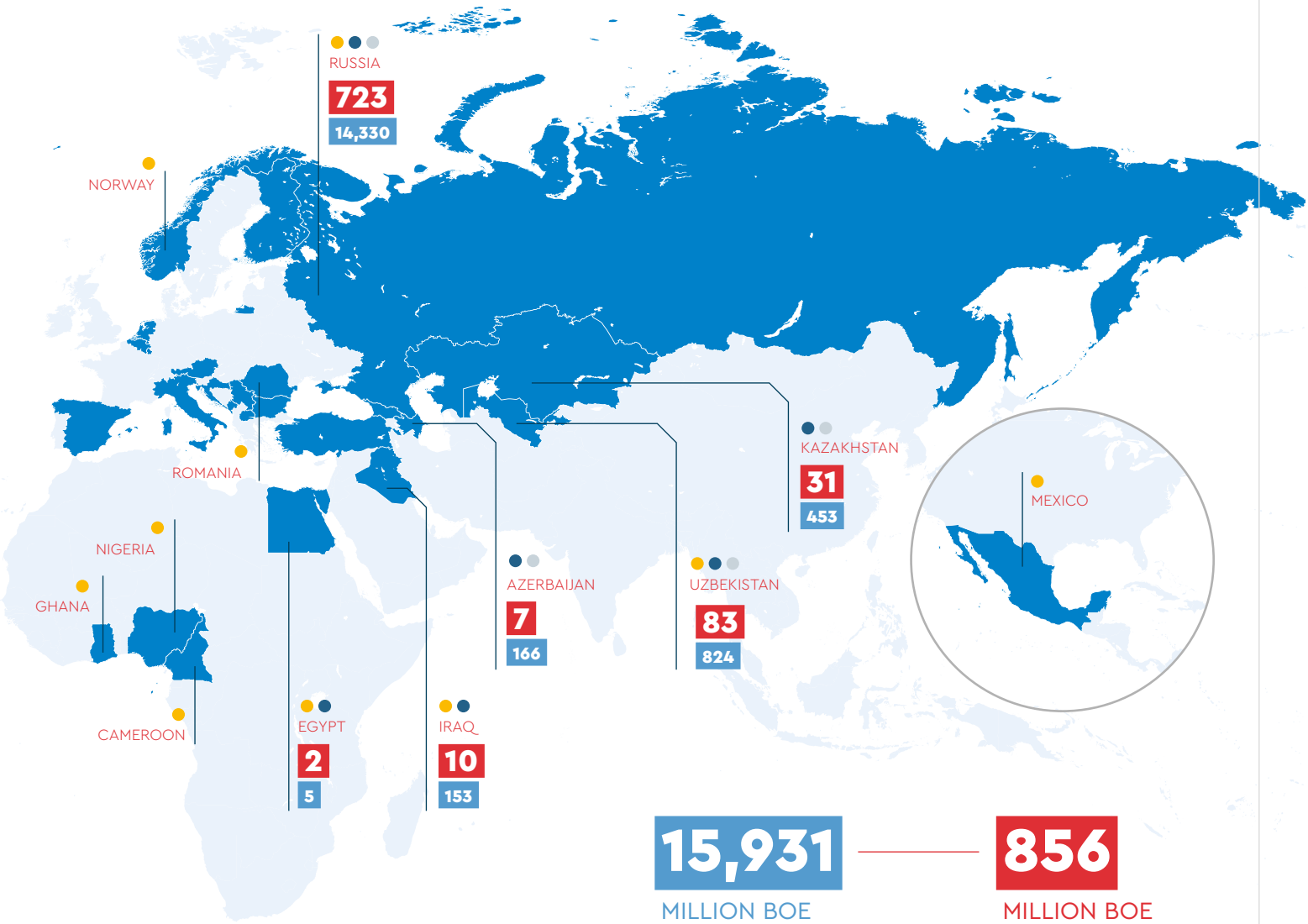
Active work continued on involving complex reserves into production. The share of horizontal wells in the total number of wells commissioned in 2018 grew by 4 percentage points to 32%.

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

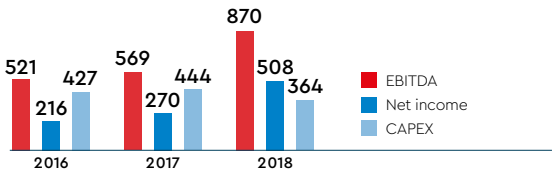


15,931 MILLION BOE proved hydrocarbon reserves

856 MILLION BOE hydrocarbon production

Exploration and Production performance

RUB billion

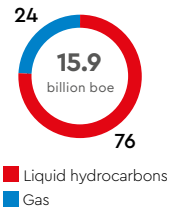


- Exploration
- Oil production
- Gas production

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

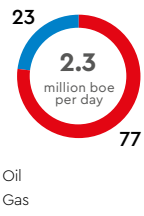
Proved hydrocarbon reserves as at December 31, 2018

%



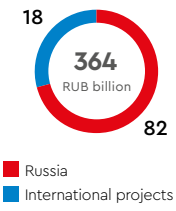
Hydrocarbon production in 2018

%



Exploration and Production CAPEX in 2018

%



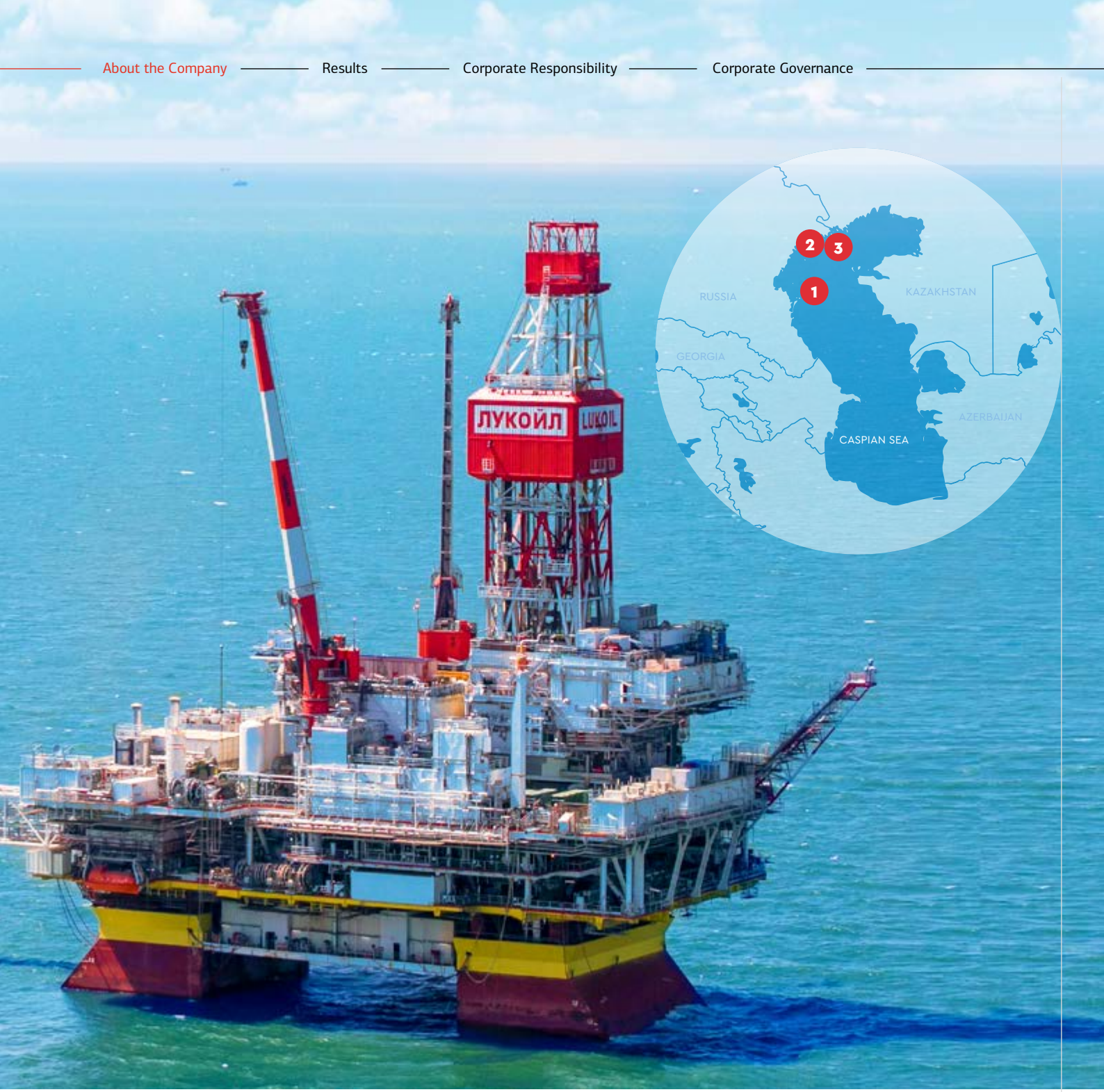
Average headcount in Exploration and Production in 2018

%

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

+15% year-on-year

20

thousand barrels per day

production in December 2018

2

V. FILANOVSKY FIELD

RAMP-UP TO FULL CAPACITY

+32%

6.1

million tonnes

production in 2018

3

RAKUSHECHNOYE FIELD

CONSTRUCTION WORKS COMMENCED

1.2

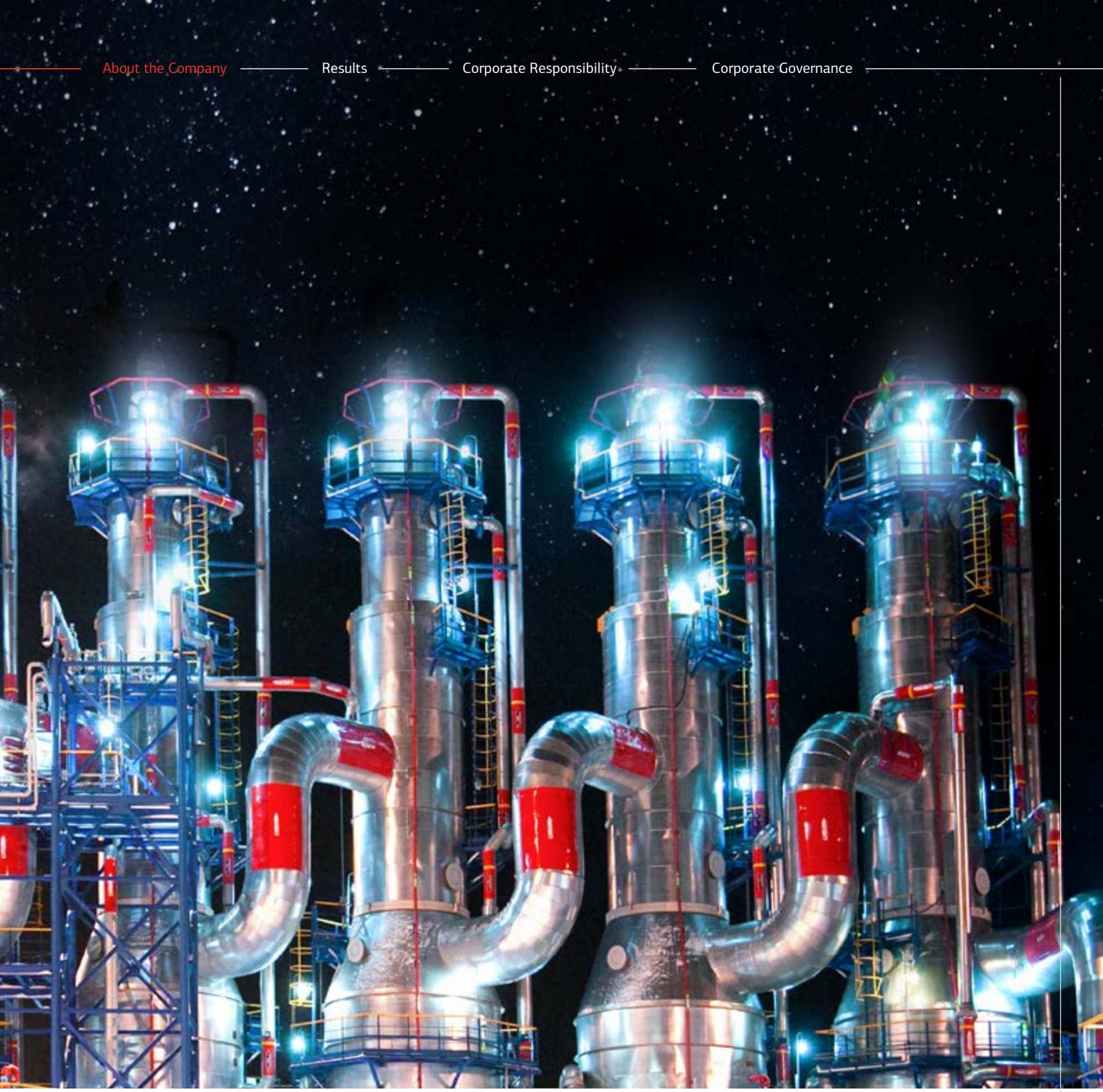
million tonnes of crude oil

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%

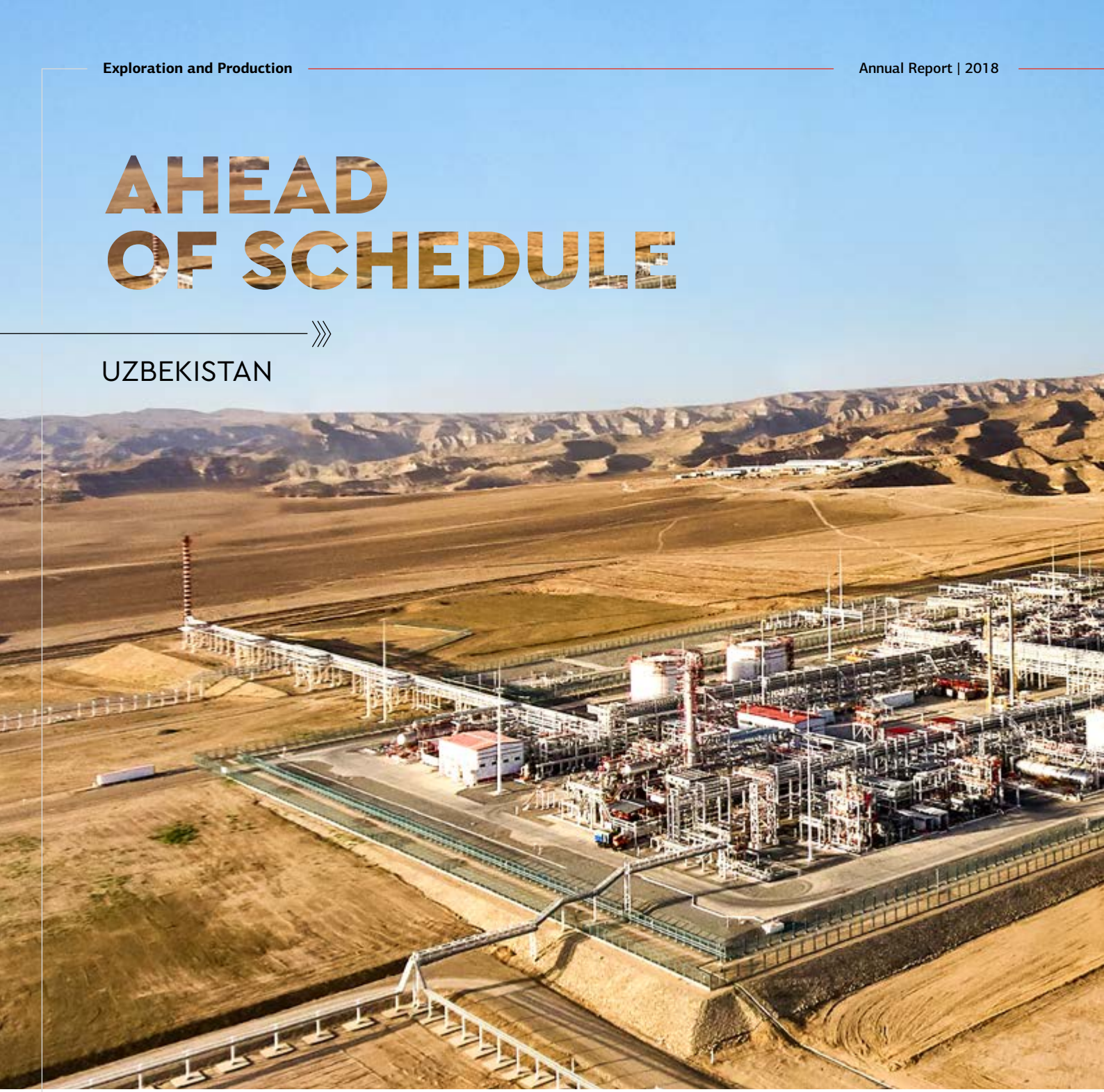
0.4

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

+32%

4.3

billion cubic meters

LUKOIL production share in 2018

2

KANDYM

RAMP-UP TO FULL CAPACITY

+91%

9.1

billion cubic meters

LUKOIL production share in 2018

LOWER FUEL OIL YIELD

REFINING, MARKETING, AND DISTRIBUTION

-1 p.p.

11%

fuel oil yield in 2018

+12%

9.6

million tonnes

ECTO-branded fuel sales in 2018

+17%

2.2

million tonnes

into-plane jet fuel sales in 2018

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

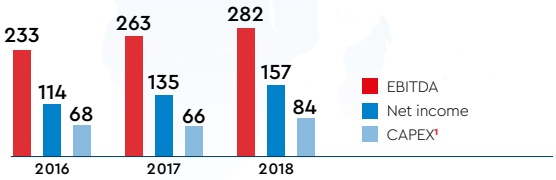
Power generation
L Astrakhanenergo
L Ecoenergo
L Kubanenergo
L Rostovenergo
L Stavropolenergo
L Volgogradenergo

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



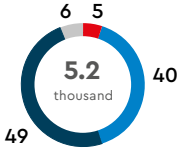
[1] Including non-cash items.

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 network[2] as at December 31, 2018

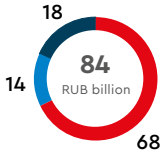
%



USA
Europe
Russia
FSU

Refining, Marketing, and Distribution CAPEX in 2018

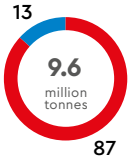
%



Oil refining
Retail network
Other

Sales of premium ECTO-branded fuels in 2018

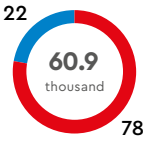
%



Russia
International projects

Average headcount in Refining, Marketing, and Distribution in 2018

%



Russia
International projects

[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

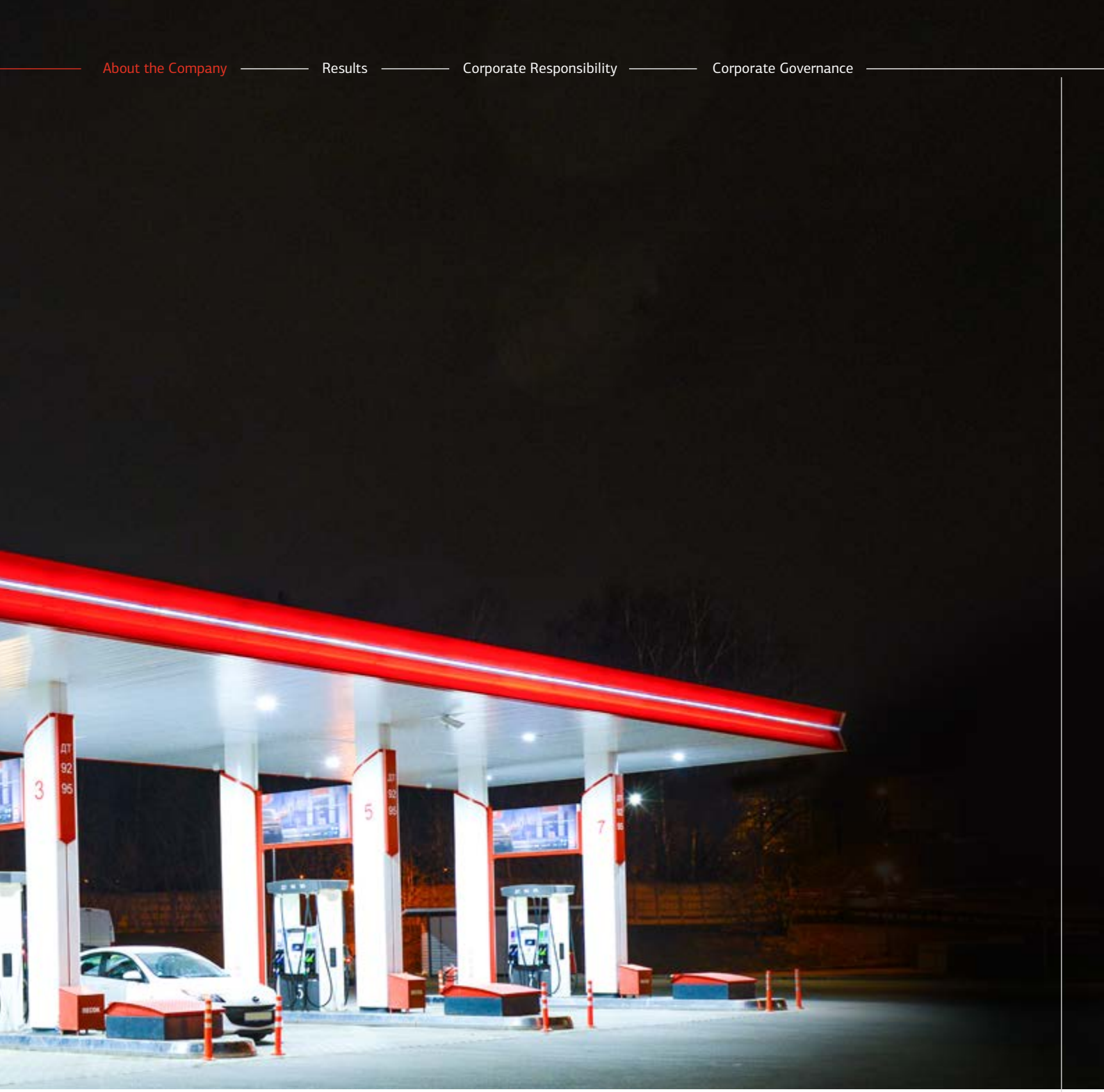
million tonnes

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%

+25 p.p. over 5 years

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

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 CO_2 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

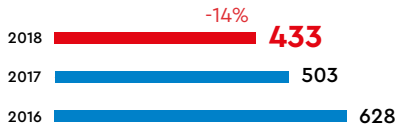
The LUKOIL Group's Set of KPIs was adjusted, enhancing incentives for management to achieve the Company's strategic goals. A number of digital employee performance management projects was developed. The number of employees who completed training courses reached 73% of the average employee headcount,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

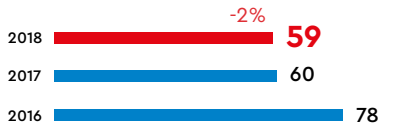
2019 AND MID-TERM PRIORITIES

- 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 CO_2 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 Committee[1]
- 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

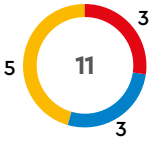
STRATEGY AND INVESTMENT COMMITTEE

AUDIT COMMITTEE

HR AND COMPENSATION COMMITTEE

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

Director status



- Executive Directors[3]
- Non-executive Directors
- Independent Directors[4]

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

- Full
- Partial
- None

+1.2 p.p.

73.4%
full compliance with the Code

IGOR IVANOV

Born in 1945

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

ROGER MUNNINGS

Born in 1950

- Independent Director
- Chairman of the HR and Compensation Committee

RICHARD MATZKE

Born in 1937

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

LYUBOV KHOBA

Born in 1957

- Non-Executive Director

IVAN PICTET

Born in 1944

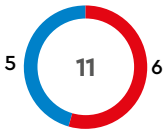
- Independent Director
- Member of the Audit Committee

LEONID FEDUN

Born in 1956

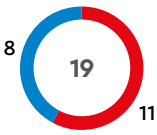
- Executive Director
- Vice President for Strategic Development
- Member of the Strategy and Investment Committee

Length of service on the Board



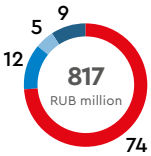
- Over 7 years
- 1 to 7 years

Board meetings in 2018



- In absentia
- In person

Directors' remuneration[5] 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 Blazheev 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.

The composition of the Board of Directors as at December 31, 2018.

EXECUTIVE BODIES

PRESIDENT

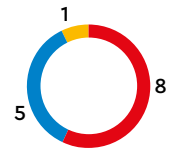
The President is the Company's sole executive body and also serves as the Chairman of the Management Committee. The President is responsible for operational management of the Company as prescribed by the Charter of PJSC LUKOIL.

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.

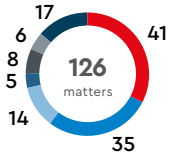
Following the President's proposals, the Board of Directors appoints members of the Management Committee each year. In 2018, the Management Committee consisted of 14 persons.

Length of service on the Management Committee



- Over 7 years
- 1 to 7 years
- Less than 1 year

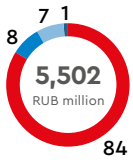
Matters considered by the Management Committee in 2018



- Restructuring
- HR
- Local regulations
- Performance
- Material transactions
- Budget
- Other

Payments[1] to the Members of the Management Committee in 2018

%



- Bonuses
- Salary
- Other payments
- Remunerations

[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

- % Over 7 years
- % 1 to 7 years
- % Less than 1 year

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%

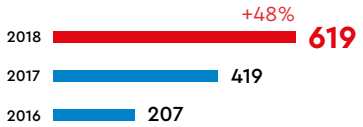
EVGENY KHAVKIN
Born in 1964
- Vice President – Chief of Staff of PJSC LUKOIL


0.009%

RECORD RESULTS

FINANCIAL PERFORMANCE

Net income
RUB billion

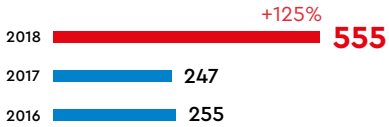


KPI

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

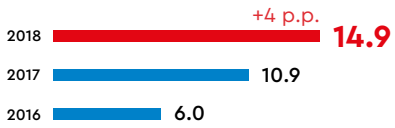


KPI

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
%

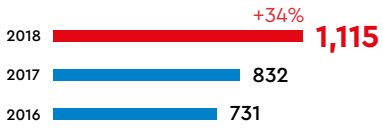


KPI

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



KPI

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 production[1]
million boe per day

KPI

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

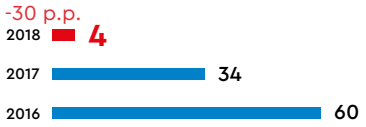
Light products yield
%

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
%



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

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

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
%

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

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 Committee[1]

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 belive 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 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.

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

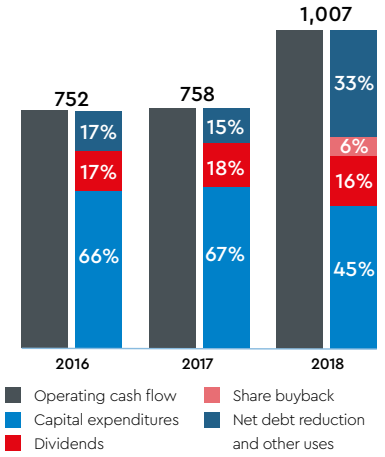
RUB billion

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.

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 31[1]

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

licenses

	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

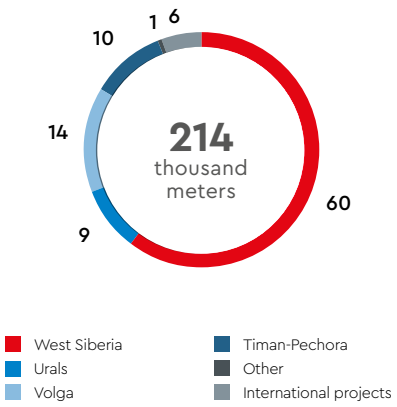
LUKOIL Group is carrying out exploration in ten countries, concentrated mostly in Russia. Internationally, we participate in exploration projects in Mexico, Iraq, the Gulf of Guinea, the Black Sea, and the Norwegian shelf in the Barents Sea.

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[1], RUB million	36,295	33,506	**29,355**	-12.4

[1] 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

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

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

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.

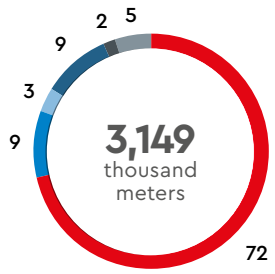
Gas

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.

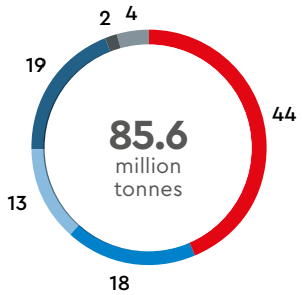
Production drilling in 2018

%



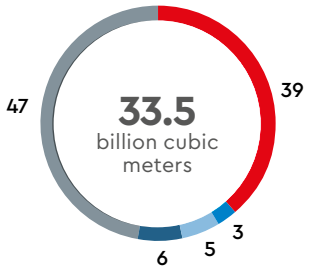
Oil production structure in 2018, excluding the West Qurna-2 project

%



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-Messoyakhskoye 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.

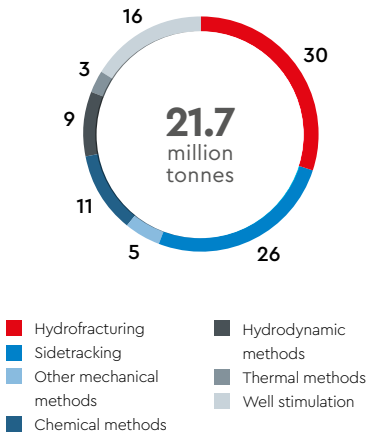
A total of 43 three-string horizontal wells were drilled in 2018, and the number of such wells is planned to be substantially increased in the medium term.

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.

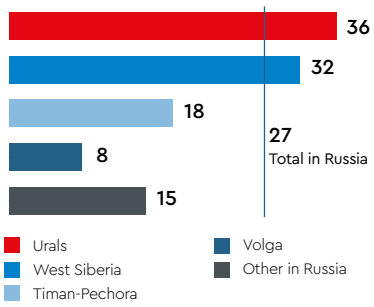
Hard-to-recover reserves

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 technologies[1] in 2018
%



Share of incremental production from EOR technologies in each region's total production[1] 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.

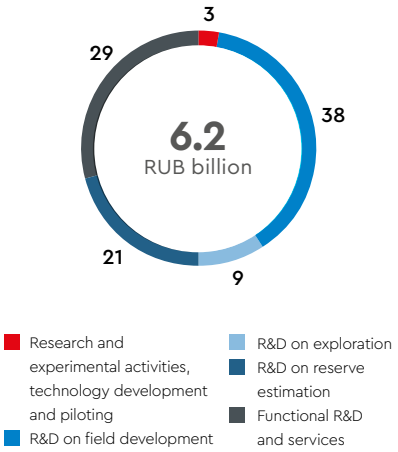
The Company has major segment-specific R&D centers – three in Exploration and Production and one in Refining and Distribution:

- 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

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 intergated programs on increasing reliability

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

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 product 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.

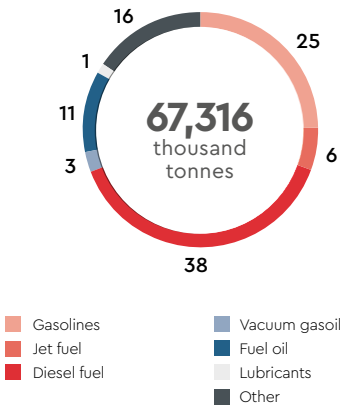
The capital expenditures of the Group's refineries in Europe totaled RUB 12 billion in 2018, up 25.8% year-on-year. The growth was due to a depreciation of the Russian ruble, as well as scheduled maintenance at our Bulgarian and Italian refineries.

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

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

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

Lubricant production and blending

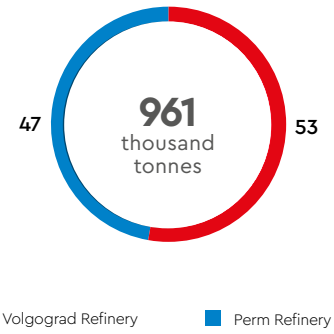
thousand tonnes

	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.

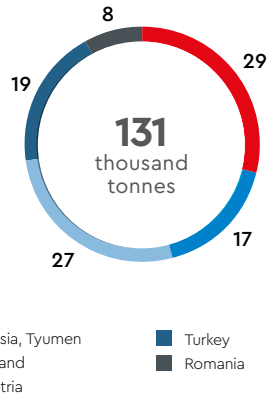
Full cycle lubricant production in 2018

%



Lubricant blending in 2018

%



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.

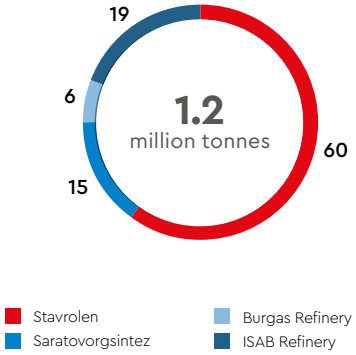
In 2018, we increased our petrochemicals output by 6.4% to 1.2 million tonnes, primarily due to an increase in the marketable products output at Stavrolen.

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.

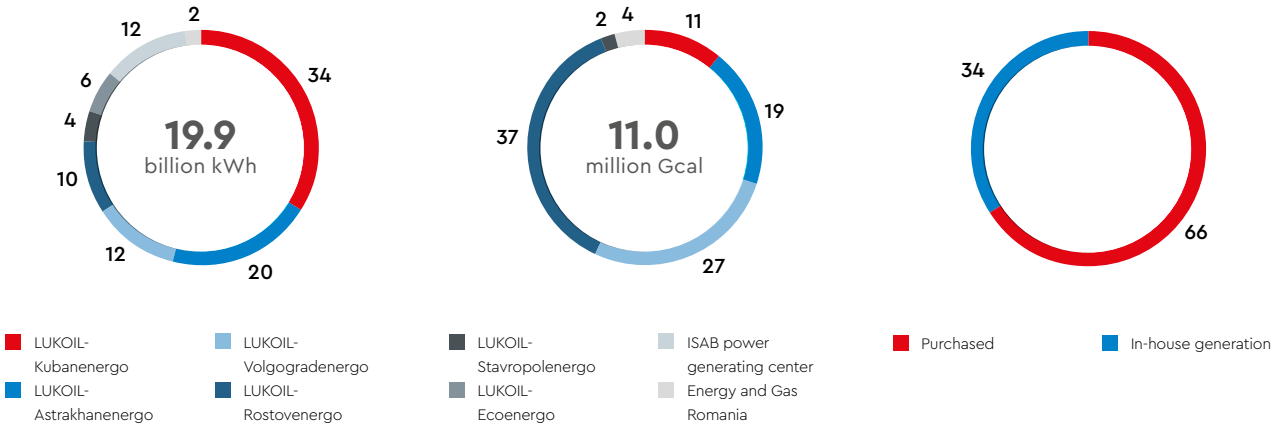
LUKOIL also owns the 84 MW Land Power wind power plant in Romania. The annual output of the plant totaled 192 million kWh in 2018.

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, supporting 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 products[1]

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 products[1]

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.

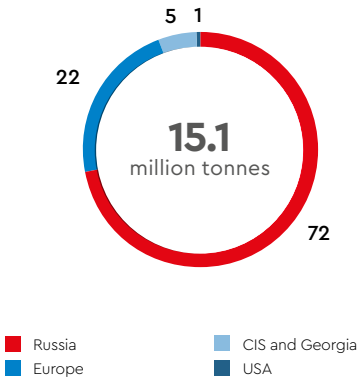
Retail sales volumes of petroleum products in Russia grew by 8.4% year-on-year. Our customer-oriented policy and the constructions and upgrades made to our filling stations helped boost the average daily sales volumes per filling station in Russia to 13.8 tonnes. As part of our operational excellence 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.

Retail sales of petroleum products

	2016	2017	**2018**	Change, 2018/2017, %
Number of filling stations[1] 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.

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 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.

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.

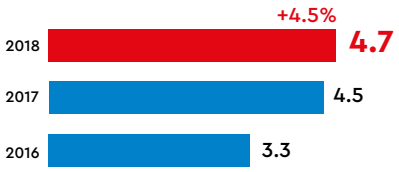
Jet fuel sales exceeded 3.2 million tonnes in 2018, down 1.2% year-on-year, while high margin into-plane fuel sales grew by 17% to 2.2 million tonnes.

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.

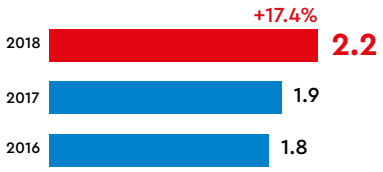
Over the past five years, the share of into-plane refueling grew from 45% to 70% in the total volume of LUKOIL's jet fuel sales. LUKOIL's long-standing consumers of jet fuel include major Russian and international airlines and civil aviation companies.

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.

Bunker fuel sales
million tonnes



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 TARGETS[1]

- 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 Russia[4]

	2016	2017	**2018**
Accidents	2	6	**0**

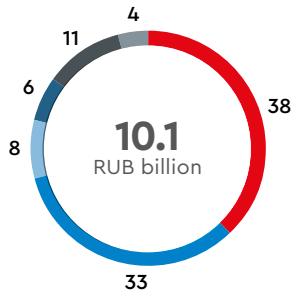
[4] Hazardous production facilities as defined in Russian Federal Law No. 116-FZ "On Industrial Safety of Hazardous Production Facilities" dated July 21, 1997.

[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

%



- Emergency response and prevention[1]
- Preventive measures aimed at reducing work-related injuries
- Maintenance of buildings, structures and sites. Electrical safety
- Improving working conditions at workplaces
- Regulatory support, facilities compliance with regulations
- Other

[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 (Rostechnadzor), 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 TARGETS[2]

- 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 CO_2 emissions (down by 4% to 29.99 million tonnes of CO_2 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.

[2] Key targets of the Industrial Safety Program.

Climate change

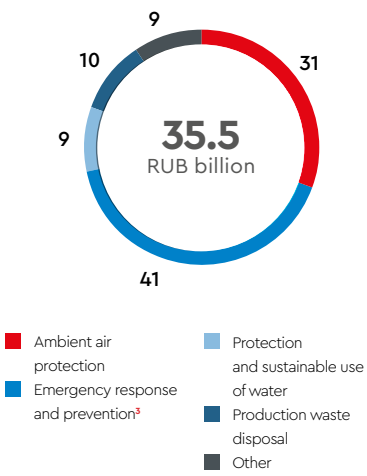
LUKOIL recognizes the importance of preventing global climate change and has deep concern for the environment. We are involved in developing a statutory and regulatory framework governing greenhouse gas emissions and plan our operations in accordance with the resulting decisions.

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

%



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

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

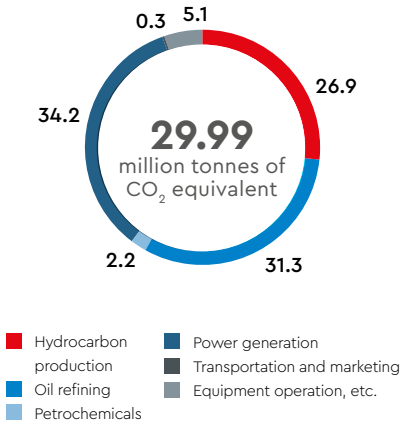
Since 2013, LUKOIL has been participating in the Carbon Disclosure Project (CDP), an international initiative for the disclosure of greenhouse gas emissions. The Company's 2018 CDP report earned PJSC LUKOIL a "D" score for its commitment to addressing climate change, which corresponds to the average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

Direct greenhouse gas emissions by the Group's Russian entities

million tonnes of CO_2 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

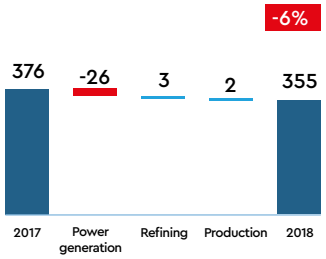
- A project upgrading the evaporation pond at the Astrakhan State District Power Plant (Astrakhan GRES) was completed, effectively preventing more than 0.5 million cubic meters of wastewater being discharged per year
- Construction was continued on wastewater treatment facilities at the Yaregskoye field

PRESERVING BIODIVERSITY

Key 2018 initiatives

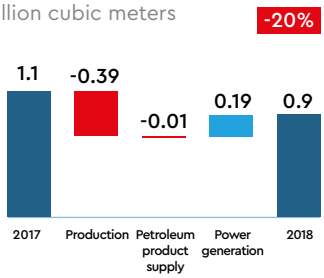
- More than 33 million juvenile fish of valuable species were released into rivers and water reservoirs during 2018 under our Biodiversity Conservation Program

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[1]) 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

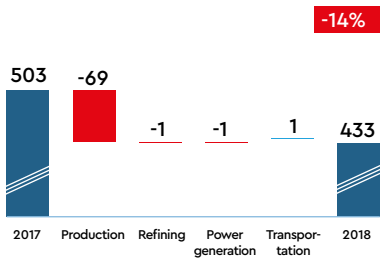
MINIMIZING AIR EMISSIONS

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

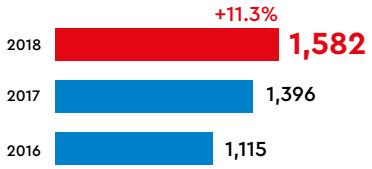
Waste generation increased in 2018 due to the federal classification of waste being expanded.

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

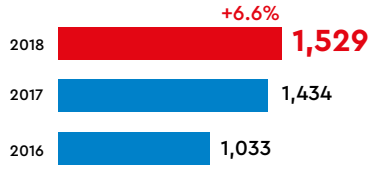
Production waste disposal and landfill

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

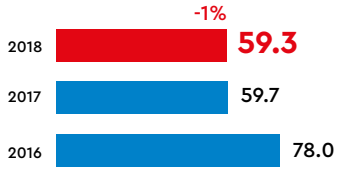
Failures per km of pipeline at the Group's Russian entities

Failures per km[1]

[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.

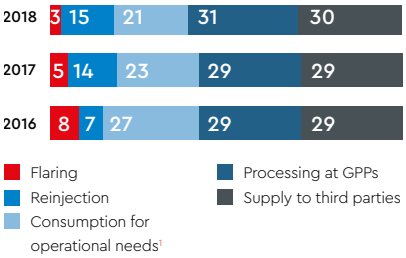
Under LUKOIL Group's Efficient APG Use Program for 2018–2020, 21 efficient APG use facilities were designed, constructed, and renovated in 2018, and nine facilities were commissioned.

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

%



[1] Including consumption for power generation, boiler house needs, line heaters, etc.

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-Lambeyshorskoye 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-Lambeyshorskoye 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.

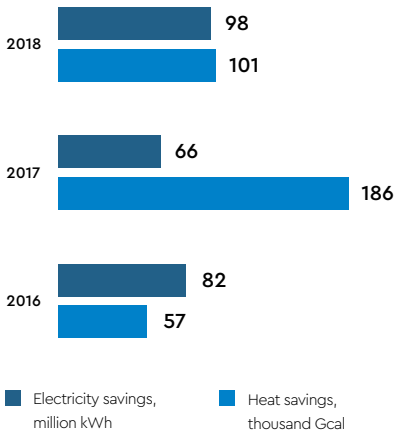
Key energy efficiency initiatives in 2018 included replacing pumps, optimizing pump operation, installing energy saving pumps and variable frequency drives, replacing and upgrading on-site equipment to boost efficiency factor, and upgrading lighting and heating solutions.

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

2019 PRIORITIES

- Improve job rotation
- Develop advanced employee performance management services based on visual analytics
- Develop in-house corporate training, test mobile training technology, and develop a Safety Culture 4.0 mobile application

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.

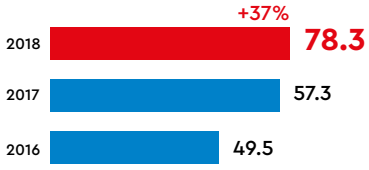
For more details, see the Retail Sales section on **page 65**.

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.

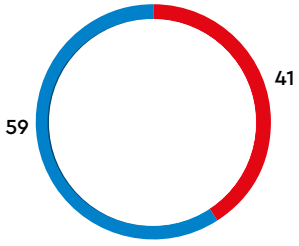
Revenue per employee

RUB million per employee



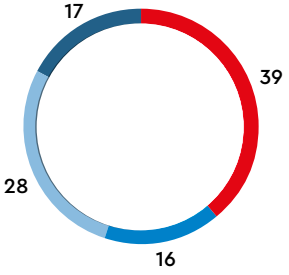
Personnel by gender as at December 31, 2018

%



Personnel by age as at December 31, 2018

%

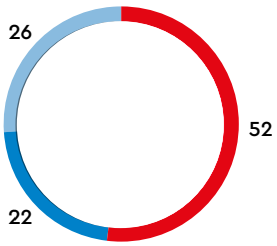


Personnel by job category as at December 31, 2018

%

Personnel by education level as at December 31, 2018

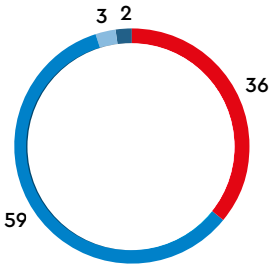
%



Higher
Secondary vocational
Primary vocational, secondary, below secondary

Personnel by segment as at December 31, 2018

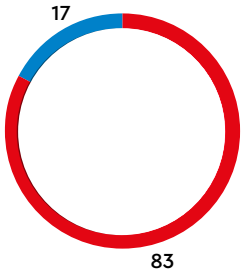
%



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.

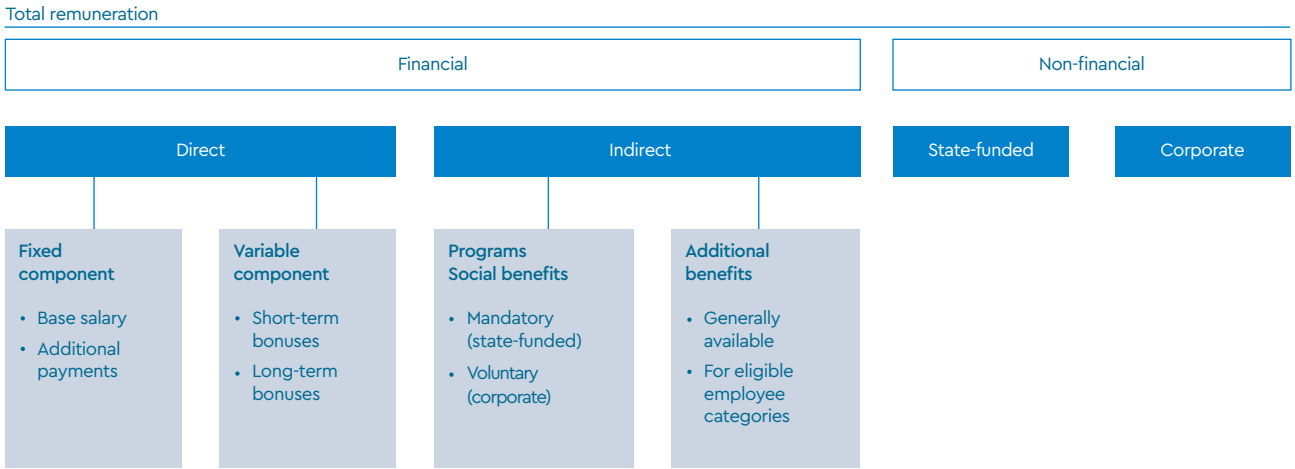
In 2018, we developed a number of digital employee performance management projects and included them in our list of priorities for 2019 and 2020: Talent Management Based on Visual Analytics; Intellectual Assistant and Administrative Knowledge Base; and Safety Culture 4.0.

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 industrual safety issues were passed (up 30% year-on-year).

MOTIVATION SYSTEM



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.

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.

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**.

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

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 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.

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

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 matters[1]
- Update PJSC LUKOIL's internal documents to incorporate regulatory changes

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

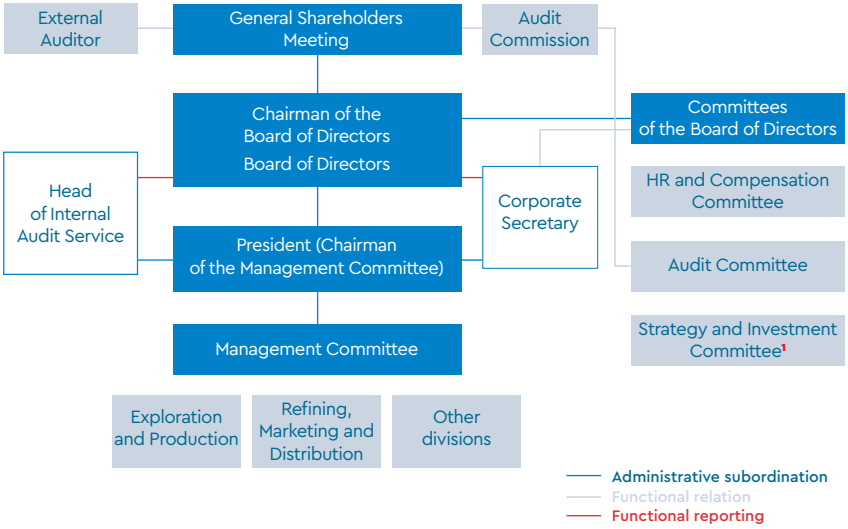
An efficient corporate governance system is a vital tool ensuring sustainable development and successful implementation of the corporate strategy to create shareholder value.

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

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

[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-year[2]. 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 Code[1]

Corporate governance principles	Number of principles recommended by the Code	2017 Full compliance	2017 Partial compliance	2017 No compliance	**2018 Full compliance**	**2018 Partial compliance**	**2018 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

General Shareholders Meetings of PJSC LUKOIL held in 2018

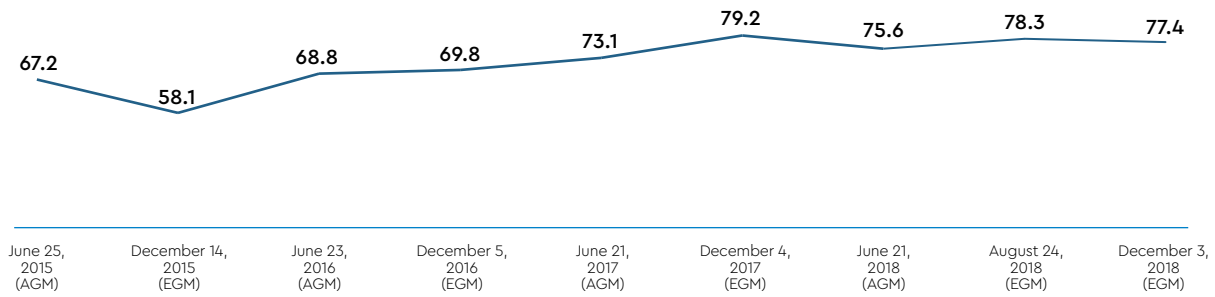
Annual General Shareholders Meeting **June 21, 2018** In person	• PJSC LUKOIL 2017 Annual Report and annual accounting (financial) statements were approved, profit for the period was distributed, and the resolution on dividend payouts for 2017 was passed. New Board and Audit Commission were elected; 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.
Extraordinary General Shareholders Meeting **August 24, 2018** Absentee voting	• 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.
Extraordinary General Shareholders Meeting **December 3, 2018** Absentee voting	• 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 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.

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.

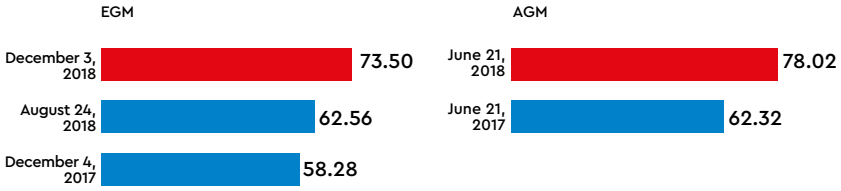
Shareholders demonstrated strong support for each of the Board's resolutions on agenda items of the Company's General Shareholders Meetings. Votes in favor on all agenda items[1] ranged between 98.5% and 99.9%.

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, 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.

The share[2] 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.

[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

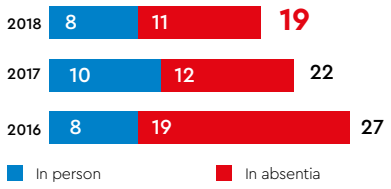
Consisting of 11 members, the Board of Directors is elected during the General Shareholders Meeting through cumulative voting, whereby nominees with the highest number of votes are elected to the Board of Directors. Director elections must be included in the agenda for the Annual General Shareholders 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.

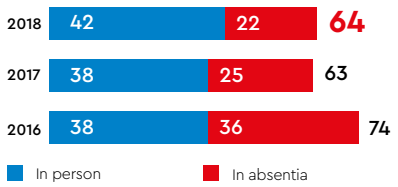
Board of Directors' performance

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.

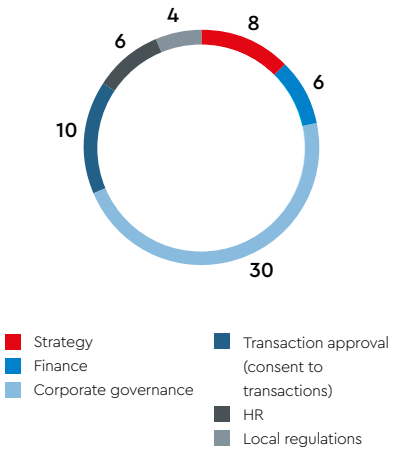
Meetings



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
• 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	• 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: Strategy	Finance and audit	Oil and gas	Law and corporate governance	Risk management	GR/IR/PR	HSE	HR management	Industry experience, years	Share in the charter capital, %
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.

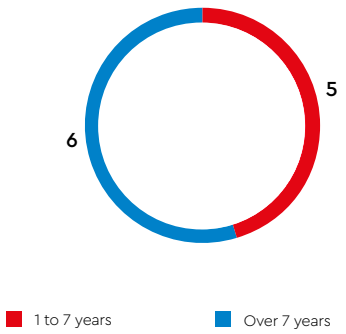
According to the Corporate Governance Code, nominees to LUKOIL's governance bodies are elected primarily based on their relevant professional qualifications, knowledge, experience, expertise, and business skills.

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 sustaniability 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 Directors[1]

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 Hauer & 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 Director[1]
- 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 PJSFC.
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.

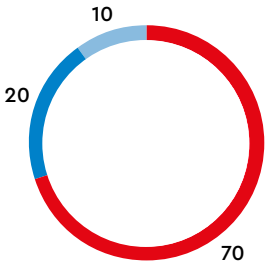
The number of in-person Committee meetings increased in 2018, demonstrating the members' more active involvement in their Committee's work.

However, they may not vote on agenda items.

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

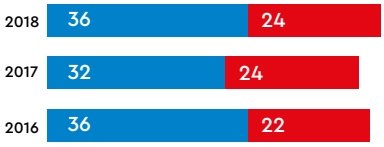
Committee membership as at December 31, 2018

%



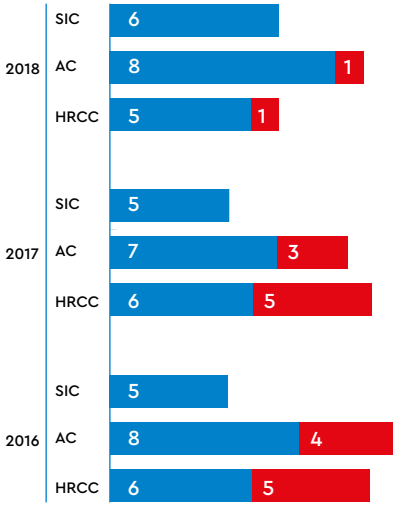
Independent directors
Executive directors
Non-executive directors

Matters discussed



Reviewed for submission to the Board
Reviewed by the Committee only

Committee meetings



In person
In absentia

[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]
• Making recommendations to the Board of Directors on: – 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	• 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	• **Igor Ivanov (Committee Chairman)** • Toby Gati
Executive Directors	• 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]
• 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	• 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]
• 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	• 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	• **Roger Munnings (Committee Chairman)** • Victor Blazheev
Non-Executive Director	• 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

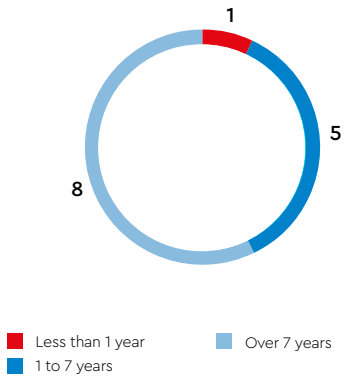
	Length of service on the Management Committee, years[1]	Share in charter capital of PJSC LUKOIL
Vagit Alekperov	25	2.84 (26.07[2])
Vadim Vorobyev	8	0.02
Denis Dolgov	Elected to the Management Committee on July 19, 2018	0.04
Ravil Maganov	25	0.44
Ilya Mandrik	1	0.02
Ivan Maslyaev	25	0.04
Alexander Matytsyn	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.

Vladimir Nekrasov's biography is available in PJSC LUKOIL 2017 Annual Report on the Company's website.

- 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.

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 NORSI-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 Uraineftegaz.
- 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 system[1]

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]	• 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.

Payments[1] 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 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.

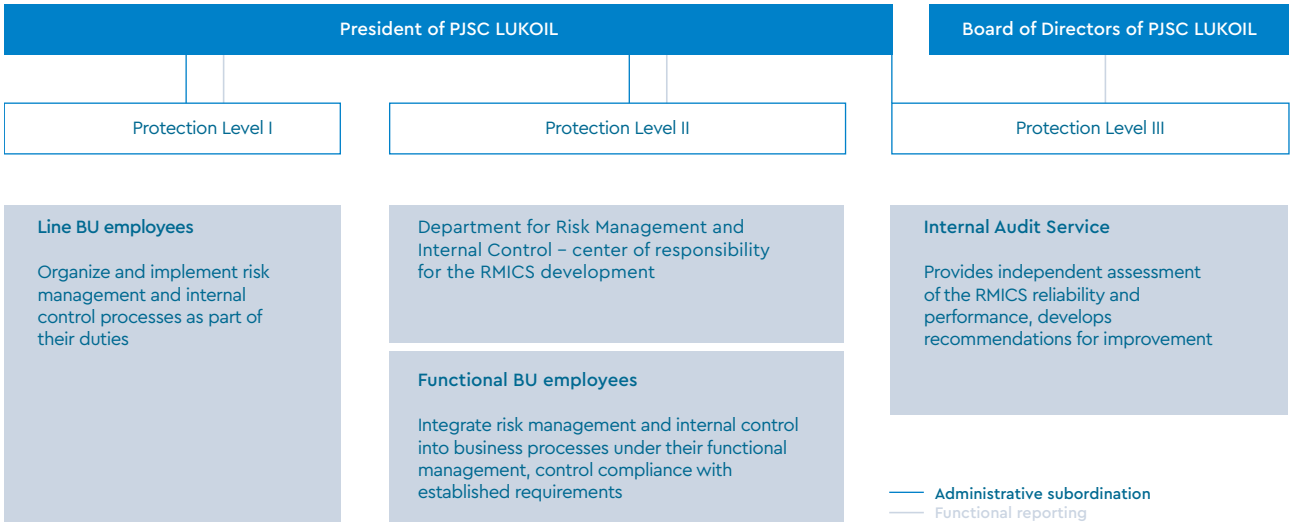
Key principles of, and approaches to, the RMICS organization at LUKOIL Group entities are detailed in the Risk Management and Internal Control Policy of PJSC LUKOIL which complies with the generally accepted rules and details key targets and objectives of the RMICS participants.

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.

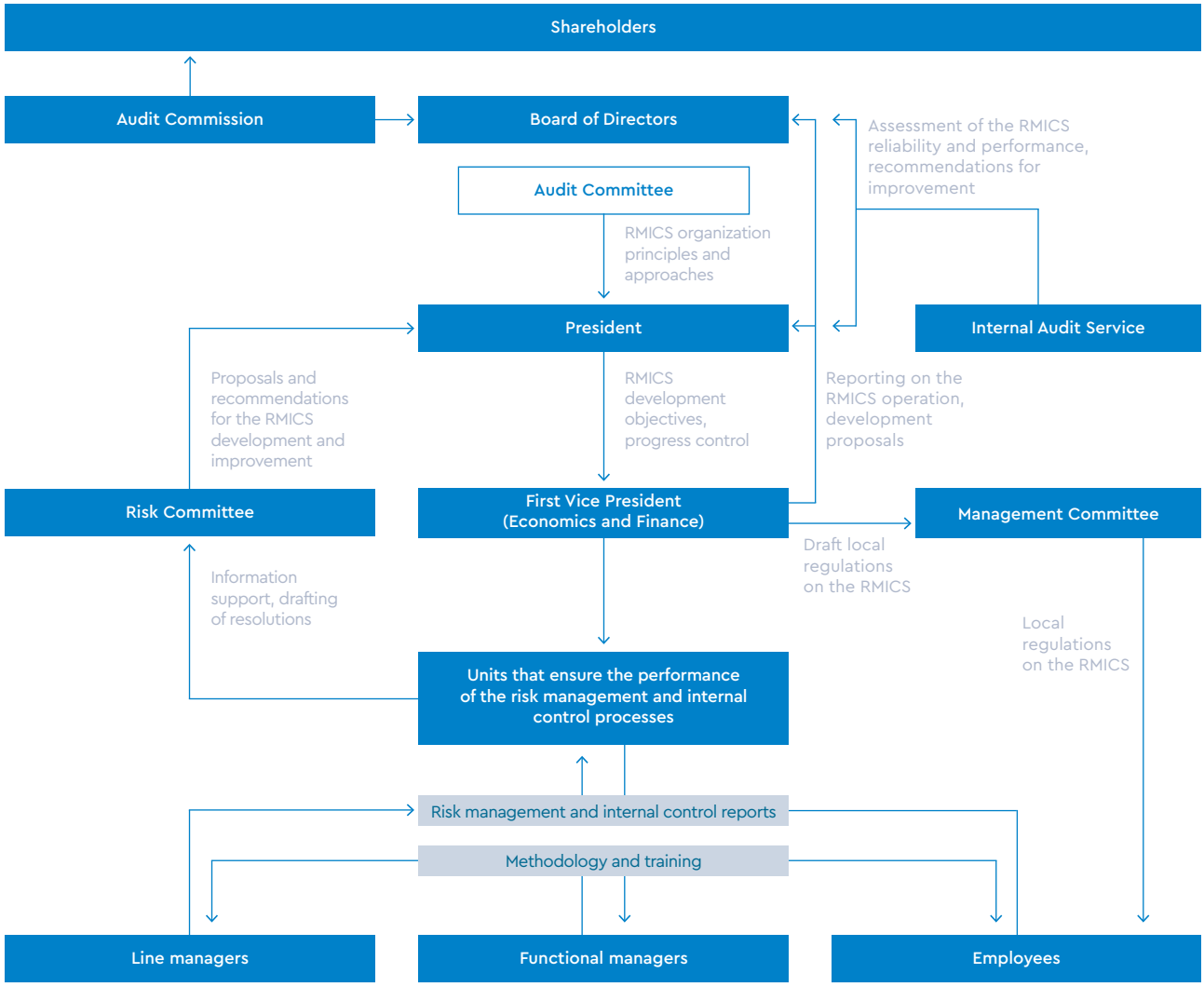
The RMICS is organized and operates in accordance with the following key principles

- 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
- 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

LUKOIL's interests protection system



RMICS at PJSC LUKOIL



Functional map of RMICS participants

Board of Directors	The Company's Internal Audit Service and dedicated internal audit units of LUKOIL Group entities	Audit Commission
Defines Group-wide principles of, and approaches to, the RMICS organization Determines the Company's risk appetite Controls the reliability and performance of the RMICS	Carry out independent assessment of the RMICS reliability and performance Develop recommendations for the RMICS improvement	Controls the Company's financial and business operations

Audit Committee	President	Risk Committee (advisory body under the President)
Analyzes and assesses compliance with the Risk Management and Internal Control Policy Assesses the effectiveness of the Company's risk management and internal control procedures, develops improvement proposals	Creates and maintains a functional and effective RMICS Determines the RMICS improvement and development tasks Controls the performance, improvement, and development of the RMICS	Coordinates the Company's risk management activities Appoints owners of the Company's material cross-functional risks Develops recommendations on the implementation of the Risk Management and Internal Control Policy

Management Committee	First Vice-President (Economics and Finance)	Units that ensure the performance of the risk management and internal control processes
Establishes guidelines for, and requirements to, the RMICS, formalized in local regulations Makes decisions on the RMICS organization within the scope of its authority	Leads the development of proposals to improve and develop the Risk Management and Internal Control business processes Initiates reviews of draft improvement and development resolutions for the RMICS Informs the Company's governance bodies on the RMICS operations	Coordinates the Company's activities to improve and develop the RMICS Develops and updates local regulations defining the key principles, rules, and guidelines of the risk management and internal control processes, and controls compliance Drafts proposals for the RMICS development and improvement Develops guidelines on the RMICS organization and development for the Company's business units and LUKOIL Group entities Provides training on risk management and internal control

Heads of business units	Heads of the Company's subsidiaries	LUKOIL Group entity employees
Organize and implement risk management and internal control processes for their business lines Integrate risk management and internal control into business processes under their management Control compliance with risk management and internal control standards and requirements (including reliability and performance) in subordinate BUs	Create and maintain a functional and effective RMICS within the entity Control the RMICS performance	Build, maintain, and continuously monitor the RMICS within their business lines Identify and analyze entity business risks Carry out internal control procedures and/or perform risk owner functions

Risk management

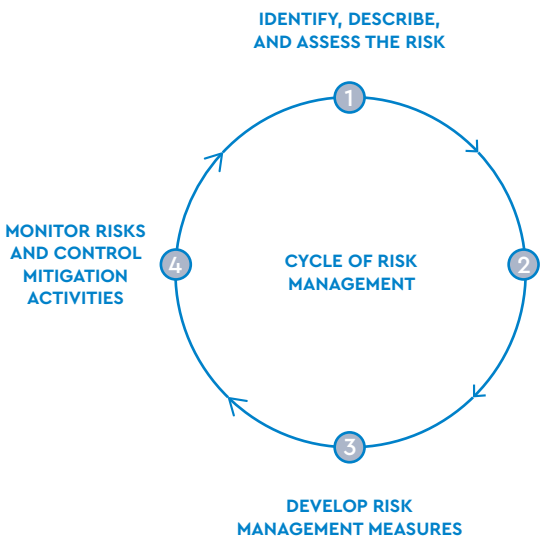
PJSC LUKOIL continuously improves its risk management system. In 2018, our key efforts were focused on improving the corporate enterprise risk management (ERM) system to match the international best practices. Risk management development and improvement focus on:

- 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.

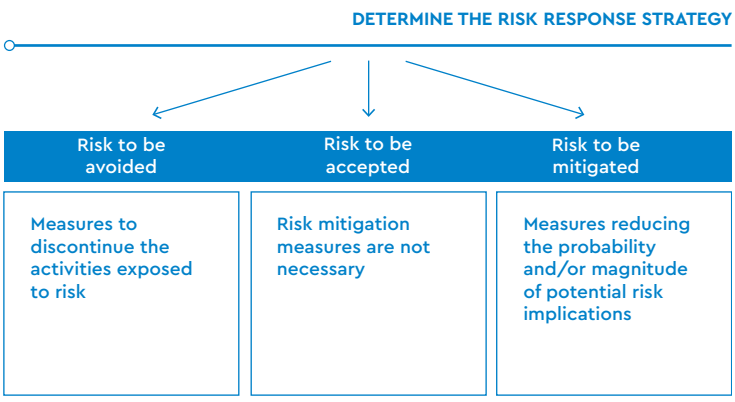
The Board of Directors and the Management Committee place a special focus on risk management to provide reasonable assurance of achieving objectives despite uncertainties and negative impacts. PJSC LUKOIL continuously identifies, describes, assesses, and monitors risks and develops measures to mitigate 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



In order to improve management performance in LUKOIL Group entities, we continuously improve the automated risk management information system enabling:

- Automation of gathering, reviewing, reconciling, and storing risk data, thereby enhancing responsiveness and improving management
- Standardization of risk data presentation
- Build-up of a knowledge base
- Automation of preparation of consolidated risk reports for LUKOIL's governance bodies



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

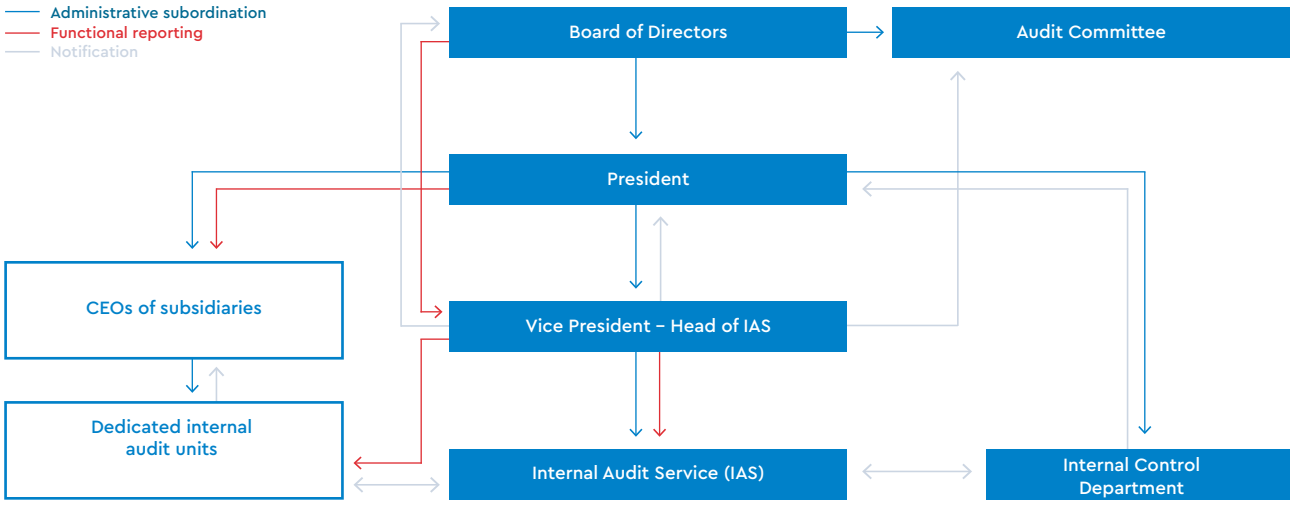
By the end of 2018, DIAUs existed at 18 LUKOIL Group entities (including 12 Russian and 6 international ones), including 9 regional units which additionally provide internal audit services to 16 LUKOIL Group entities.

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

	Audits by the Internal Audit Service			Audits by Dedicated Internal Audit Units		
		INCLUDING:			INCLUDING:	
Year	TOTAL	scheduled	unscheduled	TOTAL	scheduled	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 Directors[1], 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	• 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	• 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	• 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	• 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	• 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	• 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 Code[1] 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	Audits and advisory services include: • 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	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: • 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 Supervision of corporate standards of, and requirements to, the ICS, through: • 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	Coordination of LUKOIL Group's activities to ensure economic and internal security, and implementation of expert analytics and inspection measures at the following stages: • 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.

For the Group's organization and a list of its key entities, see the Key Subsidiaries section on **page 134**.

Approval of subsidiaries' material transactions[1]

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 PSJC 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

[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.

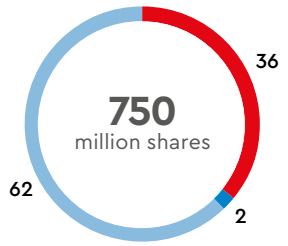
Major institutional investors in shares and DRs as at December 31, 2018

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

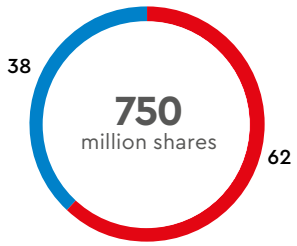
%



Management[2]
LUKOIL SECURITIES LIMITED[3]
Other shareholders[4]

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**		

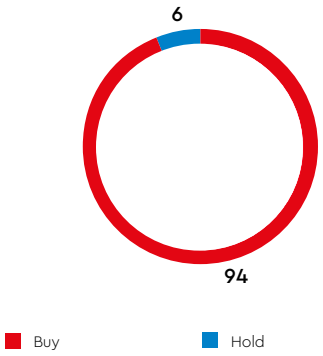
On top of that, PJSC LUKOIL depositary receipts are traded on the Munich and Stuttgart Stock Exchanges.

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

%

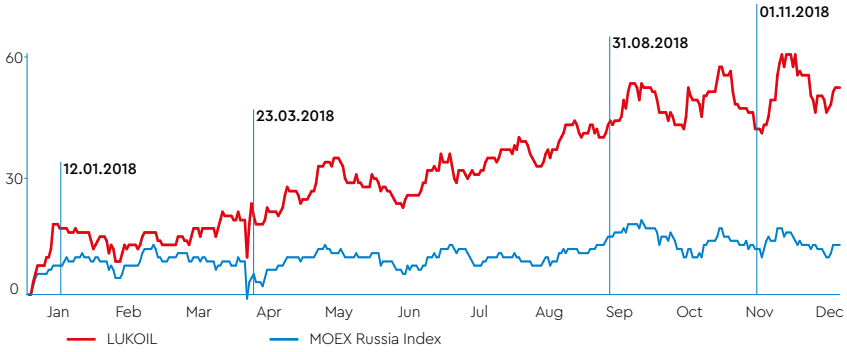


Including: Bank of America Merrill Lynch, Citigroup, Goldman Sachs, HSBC, JP Morgan, Morgan Stanley, Raiffeisen Bank, Renaissance Capital, UBS, WOOD & Company, ATON, BCS, Gazprombank, VTB Capital, Sova Capital, Sberbank CIB, Veles Capital, Uralsib.

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

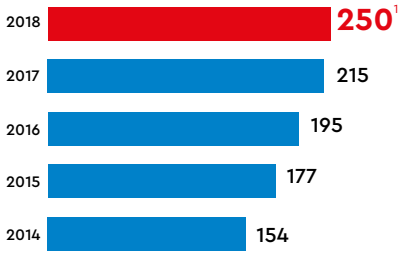
LUKOIL's Dividend Policy is based on balancing the interests of the Company and its shareholders. Key principles underlying PJSC LUKOIL's Dividend Policy are as follows:

- 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 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.

Dividend per share

RUB



[1] Total dividend amount recommended by the Board of Directors for the 2018 results.

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

	2016			2017			2018		
Period	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[4]**
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 inquires made by stakeholders, including the media, institutional investors, environmental organizations, and shareholders.

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

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.

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%) (Ploieşti 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-Energoengineering

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,
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+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

Depositary
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
CO_2 – 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
OAO (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
PAO (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

LUKOIL

APPENDICES

PJSC LUKOIL ANNUAL REPORT FOR 2018

CONTENTS

APPENDIX 1.

Corporate Governance Code
Compliance Report

This Report on compliance with the Corporate Governance Code (the "Code"), recommended by the Bank of Russia as a guidance for all publicly traded joint-stock companies, is included in the Annual Report in line with Chapter 70 of the Bank of Russia's Regulations No. 454-P On Information Disclosure by Securities Issuers dated December 30, 2014.

Incorporated in Russia, PJSC "LUKOIL" is guided in its business operations by the corporate governance principles recommended by Russian securities market regulators, as well as by the international best practices.

The Code is the key document regulating national corporate governance standards and is available on the Bank of Russia's website at www.cbr.ru/publ/Vestnik/ves140418040.pdf.

Since 2014, the Company has made a significant effort in aligning its corporate procedures and local regulations with the Code's principles and recommendations.

At present, the Board of Directors can confirm that the Company has complied with all core principles of the Code (i.e. the principles specified in the Code under two-digit numbers).

Along with the core principles, Part A of the Code outlines Tier 2 principles, while Part B includes recommendations on corporate governance principles.

Currently, the Company's corporate governance has some inconsistencies with the Tier 2 principles of the Code:

– The Chairman of the Board of Directors is a non-executive director, whereas independent directors have not appointed a senior independent director

– The HR and Compensation Committee of the Board of Directors which functions as prescribed by the Code and acts both as the remuneration committee and the nomination committee (an option allowed by the Code), has two independent directors (including the Committee Chairman), and one non-executive director. The set-up ensures full compliance with the Code recommendation for the nomination committee but only partial compliance with the recommendation for the remuneration committee, which provides for independent directors only

– The Company's Charter does not list any material (as defined by the principles and recommendations of the Code) corporate actions that would be subject to special review and approval rules and require additional procedures, restrictions, and obligations exceeding the requirements of the laws currently in effect

An overview of the core corporate governance model and practice features adopted by PJSC "LUKOIL" is presented in the Corporate Governance section of the Annual Report.

In the reporting period, the Company reduced its charter capital by 11.8% to 750,000,000 shares through acquisition and cancellation of a portion of PJSC "LUKOIL" issued shares. Most of cancelled shares (over 99.9%) are quasi-treasury shares acquired from the Company subsidiary and the remaining shares – shares acquired from minority shareholders.

To further enhance the existing top management remuneration system, the Board of Directors approved amendments to the Regulations on PJSC "LUKOIL" Management Remuneration and Incentive System in 2018, which improve methods of calculation of annual bonuses based on the achievement of Group-wide and individual KPIs. The Board of Directors also amended the Regulations on the Long-Term Incentive Program for Key Employees of LUKOIL Group for 2018–2022.

In 2018, the Company also revised its local regulations on corporate governance, including changes to the existing documents which govern business ethics and shareholder relations. In line with amendments to the Federal Law On Joint-Stock Companies, the Company's Charter was amended to allow Directors to propose nominees to the Board of Directors at their discretion and to include matters on the agenda for the General Shareholders Meeting, which will further increase the Board's power as a governance body.

The Board of Directors believes that the overall performance of the corporate governance at PJSC "LUKOIL" is in line with the Company's goals and targets.

The compliance assessment against the recommendations of the Corporate Governance Code is presented below using the table template included in the Bank of Russia's Letter No. IN-06-52/8 dated February 17, 2016, and follows the filling out guidelines described in the letter. The result is based on our self-assessment, taking into account the existing integrated data on the Company's approach to incorporating Code requirements and the reasons for non-compliance (following the "comply or explain" principle).

The Board of Directors certifies that all data in this Report contains full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2018.

	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1	The company shall ensure fair and equitable treatment of all shareholders in exercising their rights to participate in the governance of the company.			
1.1.1	The company shall ensure the most favorable conditions for its shareholders to participate in the general meeting, develop an informed position on items on the agenda of the general meeting, coordinate their actions, and voice their opinions on items considered.	1. The company's internal document approved by the general meeting of shareholders governing the procedures to hold general meetings of shareholders is publicly available. 2. The company provides accessible means of communication with the company, such as a hotline, e-mail or online forum, to enable shareholders to express their opinion and send questions on the agenda in preparation for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period.	☑ Full ☐ Partial ☐ None	
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting shall enable shareholders to properly prepare for attending the general meeting.	1. The notice of an upcoming general shareholders meeting is posted (published) online at least 30 days prior to the date of the general meeting. 2. The notice of an upcoming meeting indicates the location of the meeting and the documents required for admission. 3. Shareholders were given access to the information on who proposed the agenda items and nominees to the company's board of directors and the audit commission.	☐ Full ☑ Partial ☐ None	Criterion 3 is partially not complied with. In 2018, the materials provided to shareholders to prepare for the Company's Annual General Shareholders Meeting did not include the names of those who proposed matters on the agenda and nominees to the Board of Directors and the Audit Commission. However, part of this information was shared in the reports of the Corporate Secretary at the 2018 Annual General Shareholders Meeting of PJSC "LUKOIL" on the agenda items related to electing the Company's Board of Directors and Audit Commission. In the future, the Company will seek to meet these recommendations when preparing for its General Shareholders Meetings.

1.1.3	In preparation for the general meeting and during the general meeting, shareholders shall be enabled to receive information about, and all materials related to, the meeting, put questions to executive bodies and members of the board of directors, as well as communicate with each other, in an unobstructed and timely manner.	1. In the reporting period, shareholders were given an opportunity to put questions to members of executive bodies and members of the board of directors in advance of and during the annual general meeting. 2. The position of the board of directors (including dissenting opinions entered in the minutes) on each item on the agenda of general meetings held in the reporting period was included in the materials for the general meeting of shareholders. 3. The company gave duly authorized shareholders access to the list of persons entitled to participate in the general meeting, as from the date when such list was received by the company, in all instances of general meetings held in the reporting period.	☑ Full ☐ Partial ☐ None
1.1.4	Shareholders shall not encounter unjustified difficulties in exercising their right to request that a general meeting be convened, to nominate candidates to governance bodies, and to make proposals for the agenda of the general meeting.	1. In the reporting period, shareholders had an opportunity to make proposals for the agenda of the annual general meeting for at least 60 days after the end of the respective calendar year. 2. In the reporting period, the company did not reject proposals for the agenda or candidates to management bodies due to misprints or other insignificant flaws in the shareholder's proposal.	☑ Full ☐ Partial ☐ None
1.1.5	Each shareholder shall be enabled to freely exercise his/her voting right in the simplest and most convenient way.	1. The internal document (internal policy) contains provisions stipulating that every participant in the general meeting may, before the end of the respective meeting, request a copy of the ballot filled in by them and certified by the counting commission.	☑ Full ☐ Partial ☐ None

1.1.6	The general meeting procedure established by the company shall equally enable all persons attending the meeting to voice their opinion and ask questions.	1. During general shareholders meetings held in the reporting period in the form of a meeting (joint presence of shareholders), sufficient time was allocated for reports on and discussion of the agenda items. 2. Candidates to the company's management and control bodies were available to answer shareholders' questions during the meeting at which their nominations were put to vote. 3. When passing resolutions on the preparation and holding of general meetings of shareholders, the board of directors considered the use of telecommunications means to provide shareholders with remote access to general meetings in the reporting period.	☑ Full ☐ Partial ☐ None
1.2	Shareholders have equal and fair rights to share profits of the company by receiving dividends.		
1.2.1	The company has developed and introduced a transparent and clear mechanism for determining the dividend amount and paying dividends.	1. The company's dividend policy is developed, approved by the board of directors and disclosed. 2. If the company's dividend policy uses the company's reporting figures to determine the dividend amount, then the respective provisions of the dividend policy shall take into account the consolidated financial statements.	☑ Full ☐ Partial ☐ None
1.2.2	The company shall not resolve to pay out dividends if such resolution, while formally remaining in line with statutory restrictions, is not economically feasible and may lead to a false representation of the company's performance.	1. The company's dividend policy contains clear indications of financial/economic circumstances under which the company shall not pay out dividends.	☑ Full ☐ Partial ☐ None
1.2.3	The company shall not allow the dividend rights of its existing shareholders to be impaired.	1. In the reporting period, the company did not take any actions that would lead to the impairment of the dividend rights of its existing shareholders.	☑ Full ☐ Partial ☐ None

1.2.4	The company shall strive to exclude any ways for its shareholders to receive profit (income) from the company other than dividends and liquidation value.	1. To exclude any ways for its shareholders to receive profit (income) from the company other than dividends and liquidation value, the company's internal documents provide for controls to ensure timely identification and procedure for approval of transactions with affiliates (associates) of the company substantial shareholders (persons entitled to use the votes attached to voting shares) in cases when the law does not formally recognize these transactions as interested party transactions.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. The Company's internal documents detail procedures for approval or subsequent approval of transactions recognized as interested party transactions only for relationships covered by the Federal Law On Joint-Stock Companies. The Company's internal documents, however, set additional transaction controls. The Company has in place the Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations approved by the Company's Management Committee, which establish a uniform procedure for avoiding conflicts of interest, and if such a situation arises – for measures to avoid its adverse impact on the process and business performance of LUKOIL Group entities. Moreover, according to the Contracting Rules of PJSC "LUKOIL" the Department for Corporate Security should inform the Company's business units on available information that could prevent the Company from entering into contracts. Such contracts are subject to further analysis. In accordance with the Federal Law On Joint-Stock Companies, members of the Company's governance bodies including substantial shareholders also send PJSC "LUKOIL" notifications on whether they may be deemed interested in a joined-stock company making transactions as per the form recommended by Bank of Russia Directive No. 4338-U dated April 3, 2017.
1.3	Corporate governance system and practices ensure equal treatment for all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equal treatment by the company.			
1.3.1	The company has created conditions for fair treatment of each shareholder by the governing bodies and the company's controlling entities, including conditions ruling out abuse of minority shareholders by major shareholders.	1. In the reporting period, the procedures for managing potential conflicts of interest among major shareholders were efficient, and the board of directors paid due attention to conflicts among shareholders, if such conflicts occurred.	☑ Full ☐ Partial ☐ None	

1.3.2	The company shall not perform actions which lead or may lead to artificial redistribution of corporate control.	1. Quasi-treasury shares do not exist or did not participate in voting in the reporting period.	☐ Full ☐ Partial ☑ None	Criterion 1 is not complied with. In the reporting year, the Company reduced the number of its quasi-treasury shares from 16.6% to 1.7% of the charter capital. The Extraordinary General Shareholders Meeting held on August 24, 2018 made a decision to reduce the charter capital of PJSC "LUKOIL" through acquisition of a portion of issued shares in order to reduce the total number thereof, followed by the Company acquiring and cancelling a portion of issued shares, with over 99.9% of shares acquired from the Company's subsidiary.
1.4	Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as are enabled to freely dispose of their shares without any hindrance.			
1.4.1	Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as are enabled to freely dispose of their shares without any hindrance.	1. The quality and reliability of the securities register maintained by the company's registrar meet the requirements of the company and its shareholders.	☑ Full ☐ Partial ☐ None	
2.1	The board of directors shall carry out the strategic management of the company, establish the basic principles of, and approaches to, setting up a risk management and internal control system in the company, control the activities of the company's executive bodies, and perform other key functions.			
2.1.1	The board of directors shall be responsible for passing resolutions related to appointment and removal of executive bodies, including due to their inadequate performance. The board of directors shall also ensure that the company's executive bodies act in accordance with the approved growth strategy and along the company's core lines of business.	1. The board of directors has the authority stipulated in the charter to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts. 2. The board of directors reviewed the report(s) by the sole executive body or members of the collective executive body on the implementation of the company's strategy.	☑ Full ☐ Partial ☐ None	
2.1.2	The board of directors shall define the main long-term targets of the company's operations, assess and approve its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business.	1. In the reporting period, the board of directors reviewed at its meetings matters related to the progress in the implementation of the strategy and its updates, approval of the company's financial and business plan (budget), and consideration of the implementation criteria and performance (including interim criteria and performance) of the company's strategy and business plans.	☑ Full ☐ Partial ☐ None	

2.1.3	The board of directors shall determine the principles of and approaches to organizing a risk management and internal control system in the company.	1. The board of directors has determined the principles of and approaches to organizing a risk management and internal control system in the company. 2. The board of directors assessed the risk management and internal control system in the company during the reporting period.	☑ Full ☐ Partial ☐ None
2.1.4	The board of directors shall define the company's policy on remuneration due to and/or reimbursement (compensation) of costs incurred by members of the board of directors, executive bodies, and other key executives of the company.	1. The company has developed and put in place the policy on remuneration and/or reimbursement (compensation) of costs of the members of the board of directors, executive bodies, and other key executives, approved by the board of directors. 2. In the reporting period, the board of directors reviewed at its meetings matters related to the said policy (policies).	☑ Full ☐ Partial ☐ None
2.1.5	The board of directors shall play a key role in preventing, identifying and settling internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and settling internal conflicts. 2. The company has set up a system for identification of transactions involving a conflict of interest, and a set of measures to resolve such conflicts.	☑ Full ☐ Partial ☐ None
2.1.6	The board of directors shall play a key role in ensuring the company's transparency, the timeliness and completeness of its information disclosures, and unhindered access to the company's documents for shareholders.	1. The board of directors has approved the regulations on information policy. 2. The company has designated the persons responsible for the implementation of the information policy.	☑ Full ☐ Partial ☐ None
2.1.7	The board of directors shall control the company's corporate governance practices and play a key role in its significant corporate events.	1. In the reporting period, the board of directors considered the matter of the company's corporate governance practices.	☑ Full ☐ Partial ☐ None
2.2	The board of directors shall be accountable to the company shareholders.		
2.2.1	Performance of the board of directors shall be disclosed and made available to the shareholders.	1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report contains key results of assessment of the board of directors' work in the reporting period.	☑ Full ☐ Partial ☐ None
2.2.2	The chairman of the board of directors shall be available to communicate with the company shareholders.	1. The company has in place a transparent procedure enabling shareholders to forward questions to the chairman of the board of directors and express their respective position.	☑ Full ☐ Partial ☐ None

2.3	The board of directors shall manage the company in an efficient and competent manner and make fair and independent judgements and decisions in line with the best interests of the company and its shareholders.		
2.3.1	Only persons with impeccable business and personal reputation, possessing the knowledge and expertise required to make decisions falling within the authority of the board of directors and to perform its functions efficiently, shall be elected to the board of directors.	1. The procedure for assessing the board of directors' performance established in the company includes, inter alia, assessment of professional qualifications of the board members. 2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors in terms of having the required experience, knowledge, business reputation, absence of a conflict of interest, etc.	☑ Full ☐ Partial ☐ None
2.3.2	The company's board of directors shall be elected as per a transparent procedure enabling shareholders to receive information about candidates which is sufficient to get an idea of their personal and professional qualities.	1. Whenever the agenda of the general shareholders meeting included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102–107 of the Code, as well as the nominees' written consent to be elected to the board of directors.	☑ Full ☐ Partial ☐ None
2.3.3	The board of directors shall be balanced, including in terms of qualifications of its members, their experience, knowledge and business qualities, and it shall have the trust of shareholders.	1. As part of assessment of the board of directors carried out in the reporting period, the board of directors analyzed its needs in terms of professional qualifications, experience, and business skills.	☑ Full ☐ Partial ☐ None
2.3.4	The company has a sufficient number of directors to organize the board of directors' activities in the most efficient way, including ability to set up committees of the board of directors and enable the company substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	1. As part of the assessment of the board of directors carried out in the reporting period, the board of directors considered whether the number of members on the board of directors was in line with the company's needs and with the interests of shareholders.	☑ Full ☐ Partial ☐ None

2.4	The board of directors shall include a sufficient number of independent directors.		
2.4.1	An independent director shall be a person of sufficient professionalism, experience and self-reliance to form his/her own opinion, able to make impartial judgements in good faith independent from the company's executive bodies, particular groups of shareholders or other stakeholders. It should also be taken into account that in normal conditions a candidate (elected to the board of directors) cannot be considered independent if he/she is related to the company, its significant shareholder or contractor, the company's competitor, or the government.	1. In the reporting period, all independent members of the board of directors met the independence criteria set forth in Recommendations 102–107 of the Code, or were deemed independent by resolution of the board of directors.	☑ Full ☐ Partial ☐ None
2.4.2	The compliance of candidates to the board of directors with the criteria for independence shall be assessed, and a regular review of compliance of independent members of the board of directors with such criteria shall be performed. Substance shall prevail over form in such assessments.	1. In the reporting period, the board of directors (or the nomination committee of the board of directors) formed its opinion on the independence of each nominee to the board of directors and presented respective opinions to shareholders. 2. In the reporting period, the board of directors (or the nomination committee of the board of directors) reviewed at least once the independence of the current members of the board of directors listed by the company in its annual report as independent directors. 3. The company has developed procedures defining the actions to be taken by a member of the board of directors if he/she ceases to be independent, including the obligation to timely notify the board of directors thereof.	☑ Full ☐ Partial ☐ None
2.4.3	At least one-third of the total elected number of members of the board of directors shall be constituted by independent directors.	1. At least one-third of the total number of members of the board of directors shall be constituted by independent directors.	☑ Full ☐ Partial ☐ None

2.4.4	Independent directors shall play a key role in preventing internal conflicts in the company and in the performance by the latter of material corporate actions.	1. Independent directors (who do not have a conflict of interest) carry out a preliminary assessment of material corporate actions implying a possible conflict of interest, and the results of such assessment are presented to the board of directors.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions. In the context of the currently ongoing reforms of corporate legislation and the absence of a uniform approach to defining "material corporate actions", the Company intends to amend its internal documents alongside with amendments to the applicable laws. The Company also organizes meetings of its President with Directors prior to each scheduled in-person meeting of the Board of Directors, to brief them on ongoing material transactions, negotiations underway, etc., to enable the Directors to assess their decisions, including for possible conflicts of interest.
2.5	The chairman of the board of directors shall facilitate the best performance of assigned duties by the board of directors.			
2.5.1	The board of directors shall be chaired by an independent director, or a senior independent director shall be chosen from among the elected independent directors to coordinate the activities of independent directors and enable the interaction with the chairman of the board of directors.	1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. 2. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.	☐ Full ☑ Partial ☐ None	Criterion 1 is not complied with. In the reporting year, the Chairman of the Board of Directors was a non-executive director, whereas independent directors did not appoint a senior independent director. The Chairman of the Board of Directors was elected unanimously by all Directors, recognizing his authority, substantial contribution to the Company's development, professional skills, and industry expertise. The Company admits that all Directors have equal rights and that independent directors have not appointed a senior independent director.
2.5.2	The chairman of the board of directors shall maintain a constructive environment at meetings, enable free discussions of agenda items, and supervise the execution of resolutions passed by the board of directors.	1. The performance of the chairman of the board of directors was assessed as part of the procedure for assessing the efficiency of the board of directors in the reporting period.	☑ Full ☐ Partial ☐ None	
2.5.3	The chairman of the board of directors shall take all steps necessary for the timely provision to members of the board of directors of information required to pass resolutions on agenda items.	1. The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to members of the board of directors of materials regarding items on the agenda of the board meeting.	☑ Full ☐ Partial ☐ None	

2.6	Members of the board of directors shall act reasonably and in good faith in the best interests of the company and its shareholders, relying on sufficient information, exercising due care and prudence.			
2.6.1	Members of the board of directors shall make decisions based on all information available, without conflict of interest, subject to equal treatment of the company shareholders, and assuming normal business risks.	1. The company's internal documents provide that a member of the board of directors shall notify the board of directors if he/she has a conflict of interest in respect of any issue on the agenda of the board meeting or the board's committee meeting, prior to the discussion of the relevant agenda item. 2. The company's internal documents provide that a member of the board of directors shall abstain from voting on any item in connection with which he/she has a conflict of interest. 3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.	☐ Full ☑ Partial ☐ None	Criterion 3 is partially not complied with. According to the Director Compensation and Expense Reimbursement Policy of PJSC "LUKOIL", expenses are reimbursed to Directors, including the costs incurred to engage advisors and experts and to receive relevant opinions on matters pertaining to activities of the Board of Directors, with the total not exceeding the budget allocated by the Company. The procedure for reimbursing to Directors their actual expenses related to engaging advisors and experts and receiving relevant opinions on matters pertaining to the activities of the Board of Directors, is set out in the Procedure for Remuneration and Reimbursement of Expenses of Members of the Board of Directors and Audit Commission of PJSC "LUKOIL". Regulations on committees of the Board of Directors also entitle committees to accept professional services from third-party organizations within the Committee's budget.
2.6.2	The rights and obligations of members of the board of directors shall be clearly defined and set out in the company's internal documents.	1. The company has adopted and published an internal document clearly defining the rights and obligations of members of the board of directors.	☑ Full ☐ Partial ☐ None	
2.6.3	Members of the board of directors shall have sufficient time to perform their duties.	1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period. 2. In accordance with the company's internal documents, members of the board of directors shall inform the board of their intentions to joint management bodies of other organizations (except for entities controlled by, or affiliated to, the company), or of the relevant appointment made.	☑ Full ☐ Partial ☐ None	

2.6.4	All directors have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible.	1. In accordance with the company's internal documents, members of the board of directors are entitled to have access to documents and make queries regarding the company and entities under its control, and the company's executive bodies must provide relevant information and documents. 2. The company has in place a formalized induction program for newly elected members of the board of directors.	☑ Full ☐ Partial ☐ None	
2.7	Meetings of the board of directors, preparation for such meetings and participation of the members of the board of directors shall ensure efficient performance by the board of directors.			
2.7.1	Meetings of the board of directors shall be held as needed, taking into account the scale of operations and goals of the company at a particular time.	1. The board of directors held at least six meetings in the reporting year.	☑ Full ☐ Partial ☐ None	
2.7.2	Internal regulations of the company shall provide a procedure for the preparation and holding of the board meetings, enabling members of the board of directors to prepare for such meetings in a proper manner.	1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting shall be given, as a rule, at least five days prior to such meeting.	☑ Full ☐ Partial ☐ None	
2.7.3	The format of the meeting of the board of directors shall be determined taking into account the importance of items on the agenda. The most important matters shall be dealt with at meetings of the board of directors held in person.	1. The company's charter or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. The Regulations on the Board of Directors of PJSC "LUKOIL" list items to be discussed only at in-person meetings of the Board of Directors. This list largely matches the list set out in Recommendation 168 of the Code; however, it reflects the existing practices of the Company's corporate governance and the distribution of roles among its governance bodies. For instance, due to the large number of the Company subsidiaries, coordination of their operations, including approvals of material transactions, are referred by the Charter to the jurisdiction of the Management Committee in order to accelerate the decision-making process. On the other hand, the level of decision-making on applying for delisting has been raised much higher than required by the Code – the Charter of PJSC "LUKOIL" refers this matter to the General Shareholders Meeting (to be convened as resolved by the meeting of the Board of Directors held in person).

2.7.4	Resolutions on most important matters relating to the company's operations shall be passed at a meeting of the board of directors by a qualified majority or by a majority of all elected board members.	1. The company's charter provides for resolutions on the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected board members.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. The Company's Charter provides for resolutions on certain material matters within the scope of authority of the Board of Directors (such as an increase in the charter capital, or public offering by the Company of its bonds or other issue grade securities) to be passed unanimously by all Directors. The most essential matters brought up for approval of the Board of Directors are subject to preliminary discussion by core committees of the Board of Directors, which ensures a unanimous approach to the final decision in most cases. In 2018, resolutions on the matters set out in paragraphs 1, 4, 6, 7, 10 of Recommendation 170 of the Code were passed by the Company's Board of Directors by a majority of at least three quarters of all Directors. The Board of Directors did not consider any matters set out in paragraphs 2, 3, 5, 8, 9 of Recommendation 170.
2.8	The board of directors shall set up committees for preliminary consideration of the most important issues related to the business of the company.			
2.8.1	To preview matters related to controlling the Company's financial and business activities, it is recommended to set up an audit committee comprised of independent directors.	1. The board of directors has set up an audit committee comprised solely of independent directors. 2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code. 3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analyzing, assessing and auditing accounting (financial) statements. 4. Meetings of the audit committee were held at least once a quarter during the reporting period.	☑ Full ☐ Partial ☐ None	
2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee shall be set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	1. The board of directors has set up a remuneration committee comprised solely of independent directors. 2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors. 3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. The Company combines the functions of the remuneration committee and the nomination committee within the HR and Compensation Committee of the Board of Directors. As at the end of the reporting year, the HR and Compensation Committee of the Board of Directors had two independent directors (one of them being the Chairman of the Committee while not being the Chairman of the

	Board of Directors) and one non-executive director. The Board of Directors aims to maximize involvement of independent directors in the activities of the Board's committees. However, the ratio between the number of independent directors (nominated and elected by the Company shareholders) and the strength of Committees provided for in the Company's internal documents, which exceeded the number of independent directors in the reporting year, is seen as a natural limit. The Company also believes that membership of independent directors in several Committees at a time results in higher pressure on independent directors and might prevent such independent directors from concentrating on matters considered by the relevant Committee. It also limits using the potential of non-executive directors. When establishing Committees, the Board of Directors also takes into account (along with the independence criterion) the personal professional expertise and track record of the director and their preference for a certain Committee, which would enhance their performance in the work of the Committee.
	Criterion 3 is partially not complied with. The functions and tasks of the HR and Compensation Committee, provided for by the Regulations on the HR and Compensation Committee of the Board of Directors of PJSC "LUKOIL", include the tasks listed in Recommendation 180 of the Code, save for the task specified in paragraph 5 of Recommendation 180 – selection of an independent advisor on remuneration of members of executive bodies and other key executives. This is due to the fact that until now the HR and Compensation Committee has never engaged an independent advisor for such purposes and does not intend to do so in the short term. The Company believes that such engagement will involve additional time to be spent on preparing and sending all necessary information to the advisor, as well as additional financial expenses for the Company and will eventually affect shareholders' income. However, the Company may engage such independent advisor should any substantial shareholders express their interest.

2.8.3	To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (appointments and HR) committee shall be set up, predominantly comprised of independent directors.	1. The board of directors has set up a nomination committee (or its tasks listed in Recommendation 186 of the Code are fulfilled by another committee) predominantly comprised of independent directors. 2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.	☐ Full ☑ Partial ☐ None	Criterion 2 is partially not complied with. The Company combines the functions of the remuneration committee and the nomination committee within the HR and Compensation Committee of the Board of Directors. The role and responsibilities of the HR and Compensation Committee, provided for by the Regulations on the HR and Compensation Committee of the Board of Directors of PJSC "LUKOIL", include (with minor text revisions) the tasks listed in Recommendation 186 of the Code, save for the task set out in paragraph 4 of Recommendation 186 (description of individual duties of directors and the chairman of the board of directors, including the time to be spent on the company's activities, both inside and outside meetings, as part of scheduled and unscheduled work). Time commitments of the Company's Directors considerably depend on the Board of Directors' and Committees' activity plans, the number of ad hoc meetings which cannot be predicted, and on involvement of a Director with one (or more) Committees (depending on the number of independent nominees and their professional expertise). The Board of Directors' responsibilities and Committees' tasks have also lately been enhanced to incorporate requirements of the Code. Therefore, it was difficult in the reporting year for the Company to reliably assess time commitment to estimate general hours for all Directors in the long term.
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	1. In the reporting period, the board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary.	☑ Full ☐ Partial ☐ None	

2.8.5	Committees shall be composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.	1. Committees of the board of directors are headed by independent directors. 2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.	☑ Full ☐ Partial ☐ None	
2.8.6	Committee chairmen shall inform the board of directors and its chairman on the work of their committees on a regular basis.	1. During the reporting period, committee chairmen reported to the board of directors on the work of committees on a regular basis.	☑ Full ☐ Partial ☐ None	
2.9	The board of directors shall ensure performance assessment of the board of directors, its committees and members of the board of directors.			
2.9.1	The board of directors' performance assessment shall be aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's development requirements, as well as bolstering the work of the board of directors and identifying areas for improvement.	1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual members of the board of directors and the board of directors in general. 2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. The self-assessment of the Board of Directors' performance carried out in the reporting period included the assessment of performance of Committees and the Board of Directors in general but did not include any formal assessment of individual Directors (except for assessment of the performance of the Chairman of the Board of Directors and Chairmen of the Board of Directors' Committees). The incumbent Directors of PJSC "LUKOIL" are unique in terms of their expertise, reputation, and involvement in other activities. They are representatives of business culture of different countries and, therefore, it is hard to formalize the procedure for their individual assessment.
2.9.2	Performance of the board of directors, its committees, and members shall be assessed regularly at least once a year. An external advisor shall be engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	1. The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.	☐ Full ☐ Partial ☑ None	Criterion 1 is not complied with. For the last three years, the Company did not engage an external entity to conduct an independent assessment of the Board of Directors' performance. The Company has an efficiently built internal procedure for evaluating the performance of the Board of Directors, developed with the assistance of an internationally recognized independent advisor. The Company may engage such independent advisor in the future.

3.1	The company's corporate secretary shall ensure efficient ongoing interaction with shareholders, coordinate the company's efforts to protect shareholder rights and interests and support the activities of the board of directors.			
3.1.1	The corporate secretary shall have the knowledge, experience and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	1. The company has adopted and published an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.	☑ Full ☐ Partial ☐ None	
3.1.2	The corporate secretary shall be sufficiently independent of the company's executive bodies and have the powers and resources required to perform his/her tasks.	1. The board of directors approves the appointment, dismissal and additional remuneration of the corporate secretary.	☑ Full ☐ Partial ☐ None	*Note.* *In accordance with paragraph 5.1 of the Regulations on the Corporate Secretary of PJSC "LUKOIL", the size of remuneration (official salary) of the Corporate Secretary is determined by the Board of Directors of PJSC "LUKOIL"; in accordance with paragraph 5.2 of the same, the cost of living adjustments and bonus payments for the Corporate Secretary are made in compliance with the Company's local regulations on remuneration, unless otherwise established by resolution of the Board of Directors.*
4.1	Remuneration payable by the company shall be sufficient to attract, motivate, and retain people with competencies and qualifications required by the company. Remuneration payable to the members of the board of directors, executive bodies and other key executive officers of the company shall be in compliance with the approved remuneration policy of the company.			
4.1.1	The amount of remuneration paid by the company to members of the board of directors, executive bodies and other key executives shall create sufficient incentives for them to work efficiently, while enabling the company to engage and retain competent and qualified specialists. At the same time, the company shall avoid unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees.	1. The company has in place an internal document (internal documents) – the policy (policies) on remuneration of members of the board of directors, executive bodies and other key executives, which clearly defines (define) the approaches to remuneration of the above persons.	☑ Full ☐ Partial ☐ None	
4.1.2	The company's remuneration policy shall be devised by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, shall ensure control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	1. During one reporting period, the remuneration committee considered the remuneration policy (policies) and the practical aspects of its (their) introduction and presented relevant recommendation to the board of directors as required.	☑ Full ☐ Partial ☐ None	

4.1.3	The company's remuneration policy shall include transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulate all types of expenses, benefits and privileges provided to such persons.	1. The company's remuneration policy (policies) includes (include) transparent mechanisms for determining the amount of remuneration due to members of the board of directors, executive bodies and other key executives of the company, and regulates (regulate) all types of expenses, benefits and privileges provided to such persons.	☑ Full ☐ Partial ☐ None	
4.1.4	The company shall define a policy on reimbursement (compensation) of costs detailing a list of reimbursable expenses and specifying service levels that members of the board of directors, executive bodies and other key executives of the company can claim. Such policy can make part of the company's remuneration policy.	1. The remuneration policy (policies) defines (define) the rules for reimbursement of costs incurred by members of the board of directors, executive bodies and other key executives of the company.	☑ Full ☐ Partial ☐ None	
4.2	Remuneration system of members of the board of directors shall ensure alignment of financial interests of the directors with long term financial interests of the shareholders.			
4.2.1	The company shall pay fixed annual remuneration to members of the board of directors. The company shall not pay remuneration for attending particular meetings of the board of directors or its committees. The company shall not apply any form of short-term motivation or additional financial incentive for members of the board of directors.	1. Fixed annual remuneration was the only form of monetary remuneration payable to members of the board of directors for their service on the board of directors during the reporting period.	☑ Full ☐ Partial ☐ None	
4.2.2	Long-term ownership of the company's shares shall help align the financial interests of members of the board of directors with long-term interests of shareholders to the utmost. At the same time, the company shall not link the right to dispose of shares to performance targets, and members of the board of directors shall not participate in stock option plans.	1. If the company's internal document(s) – the remuneration policy (policies) stipulates (stipulate) provision of the company's shares to members of the board of directors, clear rules for share ownership by board members shall be defined and disclosed, aimed at stimulating long-term ownership of such shares.	☑ Full ☐ Partial ☐ None	*Note.* *Internal documents of PJSC "LUKOIL" do not stipulate any share options for its Directors.*
4.2.3	The company shall not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.	1. The company shall not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.	☑ Full ☐ Partial ☐ None	

4.3	The company shall consider its performance and the personal contribution of each executive to the achievement of such performance, when determining the amount of a fee payable to members of the executive bodies and other key executive officers of the company.			
4.3.1	Remuneration due to members of executive bodies and other key executives of the company shall be determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution 1.	1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company. 2. During the latest assessment of the system of remuneration of members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration. 3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key executives of the company.	☐ Full ☑ Partial ☐ None	Criterion 3 is not complied with. The Company does not have in place a procedure that guarantees return to the Company of bonus payments illegally received by members of executive bodies and other key executives of the Company since the Company has a clear framework of bonus payments to members of executive bodies and other executives. Should any such situations arise, the Company will solve these issues in compliance with the applicable laws.
4.3.2	The company shall put in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	1. The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares). 2. The long-term incentive program for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this program shall take effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.	☐ Full ☑ Partial ☐ None	Criterion 2 is partially not complied with. The Long-Term Incentive Program for Key Employees of LUKOIL Group for 2018–2022 provides for other terms and conditions for the right to dispose of the shares used in the Program during its term. The Company believes, however, that the term of the above Program more efficiently supports the interest of the program members in achieving long-terms goals.
4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, shall not exceed the double amount of the fixed part of their annual remuneration.	1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.	☑ Full ☐ Partial ☐ None	

5.1	The company shall put in place an effective risk management and internal control system providing reasonable assurance in the achievement of the company's goals.			
5.1.1	The company's board of directors shall determine the principles of and approaches to organizing a risk management and internal control system at the company.	1. Functions of different management bodies and units of the company in the risk management system and internal control are clearly defined in the company's internal documents/relevant policy approved by the board of directors.	☑ Full ☐ Partial ☐ None	
5.1.2	The company's executive bodies shall ensure establishment and continuous operation of an efficient risk management and internal control system in the company.	1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal control between the heads (managers) of units and departments accountable to them.	☑ Full ☐ Partial ☐ None	
5.1.3	The company's risk management and internal control system ensures an objective, fair and clear representation of the current state of the company and its future prospects, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place the anti-corruption policy. 2. The company has arranged for accessible means of notifying the board of directors or the board's audit committee about violations of the law, the company's internal procedures and code of ethics.	☐ Full ☑ Partial ☐ None	Criterion 1 is not complied with. In 2018, the Company put into effect a new Code of Business Conduct and Ethics of Public Joint-Stock Company "Oil Company 'LUKOIL'". This document is a compilation of rules for individual and collective behavior and governs, inter alia, ethics of relations with business partners, government authorities, and public organizations countering the corruption. It also and contains standards preventing conflicts of interest. The Company also has in place the Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations approved by the Company's Management Committee, as well as other local anti-corruption regulations. The Company, however, has no unified internal document in place that would focus exclusively on anti-corruption, and the Company does not believe it necessary to adopt such a document in the short term as it would substantially overlap with the above documents.
5.1.4	The company's board of directors shall take necessary measures to make sure that the company's risk management and internal control system is consistent with the principles of, and approaches to, its setting up determined by the board of directors, and that the system is functioning efficiently.	1. In the reporting period, the board of directors or the board's audit committee assessed the efficiency of the company's risk management and internal control system. The information on the key results of this assessment is included in the company's annual report.	☑ Full ☐ Partial ☐ None	

5.2	The company shall perform internal audit for the regular independent assessment of the reliability and effectiveness of the risk management and internal control systems and corporate governance.		
5.2.1	The company shall set up a separate business unit or engage an independent external organization to carry out internal audits. The functional and administrative subordination of the internal audit unit shall be separated. The internal audit unit shall functionally report to the board of directors.	1. To perform internal audits, the company has set up a separate internal audit unit functionally reporting to the board of directors or the audit committee, or engaged an independent external organization under the same principle of subordination.	☑ Full ☐ Partial ☐ None
5.2.2	The internal audit division shall assess the performance of the internal control, risk management, and corporate governance systems. The company shall apply generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal control and risk management system was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal audit and risk management.	☑ Full ☐ Partial ☐ None
6.1	The company and its business shall be transparent for shareholders, investors, and other interested parties.		
6.1.1	The company shall develop and adopt an information policy ensuring an efficient exchange of information between the company, its shareholders, investors, and other interested parties.	1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations. 2. The board of directors (or one of its committees) considered the matters related to the company's compliance with its information policy at least once in the reporting period.	☑ Full ☐ Partial ☐ None
6.1.2	The company shall disclose information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of this Code.	1. The company discloses information on its corporate governance system and general principles of corporate governance applied in the company, in particular, on the corporate website. 2. The company discloses information on the composition of executive bodies and the board of directors, independence of the board members and their membership in the board's committees (as defined in the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out the latter's plans for the company's corporate governance.	☑ Full ☐ Partial ☐ None

6.2	The company shall make timely disclosures of complete, updated and reliable information to allow shareholders and investors to make informed decisions.		
6.2.1	The company shall disclose information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness, and comparability of disclosed data.	1. The company' information policy defines the approaches to, and criteria of, identification of information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company's securities are traded on foreign regulated markets, the company shall ensure concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting period. 3. If foreign shareholders hold a significant amount of the company's shares, during the reporting year, information was disclosed not only in the Russian language, but also in one of the most widespread foreign languages.	☑ Full ☐ Partial ☐ None
6.2.2	The company shall strive to avoid a formalistic approach to information disclosure, and to disclose critical information about its operations even if such disclosure is not required by law.	1. In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period contains annual financial statements prepared under the IFRS, along with the auditor's report. 2. The company discloses complete information on its capital structure, as stated in Recommendation 290 of the Code, in its annual report and on the official website of the company.	☑ Full ☐ Partial ☐ None
6.2.3	The annual report, as one of the most important tools of information exchange with shareholders and other stakeholders, shall contain information enabling assessment of the company's performance in the reporting year.	1. The company's annual report contains information on the key aspects of the company's operations and its financial results. 2. The company's annual report contains information on the environmental and social aspects of the company's operations.	☑ Full ☐ Partial ☐ None

6.3	The company shall provide information and documents as per the requests of shareholders in compliance with principles of fairness and ease of access.			
6.3.1	The company shall provide information and documents as per the requests of shareholders in compliance with principles of fairness and ease of access.	1. The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. The Company's information policy establishes the procedure for providing shareholders with easy access to the Company's information and documents, where shareholders are entitled to receive such information. The procedures for providing the Company shareholders with information and documents are detailed in the Regulations on Provision of Information to Shareholders of Public Joint-Stock Company "Oil Company 'LUKOIL'". When providing information requested by shareholders, the Company is guided by Article 91 of the Federal Law On Joint-Stock Companies that provides for no obligation of the Company to share information on legal entities controlled by it with its shareholders. The Company discloses brief information on legal entities controlled by it in the List of Affiliates and more detailed information on controlled legal entities material to the Company in quarterly issuer reports. In addition, the majority of PJSC "LUKOIL" subsidiaries, including those material to the Company, have their own websites which describe their operations. These websites can also be accessed via the PJSC "LUKOIL"'s official website.
6.3.2	When providing information to shareholders, the company shall ensure reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitiveness.	1. In the reporting period, the company did not refuse shareholders' requests for information, or such refusals were justified. 2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.	☑ Full ☐ Partial ☐ None	

7.1	Actions that significantly impact or may significantly impact the share capital structure or financial condition of the company and, respectively, shareholders position (material corporate actions) shall be fairly executed providing observance of rights and interests of shareholders and other stakeholders.			
7.1.1	Material corporate actions shall include restructuring of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of significant transactions, increase or reduction of the company's charter capital, listing or de-listing of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The charter of the company shall provide a list of transactions, or other actions classified as material corporate actions pertaining to the competence of the board of directors of the company.	1. The company's charter provides for a list of transactions or other actions classified as material corporate actions, and criteria for their identification. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general shareholders meeting, the board of directors presents relevant recommendations to shareholders. 2. Under the charter, material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in significant transactions, increase or reduce of the company's charter capital, listing or delisting of the company's shares.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. Criterion 2 is not complied with. The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions (see also the note to paragraph 2.4.4). The decision-making procedure (procedure for referring such decisions to the competence of the Board of Directors or the General Shareholders Meeting under the Company's Charter or relevant laws) recommended by the Code is met with respect to most corporate actions that are deemed by the Code to be material corporate actions. Following the established practices, when addressing the matter of preparing for and holding the General Shareholders Meeting of the Company, the Board of Directors approves the Board of Directors' position and recommendations for shareholders for voting on all agenda items, including those which may be regarded as material corporate actions. There are inconsistencies with the Code's recommendations with respect to transactions involving controlled legal entities, which are specified in Recommendation 307 of the Code and which the Code recommends to refer to the Board of Directors. Due to the large number of the Company subsidiaries, coordination of their operations, preliminary approval of their decisions regarding stakes in other entities, as well as decisions on acquiring subsoil licenses, which may result in investments exceeding an amount in rubles equivalent to USD 150 million, decisions to approve material transactions by the Company subsidiaries, and decisions on disposal of the Company's equity interests in other entities are referred by the Charter to the jurisdiction of the Management Committee. The Company also notes that the term "controlled legal entity material to the company" used in Recommendation 307 of the Code is used in the applicable Russian laws only for disclosure purposes. Therefore, until this term is consolidated in the corporate law, the Company's Charter cannot refer this matter to the jurisdiction of the Board of Directors.

7.1.2	The board of directors shall play a key role in making decisions or working out recommendations regarding material corporate actions, relying on the opinions of the company's independent directors.	1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions (see also the note to paragraph 2.4.4). In accordance with procedures provided for by the Regulations on the Board of Directors of PJSC "LUKOIL", all members of the Board of Directors may participate in debates, put forward proposals, make comments, and speak on the substance of the matter under discussion.
7.1.3	When taking material corporate actions affecting the rights and lawful interests of shareholders, equal terms and conditions shall be ensured for all shareholders of the company, and, in case of insufficient statutory mechanisms for protecting shareholder rights, additional measures shall be taken to protect the rights and lawful interests of the company's shareholders. In doing so, the company shall be guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	1. Taking into account the specifics of the company's operations, the company's charter establishes lower minimum criteria for the company's transactions to be deemed material corporate actions than those provided by law. 2. In the reporting period, all material corporate actions were subject to the approval procedure prior to execution.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions (see also the note to paragraph 2.4.4). Under the Company's Charter, the authority of the Board of Directors covers approval of a transaction or several associated transactions related to acquisition, disposal or potential disposal of property worth from 10% to 25% of the book value of the Company's assets, which exceeds the statutory requirements.

7.2	The company shall execute material corporate actions in such a way as to ensure that shareholders timely receive complete information about such actions, allowing them to influence such actions and guaranteeing adequate protection of their rights when performing such actions.			
7.2.1	Information about material corporate actions shall be disclosed with explanations of the grounds, circumstances and consequences.	1. In the reporting period, the company disclosed information about its material corporate actions in due time and in detail, including the grounds for, and timelines of, such actions.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially not complied with. The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions (see also the note to paragraph 2.4.4). In the reporting period, there were no such actions as reorganization of PJSC "LUKOIL"; acquisition of 30 or more percent of voting shares in PJSC "LUKOIL"; listing or delisting of shares in PJSC "LUKOIL"; or other actions that could lead to material changes in the rights of shareholders or to violation of their interests. In the reporting period, the Company reduced its charter capital through acquisition of a portion of PJSC "LUKOIL" issued shares in order to reduce the total number thereof. In doing so, the Company made timely and detail disclosures of all relevant information. The Company also timely disclosed information on PJSC "LUKOIL"'s transactions worth ten or more percent of the book value of its assets in line with the Regulations On Information Disclosure by Securities Issuers.
7.2.2	Rules and procedures related to material corporate actions taken by the company shall be set out in the company's internal documents.	1. The company's internal documents provide for the procedure for engaging an independent appraiser to determine the value of the property disposed of or acquired pursuant to a major transaction or an interested party transaction. 2. The company's internal documents provide for the procedure for engaging an independent appraiser to assess the value of the company's shares at their repurchase or redemption. 3. The company's internal documents provide for an expanded list of grounds on which members of the company's board of directors as well as other persons as per the applicable law are deemed to be interested parties to the company's transactions.	☐ Full ☑ Partial ☐ None	Criterion 3 is not complied with. The Company's internal documents do not provide for an expanded list of grounds on which the Company's Directors and other persons as per the applicable law are deemed to be interested parties to the Company's transactions. The Company duly notes that in 2017 amendments on interested party transactions to the Federal Law On Joint-Stock Companies came into force, reducing the scope of interested parties: to define interested parties, the term "affiliated" was replaced with the term "controlled", the procedure for entering into interested party transactions was simplified, and the list of transactions with parties that would appear to qualify as related but not subject to the rules on interested party transactions was expanded. The above amendments were made after the Code had come into force, were approved by the industry, relied on the accumulated expertise, and were aimed at reducing the number of interested party transactions and lowering the administrative burden on

	companies associated with approving transactions. The Company welcomes this trend and has no reasons to expand the list of grounds for transactions to be deemed interested party transactions in its internal documents. The Regulations on the Board of Directors of PJSC "LUKOIL" instruct Directors to: • notify the Board of Directors of any conflict of interest they may have in respect of any item on the agenda of the Board meeting or the Board's Committee meeting, prior to the discussion of the relevant agenda item; • abstain from voting on any item in connection with which they have a conflict of interest. The above instructions for Directors enable the Board of Directors to make unbiased decisions, and help restrict decision-making for Directors whose stance may be affected by circumstances not formalized in the applicable laws.

APPENDIX 2.

Risks

1. Macroeconomic risks	
Risk description	**Risk management**
Our financial performance could be adversely affected by macroeconomic changes due to global energy price volatility, FX fluctuations, inflation, and shifts in fiscal and monetary policies.	We use a scenario-based approach for macroeconomic forecasting. A base scenario is chosen to illustrate the most likely course of macroeconomic developments as according to our management, who also develop best-case and stress scenarios. The stress scenario aids in identifying the assets and investment projects most susceptible to negative macroeconomic changes, and management decisions are made based on its analysis.
2. Country risks	
Risk description	**Risk management**
PJSC LUKOIL operates in a number of countries with a high level of risk (Iraq, Egypt, Uzbekistan, and West African countries) which, should these risks materialize, could adversely impact and even halt our operations. Key factors that could have an adverse effect on business of PJSC LUKOIL in these countries: • Political disruption • Escalation of armed conflicts • Macroeconomic instability • Expropriation of the Company's assets Inefficiencies in the judicial system and flawed legal framework	Most of our production and refining assets are located within Russia, which limits our exposure to risk. We also seek to further diversify our international operations. We place higher requirements on the returns profile of our projects located in regions with high risk. Additionally, in case of adverse changes in the political or social and economic environment in a region of our operation, PJSC LUKOIL can implement a number of anti-crisis measures including cost reduction, investment program optimization, reducing our stake in a project, and engaging partners.
3. Price risks	
Risk description	**Risk management**
We have limited influence over the prices of our products, as they largely depend on regulatory actions and/or the market environment. Declines in crude oil and petroleum product prices could adversely impact our financial performance.	PJSC LUKOIL is a vertically integrated company that combines assets in oil production, refining, and distribution. This structure serves as a natural hedging technique, where different risk factors offset each other. Additionally, we implement a range of measures to mitigate price risks: • A scenario-based approach when designing strategic development programs, managing our investment project portfolio according to each project's price sensitivity • Commodity supply management, ensuring prompt responses to market changes and the ability to make arbitrage shipments • Hedging transactions in international operations
4. Industry risks	
4.1. Risks related to well construction and development of fields with hard-to-recover hydrocarbon reserves	
Risk description	**Risk management**
We and our contractors purchase the majority of our well construction equipment and materials from partners in the EU and USA. The ban on imports of equipment and materials could have an adverse effect on our operations.	We currently have a one-year supply of spare parts, equipment, and materials for use in our projects, and are also substituting reagents that are being sourced at present from the EU and USA, used to prepare and condition drilling muds, with products from Russia and other counties. We actively deploy Russian technology and substitute imported equipment with Russian equivalents. We are conducting pilot tests of Russian equipment and gradually deploying Russian multi-zone fracturing systems.

4.2. Risks of tariff and vendor price hikes	
Risk description	**Risk management**
We use third-party products and services, including transportation services, in our operations. The costs of procuring third-party products and services directly impact our financial performance. We engage transportation monopolies such as JSC RZD, PJSC Transneft, PJSC Gazprom, and other similar companies across the Group's geography. Their prices are revised upwards on a regular basis. We are also exposed to the risk of higher prices for other products and services, such as vehicle transportation, customs brokerage, and warehousing.	We minimize both the risk of higher tariffs charged by monopolies operating across the Company's geography and the risk of higher prices for other services by: • diversifying transportation channels, including the development of alternative routes • cooperating with other consumers to prevent accelerated tariff growth • using tender procedures to enter into long-term contracts with vendors • entering into long-term transportation agreements. To mitigate the risk of higher prices for other products and services, we enhance our tender procedures and encourage competition by broadening our list of suppliers of products and services.

4.3. Risk of non-discovery of reserves or unmet projections	
Risk description	**Risk management**
Non-discovery of commercially productive oil and gas reserves or reserves that do not meet the levels projected during prospecting drilling or new project implementation poses a risk, which may require expensing the subsequent costs while our financial performance is negatively affected.	We have been consistently improving our exploration technology and phase our operations when plans for the next phase are based on results of the one prior.

4.4. Subsoil use and licensing risks	
Risk description	**Risk management**
We face certain risks associated with the Russian legislation on subsoil use, exploration, and mining. The key risks include: • early termination of subsoil licenses or administrative fines due to a breach of license agreements • subsoil licenses not being granted to a company that has discovered a subsoil deposit of federal significance or a field within subsoil areas of federal significance, including users with foreign capital • non-acceptance of tender or auction application documents.	We mitigate subsoil use and licensing risks by: • monitoring changes in legislation on subsoil use and licensing while making proposals to update the existing legal framework • updating our list of open acreage areas that are of interest to the Group • preparing tender and auction applications and license renewal documents • running professional development training courses for licensing and subsoil use experts and sending experts to key subsoil use and licensing workshops • employing a dedicated information system to monitor subsoil use • liaising with regulatory authorities to avoid early termination of subsoil licenses.

5. Financial risks	
5.1. Liquidity risks	
Risk description	**Risk management**
High volatility in prices for oil, gas, and their derivatives, as well as foreign currency exchange rates, growth in tariffs and supplier prices, and other exogenous factors could cause discrepancies in our plans, budgets, and investment programs, thus leading to a shortage of liquidity and financing sources.	Our centralized and efficient, Group-wide liquidity management uses a rolling liquidity forecast as the main tool and continuously monitors liquidity ratios, assessing the sensitivity of the figures laid out in our plans, budgets, and investment programs to macroeconomic changes, automatic cash concentration and disbursement, and corporate dealing. If necessary, we adjust plans, reduce spending in transitioning to the stress scenario, shift payment and project implementation dates, include optional projects within a certain plan upon the macroeconomic situation improving, as well as ensure timely financing of our business activities. At the publication date of this Annual Report, PJSC LUKOIL had investment-grade ratings from three major international rating agencies – S&P (BBB), Fitch (BBB+), and Moody's (Baa2). We regularly monitor our financials to ensure they meet the requirements of rating agencies.
5.2. FX risks	
Risk description	**Risk management**
The bulk of our proceeds is derived from oil and petroleum product sales in US dollars, while the majority of operating and capital expenses are denominated in rubles. Therefore, FX fluctuations could have an effect on our financial performance.	We manage FX risks using a comprehensive approach, including natural hedging techniques, managing currency balances of monetary assets and obligations, and taking advantage of our geographic diversification.
5.3. Counterparty default and non-payment risks	
Risk description	**Risk management**
A counterparty default could cause underpayments or delayed payments for our supplied products. In the case of financing counterparties, a default may prevent us from withdrawing all or a part of funds from an account held with a counterparty, which could adversely affect our financial performance and require us to raise additional funding in order to meet our financial obligations.	We mitigate counterparty default and non-payment risks by doing business with third parties outside the Group on a prepayment basis or requiring letters of credit or bank guarantees from end customers. We conduct regular end-to-end analyses and use tools for rating banks and financial institutions to prepare a list of approved banking counterparties.
6. Legal risks	
Risk description	**Risk management**
Changes in tax, subsoil use, power generation sector and corporate governance could have an adverse effect on our financial performance.	We monitor legislative changes and take steps to obtain information about them at the preliminary discussion stage. Our representatives participate in such discussions to clarify our views on respective matters, as well as risks and uncertainties in relation to the proposed changes. Our representatives are involved in expert panels that discuss and develop effective means of applying new laws.
7. Securities trading risks	
Risk description	**Risk management**
PJSC LUKOIL securities are traded on regulated markets both within Russia and abroad. Changes to issuer requirements brought in by regulatory authorities and stock exchanges may require us to modify our corporate governance framework and adopt additional obligations in information disclosure and shareholder relations. Failure to comply with issuer requirements or meet obligations in a timely manner could cause our securities being downgraded to lower listing grades or to be delisted, potentially having an adverse effect on their liquidity and value.	We keep track of changes made to listing rules and the requirements of other stock exchanges and regulatory bodies. Our representatives participate in workshops and other events for issuers organized by stock exchanges and other organizations providing consulting and informational services to issuers. We also strive to adhere to international best practices of corporate governance.

8. Risks related to disclosure obligations	
Risk description	**Risk management**
We perform mandatory disclosures to maintain our securities on the stock exchange list, following the procedures and timelines established by regulatory and stock exchange requirements. Disclosures are made electronically by submitting information via the websites and emails of information disclosure agencies authorized by regulators. Issues affecting our engagement with information disclosure agencies, such as information system failures and technical failures, as well as cyber attacks, may cause a disruption in our ability to disclose required information on time, which could be considered as a breach of obligations and lead to the securities market regulator imposing a fine on PJSC LUKOIL and/or its management.	We mitigate engagement risks by signing agreements with several information disclosure agencies and providing information disclosures ahead of established timelines, so that the agencies have ample time to correct potential technical problems. If necessary, authorized employees of PJSC LUKOIL communicate with representatives from information disclosure agencies.

9. Reputational risks	
Risk description	**Risk management**
PJSC LUKOIL is exposed to various factors that may cause reputational risks, adversely impacting our financial performance and market value of our shares. This risk may occur due to both internal and external factors, including noncompliance with statutory requirements, constituent documents, and internal regulations, as well as through breach of contractual obligations, poor product quality, and a rise in negative perceptions of our financial stability and position.	To mitigate this risk, we make efforts to: • maintain regular communication with our stakeholders • provide unbiased information on financial and operational performance of PJSC LUKOIL in a timely manner • ensure continuous monitoring of PJSC LUKOIL compliance with statutory requirements and effective agreements • timely payments for services provided by counterparties. The Filling Stations Hotline has been set up to control the quality of our products and services and promptly address any comments and complaints. We pay close attention to safety and environmental protection, and operate in line with the best HSE standards. We place a great emphasis on social responsibility and creating favorable working conditions, maintaining and improving our effective occupational health and social security framework through targeted programs.

10. Strategic risks	
Risk description	**Risk management**
In the end of 2017, the Board of Directors approved the Strategic Development Program of LUKOIL Group for 2018–2027, which outlines key risks related to pursuing the program. The risks include delays in investment project implementation dates, low return on investments, a heavier tax burden, and operational accidents.	We regularly identify strategic risks when designing our strategy. As part of our strategic planning process, we assess the risks and effectiveness of various strategic initiatives and prepare a set of optimal strategic solutions in terms of risk/return ratio. To mitigate strategic risks, our management closely follows macroeconomic developments and industry trends, as well as analyzes the performance of our business units and peers. When designing the strategy and investment program, we actively use scenario and probabilistic modeling tools to assess various risks.

11. Other risks

11.1. Risk of terrorism and unlawful acts of third parties

Risk description	Risk management
We operate in several countries with a high risk of terrorism and other criminal acts made against assets of PJSC LUKOIL. We are also exposed to the risk of unlawful competitive practices including unfair competition, financial abuse or other kinds of abuse by employees, embezzlement, and theft of moneys or tangible assets.	We minimize these risks by: • participating in counter-terrorism events organized by the National Anti-Terrorism Committee, the Federal Security Service, and the Ministry of Internal Affairs of the Russian Federation • identifying employees who intentionally damage interests of PJSC LUKOIL in favor of third parties • planning and hosting events aimed at strengthening information security • using data encryption tools.

11.2. HSE risks

Risk description	Risk management
Our facilities are exposed to risks of process disruptions, hazardous releases, environmental damage, accidents, fires, and incidents that may result in unscheduled idle time.	To mitigate these risks, we designed and successfully deployed the Environmental Protection, Occupational Health and Safety Management System certified to ISO 14001 and OHSAS 18001, as well as implemented: • target corporate HSE programs • industrial control over the operation of hazardous production facilities • diagnostics (non-destructive testing) and monitoring of equipment performance • repair and timely replacement of equipment • a process ensuring contractors' end-to-end compliance with mandatory HSE requirements • development of leaders and our safety culture • the appointment of qualified staff across various business levels of the Group • special assessments and improvements in working conditions • development of the Plans to Localize and Mitigate the Consequences of Accidents at Hazardous Production Facilities (PLMA) and the Spill Prevention, Control, and Countermeasure (SPCC) Plans; maintaining a pool of emergency personnel and resources; and training personnel who operate hazardous production facilities as well as the emergency response teams applying PLMA and SPCC Plans • other measures aimed at reducing accident rates at LUKOIL Group entities.

11.3. Climate change risk	
Risk description	**Risk management**
Strengthened climate change regulations could adversely impact operations of PJSC LUKOIL as a major fossil fuel producer and greenhouse gas emitter by driving costs up and performance down. Additionally, PJSC LUKOIL operates in various regions with hard-to-predict potential climate change impacts that may result in a significant adverse effect.	We minimize this risk by: • recording greenhouse gas emissions and planning initiatives aimed at their regulation • monitoring legislative changes and taking steps to obtain information about them at the preliminary discussion stage, as well as ensuring our representatives participate during the preliminary discussions so that the risks and uncertainties that may arise from new legislative initiatives are clarified and our views in relation to the proposed changes have been represented • taking climate change risk into account when designing and constructing facilities in environmentally sensitive areas (the Far North, offshore facilities).

11.4. Risk of investment program non-delivery	
Risk description	**Risk management**
When implementing our investment projects, we face risks of cost overruns and delays in commissioning production facilities. Project delays and delays related to preparing design documentation and cost estimates, obtaining permits, entering into contracts, failing to meet deadlines, and changing field development roadmaps based on new geological data may lead to a deterioration in operating and investment project performance in future years.	We manage this risk by monitoring the progress of all our projects on a quarterly basis. The availability of initial permits for the coming year is monitored when drafting the investment program.

11.5. Risks related to competition	
Risk description	**Risk management**
The oil and gas industry is a highly competitive space. We compete with other major Russian and international companies in: • obtaining exploration and production licenses in auctions and tenders • purchasing assets, equipment, and stakes in new projects • engaging specialized third-party organizations to perform services • recruiting qualified and experienced staff • gaining access to key transportation infrastructure • developing, seeking out, purchasing, and deploying technologies • distributing finished products. Additionally, PJSC LUKOIL may be faced with the challenge of competing against alternative and green renewable energy providers.	PJSC LUKOIL is one of the largest vertically integrated oil companies in Russia and the world. Many years of robust performance has made the Group a leader in the industry and a strong contender. PJSC LUKOIL is recognized as a reliable partner with a stable financial position. We carry out strategic planning to reduce potential risks associated with increased competition. As part of our long-term vision of the market, we commit to the most lucrative assets and forms of equity participation. We regularly monitor the market situation to promptly respond to its changes and sharpen our competitive edge by developing the professional and managerial proficiency of our staff and introducing new technology into our operations and business processes.

11.6. Risk of shortages in qualified personnel	
Risk description	**Risk management**
Inadequate skills or qualifications of personnel may have an adverse effect on our financial performance.	To mitigate this risk, we focus on attracting young talent and university graduates as well as comprehensive development of our talent pool while maintaining and growing our succession pool, which consists of the most experienced and talented employees in the field.

11.7. Cyber risks	
Risk description	**Risk management**
Information technology and IT solutions for automating processes which affect our financial position and operational performance, the reliability of financial and accounting information, as well as our ability to fulfill our obligations and operate in a shared information environment are inevitably exposed to external and internal cyber-attack risks threatening the confidentiality, integrity, and availability of the information in our IT systems. We believe that we should safeguard our information and the means of its processing, as well as the data entrusted to us by government authorities, shareholders, business partners, and personal data against cyber risks.	We comply with recognized international standards and best practices in information security, strive to make better use of our deployed security measures, and constantly improve our internal information security services. However, evolving cyber threats also require constant readiness to repel unprecedented cyber attacks. The success of these efforts relies on early identification of new cyber threats before they are launched against the Company and real-time counteraction to cyber attacks, helping to prevent or minimize their consequences.

11.8. IT risks	
Risk description	**Risk management**
In addition to cyber risks threatening the confidentiality, integrity, and availability of information in the IT systems used by the Company, the information technology used to support our management and financial activities are exposed to risks not related to a breach of information security. These risks include the failure of projects aimed at building and upgrading IT systems, faults and failures in IT systems, an inability to obtain IT services from external suppliers, as well as the loss of our market share caused by a lag in deploying innovative digital technology.	In addressing risks related to running projects that build and upgrade IT systems, we apply and plan to improve modern development management practices and focus on proven technical solutions with reliable technical support. In addition to preventive measures aimed at mitigating risks, including the creation of a resilient IT infrastructure, testing IT systems prior to their commissioning, and monitoring changes, we also pay close attention to planning proactive actions upon a risk's occurrence to resume critical business operations and decision-making processes before the resulting impact becomes unacceptable. We mitigate risks related to external suppliers' participation in our IT services through our robust supplier selection and monitoring processes, as well as building internal skills for developing the most critical IT services for the Group. Sanction risk management activities are also in progress, and an action plan to respond to the toughened sanction regime has been prepared. We have included digitalization initiatives into our IT Strategy.

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APPENDIX 3.

Major and Interested Party Transactions

LIST OF TRANSACTIONS MADE BY PJSC "LUKOIL" IN 2018 AND RECOGNISED AS MAJOR TRANSACTIONS IN ACCORDANCE WITH THE FEDERAL LAW ON JOINT STOCK COMPANIES

In 2018 PJSC "LUKOIL" did not perform any transactions that are recognised as major transactions in accordance with the Federal Law On Joint Stock Companies.

INTERESTED PARTY TRANSACTION ENTERED INTO BY PJSC "LUKOIL" IN 2018, WHERE DECISIONS ON CONSENT TO PERFORM THE TRANSACTIOS IN ACCORDANCE WITH THE FEDERAL LAW «ON JOINT STOCK COMPANIES» WAS TAKEN BY THE ANNUAL GENERAL SHAREHOLDERS MEETING OF PJSC "LUKOIL" ON 21 JUNE 2018

1. Transaction No.	1
2. Price	Not more than USD 430,000 – Insurance premium for coverage A, B and C.
3. Names of parties	OAO Kapital Insurance (Insurer) PJSC "LUKOIL" (Policyholder)
4. Names of beneficiaries	Under Cover A – the sole executive body, members of management bodies, employees of PJSC "LUKOIL" and/or subsidiaries of PJSC "LUKOIL", and/or other organisations with the participation of PJSC "LUKOIL" and/or its subsidiary based on whose proposals the sole executive body and/or members of management bodies of such organisations were elected (hereinafter, the Insured Person). Under Cover B – PJSC "LUKOIL", subsidiaries of PJSC "LUKOIL", other organisations with the participation of PJSC "LUKOIL" and/or its subsidiary based on whose proposals the sole executive body and/or members of management bodies of such organisations were elected (hereinafter, the Company for the purposes of Cover B). Under Cover C – PJSC "LUKOIL", subsidiaries of PJSC "LUKOIL" (hereinafter the "Company"). The above parties are collectively named the Insured Parties.
5. Name of the transaction	Contract (Policy) on insuring the liability of directors, officers and companies (hereinafter the "Policy").
6. Subject of the transaction	The Insurer undertakes, for the payment stipulated in the Policy (Insurance Premium), to pay the insurance coverage (indemnification) under the Policy to (as the case may be) respective Insured and/or any other person entitled to such indemnification should any insured event specified in the Policy occur, within the insurance premium (liability limit) determined by the Policy. An insured event for the purposes of Cover A in respect of cover for the liability of any Insured Person for any Loss incurred by any third parties shall be deemed to be the onset of all of the following circumstances: (a) the liability of any Insured Person arising at any time prior to or during the Policy Period pursuant to applicable law as a consequence of the incurrence by any third parties of any Loss in connection with any Wrongful Act of the Insured Person, and (b) any Claim made against such Insured Person during the Period of Insurance (means the effective period during which the insurance set forth in the Policy shall be valid, starting from the first day of the Policy Period and ending on the expiry date of the Policy Period or, if there is a Discovery Period (a 60-day the period immediately following the expiry of the Policy Period or early termination/cancellation of the Policy, during which written notice may be given to the Insurer of any Claim first made during such period or during the Policy Period in connection with any Wrongful Act committed prior to the end of the Policy Period), ending on the expiry date of the Discovery Period). An insured event shall be deemed to have occurred upon the Claim being made subject to subsequent confirmation by the Insurer that the insured event has occurred or to a ruling that such insured event has occurred by a court, arbitral court, arbitral tribunal or other similar competent body/institution. The Policy also covers any Loss incurred by any Insured Person and/or which any Insured Person will incur subsequent to the Period of Insurance relating to liability for Loss incurred by any third parties (including, without limitation, in the event of any ruling by a court or arbitral court, arbitral tribunal or other similar competent body/institution subsequent to the Period of Insurance), but in connection with any Claim made during the Period of Insurance. For the purposes of Cover A the Insurer shall pay to or on behalf of any Insured Person any Loss related to any Claim first made against any Insured Person during the Policy Period or the Discovery Period (if applicable) and reported to the Insurer in writing pursuant to the terms of the Policy, except when and to the extent that the Company has indemnified such Loss. An insured event for the purposes of Cover B shall be deemed to be the incurrence of any expenses by any Company for the purposes of Cover B in connection with the indemnification for any Loss by such Company for the purposes of Cover B to any Insured Person

	and/or other person or entity in the interests of any Insured Person in connection with any Claim made against any Insured Person and/or the liability of any Insured Person for any Loss incurred by third parties. For the purposes of Cover B the Policy also covers such expenses incurred by any Company subsequent to the Period of Insurance but relating to any Claim made during the Period of Insurance and/or in connection with the liability of any Insured Person for any Loss incurred by third parties in relation to which a Claim was made during the Period of Insurance. For the purposes of Cover B the Insurer shall pay to or on behalf of any Company for the purposes of Cover B any Loss related to any Claim first made against any Insured Person during the Policy Period or the Discovery Period (if applicable) and reported to the Insurer in writing pursuant to the terms of the Policy, but only to the extent that such Company has indemnified such Loss for the purposes of Cover B. An insured event for the purposes of Cover C in respect of cover for the liability of any Company for any Loss incurred by any third parties shall be deemed to be the onset of all of the following circumstances: (a) the liability of any Company arising at any time prior to or during the Policy Period pursuant to applicable law as a consequence of the incurrence by any third parties of any Loss in connection with any Wrongful Act of the Company, and (b) any Securities Claim made against such Company during the Period of Insurance in connection with the Loss of any third parties. An insured event shall be deemed to have occurred upon the Securities Claim being made subject to subsequent confirmation by the Insurer that the insured event has occurred or to a ruling that such insured event has occurred by a court, arbitral court, arbitral tribunal or other similar competent body/institution. The Policy also covers any Loss incurred by any Company and/or which any Company will incur subsequent to the Period of Insurance relating to liability for Loss incurred by any third parties (including, without limitation, in the event of any ruling by a court or arbitral court, arbitral tribunal or similar competent body/institution subsequent to the Period of Insurance), but in connection with any Securities Claim made during the Period of Insurance. For the purposes of Cover C the Insurer shall pay to any Company or on behalf of any Company any Loss related to any Securities Claim first made against any Company during the Policy Period or the Discovery Period (if applicable) and reported to the Insurer in writing pursuant to the terms of the Policy. Insurance cover C is without any prejudice to Insurance cover A in respect of any Securities Claims.
7. Interested parties, grounds for being recognized as such	The President, members of the Board of Directors and the Management Committee of PJSC "LUKOIL" are simultaneously beneficiaries under the transaction.
8. Other material terms of the transaction	The policy is effective from 19 July 2018 through 18 July 2019. The insurance premium (liability limit) is at least USD 150,000,000 (total aggregate limit for Covers A, B and C, including legal defence costs). The insurance premium will be paid in roubles at the exchange rate determined by the Parties as of the date the Policy is signed, in accordance with the terms and conditions of the Policy.

LIST OF INTERESTED PARTY TRANSACTION ENTERED INTO BY PJSC «LUKOIL» IN 2018, WHERE DECISIONS ON CONSENT TO PERFORM THE TRANSACTION IN ACCORDANCE WITH THE FEDERAL LAW «ON JOINT STOCK COMPANIES» WERE TAKEN BY THE BOARD OF DIRECTORS OF PJSC «LUKOIL»»

1. Transaction No.	1
2.1. Price (amount in US dollars)	Credit line of USD 250,000,000, plus interest of no more than USD 20,550,000.
2.2. Price (amount in roubles)	Credit line of RUB 14,260,000,000, plus interest of no more than RUB 1,172,172,000.
3. Names of parties	PJSC "LUKOIL" (Guarantor) SOCIETE GENERALE (Lender)
4. Names of beneficiaries	LUKINTER FINANCE B.V. (Borrower)
5. Name of transaction	THE CONFIRMATION AND AMENDMENT DEED No.3 to the DEED OF GUARANTEE No.1510236 dated 22.04.2015 (Deed of Guarantee).
6. Subject of the transaction	Under the Deed of Guarantee and the Confirmation and Amendment Deeds Nos. 1-2 thereto, the Guarantor unconditionally and irrevocably guarantees the Lender the due and timely fulfilment of all of the obligations undertaken by the Borrower under the Facility Agreement signed between the Lender and the Borrower (Facility Agreement), for the amount of USD 250,000,000 plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable (or stated to be payable) by the Borrower under the Facility Agreement or in connection with it. Pursuant to the Confirmation and Amendment Deed No.3 to the Deed of Guarantee, the Guarantor confirms and agrees with the following amendments to the Facility Agreement: - Interest rate: LIBOR + 2.45 percent per annum; - Commitment fee – 0,75%; - Final Maturity Date: two years after the date Amendment Agreement No.3 to the Facility Agreement is signed.
7. Interested party, grounds for being recognised as such	Alexander Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V. Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Supervisory Board of LUKINTER FINANCE B.V. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V.
8. Other material terms of the transaction	The Confirmation and Amendment Deed No.3 to the Deed of Guarantee and any non-contractual obligations arising out of or in connection with it are governed by English law.
1. Transaction No.	2
2.1. Price (amount in US dollars)	USD 151,245,363.01
2.2. Price (amount in roubles)	RUB 8,562,000,000
3. Names of parties	PJSC "LUKOIL" (Seller) IOOO LUKOIL Belorussia (Buyer)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Supply Contract No.1710274 of 18.05.2017 (hereinafter the "Contract")
6. Subject of the transaction	The Contract stipulates that the Seller supplies the Buyer, on DAP NP Gomel terms, with the following products: diesel fuel of up to 100,000 metric tonnes of the following producers: OOO LUKOIL-Permnefteorgsintez and OOO LUKOIL Nizhegorodnefteorgsintez. Delivery schedule: from the date the Contract is signed through 31 May 2018 in line with the supply volumes approved by the Parties on a monthly basis. The total Contract value in Russian roubles calculated at the averaged price of the product supplied equals RUB 2,600,000,000. In accordance with the Supplemental Agreement to the Supply Contract: - increasing the quantity of Diesel fuel up to 300,000 metric tons; - to prolong delivery dates of Contract up to 31.05.2019 inclusive; - total cost of the Contract in Russian roubles calculated on the basis of the average price of supplied goods, amounts to 8,562,000,000 Russian roubles.
7. Interested party, grounds for being recognised as such	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of IOOO LUKOIL Belorussia.
8. Other material terms of the transaction	The Additional agreement enters into force from the time of its signing.

1. Transaction No.	3
2.1. Price (amount in US dollars)	Credit line of USD 200,000,000, plus interest of no more than USD 18,680,000
2.2. Price (amount in roubles)	Credit line RUB 12,354,000,000, plus interest of no more than RUB 1,153,863,600
3. Names of parties	PJSC "LUKOIL" (the Guarantor) UNICREDIT S.P.A. (the Lender)
4. Names of beneficiaries	LUKINTER FINANCE B.V. (Borrower)
5. Name of transaction	Deed of Guaranty (hereinafter – the Guarantee)
6. Subject of the transaction	Under the Guarantee the Guarantor unconditionally and irrevocably guarantees the Lender the due and timely fulfilment of all of the obligations undertaken by the Borrower under the Facility Agreement signed between the Lender and the Borrower (Facility Agreement), for the amount of USD 200,000,000 plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable (or stated to be payable) to the Lender under the Facility Agreement or in connection with it.
7. Interested party, grounds for being recognised as such	Alexander Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V. Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Supervisory Board of LUKINTER FINANCE B.V. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V.
8. Other material terms of the transaction	The Guarantee and any non-contractual obligations arising out of or in connection with it are governed by English law.
1. Transaction No.	4
2.1. Price (amount in US dollars)	Credit line of USD 200,000,000, plus interest of no more than USD 18,680,000; fee of no more than USD 4,000,000. The fee is not VAT-taxable.
2.2. Price (amount in roubles)	Credit line RUB 12,354,000,000, plus interest of no more than RUB 1,153,863,600; fee of no more than RUB 247,080,000. The fee is not VAT-taxable.
3. Names of parties	PJSC "LUKOIL" (the Guarantor) LUKINTER FINANCE B.V. (the Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Contract of Indemnity (hereinafter, the "Contract")
6. Subject of the transaction	The Parties have entered into the Contract in connection with the Deed of Guarantee (hereinafter – the Guarantee) to be signed by the Guarantor and UNICREDIT S.P.A. (the Bank) to ensure the Borrower's obligations before the Bank under the Facility agreement entered into on the date of the Deed (or a date close thereto) to the total amount of USD 200,000,000 (hereinafter -- Facility Agreement) plus all interest, forfeits, fines, penalties and other guaranteed amounts payable. The Parties have agreed that the amount paid by the Guarantor to the Bank in fulfillment of obligations under the Guarantee shall be deemed the amount payable by the Debtor to the Guarantor plus the interest for using the money on the terms and conditions, by the deadlines and in accordance with the procedure determined by the Contract.
7. Interested party, grounds for being recognised as such	Alexander Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V. Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Supervisory Board of LUKINTER FINANCE B.V. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V.

8. Other material terms of the transaction	The Debtor undertakes to pay the Guarantor the Guarantor's fee for providing the Deed. The cost of the Guarantee services provided to the Debtor equals 1% per annum of the amount of the Debtor's debt to the Bank under the Facility Agreement covered by the Guarantee calculated for each day of the reporting period. The said rate shall not change throughout the entire term of validity of the Contract unless stated otherwise by the Parties in writing. The actual number of days in a year (365/366) shall be used for calculating the amount of payment due for the Guarantee services to cover the Debtor's obligations. The Debtor shall pay the Guarantor interest of LIBOR 3M+3% per annum on the amount wire-transferred by the Guarantor to the Bank in fulfilment of obligations under the Deed. LIBOR 3M shall mean (for any payment) the London Inter-Bank offered USD deposit rates administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) with a three-months maturity as of 03:00 PM Moscow time two business days before the Guarantee obligations are executed by the Guarantor. The Contract shall enter into force from the date of signing and shall remain in effect until the Parties perform their obligations in full.
1. Transaction No.	5
2.1. Price (amount in US dollars)	The approximate value of the transaction is USD 505,340,347.52, including loan interest accrued.
2.2. Price (amount in roubles)	The approximate value of the transaction is RUB 31,700,000,000, including loan interest accrued.
3. Names of parties	PJSC "LUKOIL" (the Lender) LLC Bashneft-Polus (the Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Loan agreement № 1210022 of 19.01.2012 (hereinafter the "Agreement")
6. Subject of the transaction	The Lender will provide monetary funds to the Borrower in an amount of up to RUB 21,180,000,000, pursuant to the terms of the Agreement and the Supplemental Agreements thereto, and in accordance with the conditions and rules established by the Contract on the terms for financing by the Participants of the operations of Limited Liability Company Bashneft-Polus No. 1111116 dated 27 December 2011 (hereinafter the "Contract"), concluded between the Borrower, the Lender and Public Joint Stock Oil Company Bashneft (which is the second participant in LLC Bashneft-Polus), on conditions of repayment, interest payment, maturity and targeted use. The Borrower undertakes to use the monetary funds received for their targeted purpose, and to repay the amount of the loan received to the Lender and to pay the interest accrued thereon by the dates and according to the procedure established by the Agreement and Contract. In accordance with the Supplemental Agreement to the Agreement: 1. Point 2.1 of the Agreement shall be set out in a revised version whereby the funds will be granted on a revolving basis, with the total amount of debt determined as the amount in excess of the total amount of the Tranches actually provided over the amount of payments made by the Borrower to repay the Tranches granted thereto (the Debt) at any moment during the effective term of the Agreement may not exceed RUB 25,049,000,000. 2. Starting from 01.01.2018, the interest rate under the Agreement shall be revised and point 3.1 of the Agreement shall be set out in a revised version whereby interest will be calculated at the rate of 9.1 percent per annum. 3. Article 10 of the Agreement shall be set out in a revised version providing new details of the Lender.
7. Interested party, grounds for being recognised as such	Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of LLC Bashneft-Polus.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of its signing by the authorized representatives of the Parties and extends to the relations between the Parties arising from 01.01.2018, and with respect to point 3 - from 03.04.2018.
1. Transaction No.	6
2.1. Price (amount in Turkish Lira)	Credit line of TRY 120,000,000, plus interest of no more than TRY 23,665,440
2.2. Price (amount in roubles)	Credit line of RUB 1,618,632,000, plus interest of no more than RUB 319,213,653.98
3. Names of parties	PJSC "LUKOIL"(Guarantor) Citibank Anonim Şirketi (Bank)
4. Names of beneficiaries	LUKOIL EURASIA PETROL ANONIM ŞIRKETI (Principal)

5. Name of transaction	Amendment Agreement (hereinafter Amendment Agreement) to Corporate Guarantee for Specific Liabilities No. 1510488 dated 12 October 2015 (Guarantee)
6. Subject of the transaction	In accordance with the Guarantee and the Amendment Agreements thereto, the Guarantor guarantees to the Bank the due and punctual performance of all the Principal's Obligations under the Uncommitted Facility Agreement signed between the Principal and the Bank (Agreement) with the credit line terminating on the earlier of: 12 July 2019 or the date on which all of the Principal's and the Guarantor's payment obligations under the Agreement and the Guarantee respectively have been unconditionally and irrevocably paid and discharged in full, in the amount not exceeding TRY 170,000,000, plus all accrued interest, penalties, fees and documented costs, expenses and other amounts payable (or stated to be payable) to the Bank under with the Agreement. The Guarantor undertakes with the Bank that whenever the Principal does not pay any amount when due under or in connection with the Agreement, the Guarantor shall within five (5) Business Days of demand by the Bank pay that amount. In connection with the Amendment Agreement, the Guarantor and the Bank have agreed to make certain amendments to the terms and conditions of the Agreement as set out herein. - the total amount of the credit line shall be changed from TRY 170,000,000 (one hundred and seventy million Turkish Lira), to TRY 120,000,000 (one hundred and twenty million Turkish Lira), ; - the date of termination of the Guarantee shall be replaced as follows: this Guarantee shall terminate on the earlier of: 11 July 2020 provided that such termination shall not release the Guarantor from its obligations in respect of any demands or claims which the Bank has made either prior to or on that date; or the date on which all of the Principal's and the Guarantor's payment obligations under the Agreement and this Guarantee respectively have been unconditionally and irrevocably paid and discharged in full.
7. Interested party, grounds for being recognised as such	Pashaev Oleg Davidovich, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL EURASIA PETROL ANONIM ŞIRKETI.
8. Other material terms of the transaction	This Guarantee and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.
1. Transaction No.	7
2.1. Price (amount in Turkish Lira)	Credit line of TRY 120,000,000, plus interest of no more than TRY 23,665,440; fee of TRY 753,412.90
2.2. Price (amount in roubles)	Credit line of RUB 1,618,632,000, plus interest of no more than RUB 319,213,653.98; fee of RUB 10,162,485.24.
3. Names of parties	PJSC "LUKOIL"(Guarantor) LUKOIL EURASIA PETROL ANONIM ŞIRKETI (Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Supplementary Agreement to Contract of Indemnity No.1510468 of 12.10.2015 (hereinafter the "Contract")
6. Subject of the transaction	The Parties have entered into an agreement in connection with the Corporate Guarantee for Specific Liabilities (Guarantee) between the Guarantor and Citibank Anonim Şirketi (Bank) being entered into in order to guarantee to the Bank the due and punctual performance of all the Borrower's Obligations under the Uncommitted Facility Agreement (Credit line in Turkish Lira) for the aggregate amount of up to TRY 170,000,000 (Agreement), plus interest, fines, penalties and other guaranteed payments. The Parties have agreed that the amount paid by the Guarantor to the Bank in performance of obligations under the Guarantee shall be considered the amount due and payable by the Borrower to the Guarantor with interest, on the terms, by the deadlines, and pursuant to the procedure determined by the Contract. In accordance with the Supplementary Agreement to the Contract: - point 1.1 of the Contract shall be revised to stipulate that the aggregate amount of the Borrower's Obligations under the Agreement shall not exceed TRY 120,000,000, plus interest, forfeits, fines, penalties and other guaranteed payments; - in connection with decrease of the amount of the Borrower's Obligations to TRY 120,000,000 and extension of Contract of Indemnity based on the Supplementary Agreement thereto, the Borrower undertakes to pay the Guarantor the fee of TRY 753, 412.90, within 180 calendar days from the moment the Supplementary Agreement is signed. The Fee shall be paid by the Borrower in US dollars recalculated in Turkish Lira using the official exchange rates of the Russian Rouble to the Turkish Lira and the US dollar established by the Central Bank of the Russian Federation as of the date this service is provided.

7. Interested party, grounds for being recognised as such	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL EURASIA PETROL ANONIM ŞIRKETI.
8. Other material terms of the transaction	The Contract enters into force from the date of signing by the Parties.
1. Transaction No.	8
2.1. Price (amount in US dollars)	The estimated amount of the transaction is USD 1,303,287,351.06 (loan amount of USD 1,275,659,824.05 plus interest of USD 27,627,527.02.)
2.2. Price (amount in roubles)	The estimated amount of the transaction is RUB 88,884,197,342.63 (loan amount of RUB 87,000,000,000 plus interest of RUB 1,884,197,342.63.)
3. Names of parties	RITEK (Lender) PJSC "LUKOIL" (Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Loan Agreement No.1610385 of 02.08.2016 (hereinafter the "Agreement")
6. Subject of the transaction	In accordance with the Agreement and the Supplemental Agreement thereto, the Lender provides the Borrower with a revolving special-purpose loan (either in a lump sum or in instalments (tranches)) the total amount of debt on which may not exceed RUB 61,000,000,000 (excluding the possible increase of the loan amount under point 7.1 of the Agreement) at any time during the effective term of the Agreement, on the terms and conditions stipulated by the Agreement, and the Borrower undertakes to repay the funds received and to pay interest thereon within the deadlines and in accordance with the procedure stipulated in the Agreement. In accordance with the Supplemental Agreement to the Loan Agreement, point 1.1 of the Agreement is set out in a new version stipulating an increase of the loan amount to RUB 87,000,000,000.
7. Interested parties, grounds for being recognised as such, interested parties' equity share in the charter (joint stock) capital (percentage of the shares that belonged to the interested parties) of PJSC "LUKOIL" and the legal entity, a party to the transaction as of the transaction date[1]	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.01%, interested party's equity share in the charter capital of RITEK – 0%. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.007%, interested party's equity share in the charter capital of RITEK – 0%.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date it is signed by authorized representatives of the Parties.
1. Transaction No.	9
2.1. Price (amount in US dollars)	Credit line of USD 250,000,000, plus interest of no more than USD 24,185,650.
2.2. Price (amount in roubles)	Credit line of RUB 16,460,000,000, plus interest of no more than RUB 1,592,383,196.
3. Names of parties	PJSC "LUKOIL" (Guarantor) CITIBANK N.A., LONDON BRANCH (Lender)
4. Names of beneficiaries	LUKINTER FINANCE B.V. (Borrower)
5. Name of transaction	Deed of Confirmation of Guarantee (Guarantee Confirmation) to Guarantee No.1710237 of 12.04.2017 in connection with amendment to the Facility Agreement (Amendment Letter)
6. Subject of the transaction	In accordance with Guarantee No.1710237 of 12.04.2017 (hereinafter, the Guarantee), the Guarantor guarantees performance of the Borrower's obligations to the Lender under the facility agreement dated 12 April 2017 (hereinafter, the "Facility Agreement") for the principal amount of debt of USD 250,000,000, plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable to the Lender. In accordance with the Guarantee Confirmation the Guarantor confirms obligations under the Guarantee pursuant to an Amendment Letter to the Facility Agreement providing extension of the Facility Agreement for two years after the date of the above Amendment Letter and confirms that obligations under the Guarantee remain in full force and effect.

[1] The amount of the transaction exceeds 2 percent of the book value of the Company's assets as of the date of the transaction.

7. Interested party, grounds for being recognised as such	Aleksandr Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V. Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Supervisory Board of LUKINTER FINANCE B.V. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V.
8. Other material terms of the transaction	Guarantee Confirmation shall be governed by, and construed in accordance with, English law. Any dispute shall be referred to and finally resolved by arbitration under the LCIA Rules.
1. Transaction No.	10
2.1. Price (amount in US dollars)	Credit line of USD 250,000,000, plus interest of no more than USD 24,185,650; the fee of no more than USD 5,000,000
2.2. Price (amount in roubles)	Credit line of RUB 16,460,000,000, plus interest of no more than RUB 1,592,383,196; the fee of no more than RUB 329,200,000
3. Names of parties	PJSC "LUKOIL" (Guarantor) LUKINTER FINANCE B.V. (Debtor)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Indemnity Agreement No.1710198 of 12 April 2017 (hereinafter the Agreement).
6. Subject of the transaction	The Parties signed the Agreement in connection with the Deed of Guarantee issued by the Guarantor as a guarantee to CITIBANK N.A., LONDON BRANCH (the "Bank") for meeting the Debtor's liabilities worth USD 250,000,000 under the Facility Agreement between the Debtor and the Bank, plus interest, penalties, forfeits, fines and other amounts due and payable (Facility Agreement). The Parties have agreed to deem the amount paid by the Guarantor to the Bank in fulfillment of obligations under the Guarantee the amount payable by the Debtor to the Guarantor plus interest for the use of funds on the terms, within the deadlines and in accordance with the procedure defined by the Agreement. The Debtor is obliged to pay amounts to 0.88% per annum of the amount of the Debtor's obligations to the Bank under the Facility Agreement covered by the Guarantee and calculated for each day of the reporting period. In accordance with the Supplemental Agreement to the Agreement: - In connection with extending the maturity of the Guarantee - point 3.2 of the Contract is revised to stipulate that the cost of the service of the Guarantee for the Debtor's obligation amounts to 1% per annum of the amount of the Debtor's obligations to the Bank covered by the Bank under the Facility Agreement and calculated for each day of the reporting period. The said rate shall not change during the validity of the Agreement unless duly stipulated by the Parties in writing. In calculating the amount payable for the Service provided the actual number of days in a year shall be used (365/366). - Clause 15 "Addresses and details of Parties" of the Agreement shall be revised.
7. Interested party, grounds for being recognised as such	Aleksandr Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V. Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Supervisory Board of LUKINTER FINANCE B.V. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V.
8. Other material terms of the transaction	Supplemental Agreement shall become effective upon being signed by the Parties.

APPENDIX 4.

Transactions with PJSC LUKOIL Ordinary Shares by Members of the Board of Directors and Management Committee of PJSC LUKOIL

INFORMATION ON TRANSACTIONS WITH PJSC "LUKOIL" ORDINARY SHARES/DRS PERFORMED BY MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT COMMITTEE OF PJSC "LUKOIL" IN 2018

BoD / Management Committee member	Type of transaction	Date of transaction	Number of shares / DRs
Vagit Alekperov	purchase	31.01.2018	100,000
	purchase	30.03.2018	30,000
	purchase	13.04.2018	75,000
	purchase	21.09.2018	21,000
	purchase	21.12.2018	123,500
Vadim Vorobyov	purchase	06.02.2018	41,334
	purchase	12.09.2018	5,325
Ravil Maganov	purchase	07.02.2018	22,000
	purchase	10.04.2018	18,211
	purchase	13.09.2018	1,886
Ilya Mandrik	purchase	09.04.2018	11,562
	purchase	09.04.2018	17,125
	purchase	03.11.2018	3,507
	purchase	03.11.2018	260
Ivan Maslyaev	purchase	14.06.2018	14,668
	purchase	15.06.2018	11,070
	purchase	17.12.2018	3,648
Alexander Matytsyn	purchase	10.04.2018	28,427
Anatoly Moskalenko	purchase	09.02.2018	8,049
Stanislav Nikitin	purchase	07.02.2018	11,919
Oleg Pashaev	purchase	24.01.2018	2,258
	purchase	12.07.2018	8,966
	purchase	13.07.2018	444
	purchase	17.12.2018	1,835
Denis Rogachev	purchase	15.10.2018	15,141
Gennady Fedotov	purchase	13.02.2018	27,463
	purchase	14.02.2018	148
	purchase	07.06.2018	691
	purchase	08.06.2018	9
	purchase	09.06.2018	1
	purchase	29.11.2018	4,009
Leonid Fedun	purchase	30.01.2018	2,029
	purchase	13.04.2018	20,600
Lyubov Khoba	purchase	10.04.2018	27,176
Azat Shamsuarov	purchase	07.02.2018	28,370
	transfer by gift	22.03.2018	28,370
	purchase	19.10.2018	4,257

APPENDIX 5.

Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations

PJSC LUKOIL

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

KPMG

Independent Auditors' Report

To the Shareholders of PJSC LUKOIL

Opinion

We have audited the consolidated financial statements of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a

Audited entity: Public Joint Stock Company "Oil company "LUKOIL".

Registration No. in the Unified State Register of Legal Entities 1027700035769.

Moscow, Russia.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

separate opinion on these matters.

Recoverability of Property, plant and equipment (PP&E) in exploration and production segment	
Please refer to the Note 12 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Due to continuing volatility in commodity prices, there is a risk of irrecoverability of the Group's PP&E balance in exploration and production segment, which is material to the financial statements as at 31 December 2018. Because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.	In this area our audit procedures included testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow models. We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group. We assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and discount rates. We compared the short-term price assumptions used by management, which represent a critical judgement, to the market forward curves. We also compared the short and long-term assumptions to views published by brokers, economists, consultancies and respected industry bodies, which provided a range of relevant third-party data points. We also considered whether the sensitivity of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of PP&E in exploration and production segment.

Estimation of oil and gas reserves and resources	
Please refer to the Note 4 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The estimate of oil and gas reserves and resources has a significant impact on the financial statements, particularly impairment testing and depreciation, depletion and amortization (DD&A) charges. The principal risk is in relation to	In this area our audit procedures included the assessment of the competence, capabilities and objectivity of reservoir engineers, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation. Where volumetric movements had a material impact on the consolidated financial statements, we validated these volumes against underlying information and documentation, along with

management's assessment of future cash flows, which are used to project the recoverability of property, plant and equipment as described above.	checking that assumptions used to estimate reserves and resources were made in compliance with relevant regulations.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion & Analysis of Financial Condition and Results of Operations but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be

communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

A.I. Oussov
JSC "KPMG"
Moscow, Russia
4 March 2019

PJSC LUKOIL
Consolidated Statement of Financial Position
(Millions of Russian rubles)

	Note	31 December 2018	31 December 2017
Assets			
Current assets			
Cash and cash equivalents	6	492,650	330,390
Accounts receivable, net	7	429,945	418,272
Other current financial assets		26,200	19,561
Inventories	8	381,737	398,186
Prepaid taxes	9	95,611	87,338
Other current assets	10	52,336	54,367
Total current assets		**1,478,479**	**1,308,114**
Property, plant and equipment	12	3,829,164	3,575,165
Investments in associates and joint ventures	11	228,053	164,286
Other non-current financial assets	13	82,568	79,717
Deferred income tax assets	26	31,041	25,128
Goodwill and other intangible assets	14	41,765	41,304
Other non-current assets		41,312	32,501
Total non-current assets		**4,253,903**	**3,918,101**
Total assets		**5,732,382**	**5,226,215**
Liabilities and equity			
Current liabilities			
Accounts payable	15	547,128	559,977
Short-term borrowings and current portion of long-term debt	16	99,625	128,713
Taxes payable	18	123,974	118,484
Provisions	20, 21	38,266	58,253
Other current liabilities	19	105,567	93,420
Total current liabilities		**914,560**	**958,847**
Long-term debt	17	435,422	487,647
Deferred income tax liabilities	26	258,836	237,980
Provisions	20, 21	47,923	47,962
Other non-current liabilities		2,115	3,380
Total non-current liabilities		**744,296**	**776,969**
Total liabilities		**1,658,856**	**1,735,816**
Equity	22		
Share capital		1,015	1,151
Treasury shares		(134,810)	(251,089)
Additional paid-in capital		39,173	129,641
Other reserves		196,554	27,090
Retained earnings		3,963,628	3,576,158
Total equity attributable to PJSC LUKOIL shareholders		**4,065,560**	**3,482,951**
Non-controlling interests		7,966	7,448
Total equity		**4,073,526**	**3,490,399**
Total liabilities and equity		**5,732,382**	**5,226,215**

President of PJSC LUKOIL
Alekperov V.Y.

Chief accountant of PJSC LUKOIL
Verkhov V.A.

The accompanying notes are an integral part of these consolidated financial statements.

PJSC LUKOIL
Consolidated Statement of Profit or Loss and Other Comprehensive Income
(Millions of Russian rubles, unless otherwise noted)

	Note	2018	2017
Revenues			
Sales (including excise and export tariffs)	31	8,035,889	5,936,705
Costs and other deductions			
Operating expenses		(464,467)	(456,765)
Cost of purchased crude oil, gas and products		(4,534,244)	(3,129,864)
Transportation expenses		(270,153)	(272,792)
Selling, general and administrative expenses		(192,433)	(165,331)
Depreciation, depletion and amortisation		(343,085)	(325,054)
Taxes other than income taxes		(899,383)	(606,510)
Excise and export tariffs		(556,827)	(461,525)
Exploration expenses		(3,582)	(12,348)
Profit from operating activities		**771,715**	**506,516**
Finance income	24	19,530	15,151
Finance costs	24	(38,298)	(27,331)
Equity share in income of affiliates	11	25,243	16,864
Foreign exchange gain (loss)		33,763	(19,948)
Other (expenses) income	25	(38,934)	32,932
Profit before income taxes		**773,019**	**524,184**
Current income taxes		(137,062)	(99,976)
Deferred income taxes		(14,855)	(3,786)
Total income tax expense	26	**(151,917)**	**(103,762)**
Profit for the year		**621,102**	**420,422**
Profit for the year attributable to non-controlling interests		(1,928)	(1,617)
Profit for the year attributable to PJSC LUKOIL shareholders		**619,174**	**418,805**
Other comprehensive income (loss), net of income taxes			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations		172,037	2,626
Items that will never be reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income		(2,393)	(2,180)
Remeasurements of defined benefit liability/asset of pension plan	21	(196)	(2,325)
Other comprehensive income (loss)		**169,448**	**(1,879)**
Total comprehensive income for the year		**790,550**	**418,543**
Total comprehensive income for the year attributable to non-controlling interests		(1,912)	(1,650)
Total comprehensive income for the year attributable to PJSC LUKOIL shareholders		**788,638**	**416,893**
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):	22		
Basic		874.47	589.14
Diluted		865.19	589.14

The accompanying notes are an integral part of these consolidated financial statements.

PJSC LUKOIL
Consolidated Statement of Changes in Equity
(Millions of Russian rubles)

	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2017	1,151	(251,089)	129,641	27,090	3,576,158	**3,482,951**	7,448	**3,490,399**
Adjustment on adoption of IFRS 9, net of tax	-	-	-	-	(6,831)	**(6,831)**	-	**(6,831)**
1 January 2018	1,151	(251,089)	129,641	27,090	3,569,327	**3,476,120**	7,448	**3,483,568**
Profit for the year	-	-	-	-	619,174	**619,174**	1,928	**621,102**
Other comprehensive income	-	-	-	169,464	-	**169,464**	(16)	**169,448**
Total comprehensive income				**169,464**	**619,174**	**788,638**	**1,912**	**790,550**
Dividends on common stock	-	-	-	-	(158,635)	**(158,635)**	-	**(158,635)**
Stock purchased	-	(62,916)	-	-	-	**(62,916)**	-	**(62,916)**
Equity-settled share-based compensation plan	-	-	-	-	22,284	**22,284**	-	**22,284**
Share capital reduction	(136)	179,195	(90,537)	-	(88,522)	**-**	-	**-**
Changes in non-controlling interests	-	-	69	-	-	**69**	(1,394)	**(1,325)**
31 December 2018	**1,015**	**(134,810)**	**39,173**	**196,554**	**3,963,628**	**4,065,560**	**7,966**	**4,073,526**
31 December 2016	1,151	(241,615)	129,514	28,975	3,302,855	**3,220,880**	6,784	**3,227,664**
Profit for the year	-	-	-	-	418,805	**418,805**	1,617	**420,422**
Other comprehensive income:	-	-	-	(1,885)	(27)	**(1,912)**	33	**(1,879)**
Total comprehensive income (loss)				**(1,885)**	**418,778**	**416,893**	**1,650**	**418,543**
Dividends on common shares	-	-	-	-	(145,475)	**(145,475)**	-	**(145,475)**
Stock purchased	-	(9,474)	-	-	-	**(9,474)**	-	**(9,474)**
Changes in non-controlling interests	-	-	127	-	-	**127**	(986)	**(859)**
31 December 2017	**1,151**	**(251,089)**	**129,641**	**27,090**	**3,576,158**	**3,482,951**	**7,448**	**3,490,399**

The accompanying notes are an integral part of these consolidated financial statements.

PJSC LUKOIL
Consolidated Statement of Cash Flows
(Millions of Russian rubles)

	Note	2018	2017
Cash flows from operating activities			
Profit for the year attributable to PJSC LUKOIL shareholders		**619,174**	**418,805**
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		343,085	325,054
Equity share in income of affiliates, net of dividends received		(17,956)	(7,401)
Dry hole write-offs		1,667	9,445
Loss (gain) on disposals and impairments of assets		26,061	(39,351)
Income tax expense		151,917	103,762
Non-cash foreign exchange (gain) loss		(33,041)	20,917
Finance income		(19,530)	(15,151)
Finance costs		38,298	27,331
Allowance for expected credit losses		(949)	6,139
Equity-settled share-based compensation plan		31,359	-
All other items – net		6,083	4,020
Changes in operating assets and liabilities:			
Trade accounts receivable		23,877	(84,055)
Inventories		71,565	(9,350)
Accounts payable		(92,508)	27,720
Other taxes		(8,460)	21,538
Other current assets and liabilities		(28,066)	19,164
Income tax paid		(133,064)	(88,323)
Dividends received		7,527	7,907
Interests received		19,612	10,319
Net cash provided by operating activities		**1,006,651**	**758,490**
Cash flows from investing activities			
Acquisition of licenses		(153)	(612)
Capital expenditures		(451,526)	(511,496)
Proceeds from sale of property, plant and equipment		4,765	1,649
Purchases of financial assets		(7,535)	(5,926)
Proceeds from sale of financial assets		36,309	12,309
Sale of subsidiaries, net of cash disposed		-	80,939
Sale of equity method affiliates		-	957
Acquisitions of subsidiaries, net of cash acquired		-	(7,391)
Acquisitions of equity method affiliates		(2,252)	(3,715)
Net cash used in investing activities		**(420,392)**	**(433,286)**
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings		19,502	9,526
Principal repayments of short-term borrowings		(10,909)	(7,575)
Proceeds from issuance of long-term debt		39,786	68,049
Principal repayments of long-term debt		(256,771)	(127,606)
Interests paid		(39,921)	(38,872)
Dividends paid on Company common shares		(158,370)	(138,810)
Dividends paid to non-controlling interest shareholders		(1,995)	(2,689)
Financing received from non-controlling interest shareholders		118	31
Purchase of Company's stock		(59,993)	(9,474)
Sale of non-controlling interests		4	30
Purchases of non-controlling interest		-	(5)
Net cash used in financing activities		**(468,549)**	**(247,395)**
Effect of exchange rate changes on cash and cash equivalents		44,550	(8,786)
Net increase in cash and cash equivalents		**162,260**	**69,023**
Cash and cash equivalents at beginning of year		330,390	261,367
Cash and cash equivalents at end of year	6	**492,650**	**330,390**

The accompanying notes are an integral part of these consolidated financial statements.

PJSC LUKOIL
Notes to Consolidated Financial Statements
(Millions of Russian rubles, unless otherwise noted)

Note 1. Organisation and environment

The primary activities of PJSC LUKOIL (the "Company") and its subsidiaries (together, the "Group") are oil exploration, production, refining, marketing and distribution. The Company is the ultimate parent entity of this vertically integrated group of companies.

The Group was established in accordance with Presidential Decree No. 1403, issued on 17 November 1992. Under this decree, on 5 April 1993, the Government of the Russian Federation transferred to the Company 51% of the voting shares of fifteen enterprises. Under Government Resolution No. 861 issued on 1 September 1995, a further nine enterprises were transferred to the Group during 1995. Since 1995, the Group has carried out a share exchange program to increase its shareholding in each of the twenty-four founding subsidiaries to 100%.

From formation, the Group has expanded substantially through consolidation of its interests, acquisition of new companies and establishment of new businesses.

Business and economic environment

The accompanying consolidated financial statements reflect management's assessment of the impact of the business environment in the countries in which the Group operates on the operations and the financial position of the Group. The future business environments may differ from management's assessment.

Note 2. Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been prepared on a historical cost basis, except certain assets and liabilities measured at fair value.

The consolidated financial statements were authorised by the President of the Company on 4 March 2019.

Functional and presentation currency

The functional currency of each of the Group's consolidated companies is the currency of the primary economic environment in which the company operates. The management has analysed factors that influence the choice of functional currency and has determined the functional currency for each Group company. For the majority of them the functional currency is the local currency. The functional currency of the Company is the Russian ruble ("RUB").

The presentation currency of the Group is the RUB. All financial information presented in the RUB has been rounded to the nearest million, except when otherwise indicated.

The results and financial position of Group companies whose functional currency is different from the presentation currency of the Group are translated into presentation currency using the following procedures. Assets and liabilities are translated at period-end exchange rates, income and expenses are translated at rates which approximate actual rates at the date of the transaction. Resulting exchange differences are recognised in other comprehensive income.

Note 3. Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the financial position and results of operations of the Company and controlled subsidiaries. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in companies that the Group does not control, but where it has the ability to exercise significant influence (Group's interests are between 20% and 50%) over operating and financial policies, are accounted for using the equity method. These investments include the Group's interests in associates, joint ventures and investments where the Company owns the majority of the voting interest but has no control. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Group's share in jointly controled operations is recognised in the consolidated financial statements based on its share in assets, liabilities, income and expenses. Jointly controlled operations are arrangements in which parties that have joint control over operating or financial policies have respective rights to use assets and responsibility for liabilities in the arrangements.

Business combinations

For each business combination the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of previous transactions. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the fair value of acquiree's identifiable net assets at the acquisition date.

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Note 3. Summary of significant accounting policies (continued)

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated during the process of consolidation. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of financial assets measured at fair value through other comprehensive income which are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of in a way that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss. When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Revenues

Revenues are recognised when a customer obtains control of the goods or services which usually occurs when the title is passed, provided that risks and rewards of ownership are assumed by the customer and the customer obtains obligation to pay for the goods or services.

Note 3. Summary of significant accounting policies (continued)

Revenues include excise on petroleum products' sales and duties on export sales of crude oil and petroleum products.

Revenue from the production of oil and natural gas in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing contracts.

Revenues from non-cash sales are recognised at the fair value of the crude oil and petroleum products sold. If the fair value of the non-cash consideration cannot be reasonably estimated, the consideration shall be measured indirectly by reference to the stand-alone selling price of the goods or services promised to the customer in exchange for the consideration.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Financial assets

The Group classifies financial assets into the following categories, as appropriate: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However the Company may make an irrevocable election at initial recognition for particular instruments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Group initially recognises as financial assets loans and receivables on the date when they are originated and debt securities on the date when they are acquired. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs.

Note 3. Summary of significant accounting policies (continued)

Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Derivative instruments

The Group uses various derivative financial instruments to hedge its commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently re-measured at fair value. Resulting realised and unrealised gains or losses are presented in profit or loss on a net basis. The Group does not use hedge accounting.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other delivery costs. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The disposal of finished goods is accounted for using the first-in first-out principle, the disposal of other inventories by using the "average cost" method.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment of major subsidiaries at 1 January 2014, the Group's date of transition to IFRSs, was determined by reference to its fair value at that date.

The Group recognises exploration and evaluation costs using the successful efforts method. Under this method, all costs related to exploration and evaluation are capitalised and accounted for as construction in progress in the amount incurred less impairment (if any) until the discovery (or absence) of economically feasible oil and gas reserves has been established. When the technical feasibility and commercial viability of reserves extraction is confirmed, exploration and evaluation assets should be reclassified into property, plant and equipment. Prior to reclassification these assets should be reviewed for impairment and impairment loss (if any) expensed to the financial results. If the exploration and evaluation activity is evaluated as unsuccessful, the costs incurred should be expensed.

Depreciation, depletion and amortisation of capitalised costs of oil and gas properties is calculated using the unit-of-production method based upon proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

Depreciation, depletion and amortisation of the capitalised costs of risk service contract oil and gas properties is calculated using a depletion factor calculated as the ratio of value of the applicable crude oil production for the period to the total capitalised costs to be recovered.

Depreciation of assets not directly associated with production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

Buildings and constructions	5 – 40 years
Machinery and equipment	3 – 20 years

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Production and related overhead costs are expensed as incurred.

Note 3. Summary of significant accounting policies (continued)

In addition to production assets, certain Group companies also maintain and construct social assets for the use of local communities. Such assets are capitalised only to the extent that they are expected to result in future economic benefits to the Group. If capitalised, they are depreciated over their estimated economic lives.

Impairment of non-current non-financial assets

The carrying amounts of the Group's non-current non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or related cash-generating unit ("CGU").

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to group of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Significant unproved properties are assessed for impairment individually on a regular basis and any estimated impairment is charged to expense.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Asset retirement obligations

The Group records the present value of the estimated future costs to settle its legal obligations to abandon, dismantle or otherwise retire tangible non-current non-financial assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related non-current non-financial assets is also recorded. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the same method as asset to be abandoned, dismantled or otherwise retired. Changes in the estimates of asset retirement obligations ("ARO") occur as a result of changes in cost and timing of liquidation or change of discount rates and are accounted as part of cost of property, plant and equipment in the current period.

Assets classified as held for sale

Assets classified as held for sale are separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities classified as held for sale are presented in current assets and liabilities of the consolidated statement of financial position.

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Note 3. Summary of significant accounting policies (continued)

Income taxes

Deferred income tax assets and liabilities are recognised in respect of the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities for the purposes of the consolidated statement of financial position and their respective tax bases. But as opposed to deferred tax liabilities, deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Similarly a deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available. At the end of each reporting period realizability of deferred tax assets (both recognised and unrecornized) should be reassessed. In case of existence of previously unrecognised deferred tax assets, they can be recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse and the assets be recovered and liabilities settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in profit or loss in the reporting period which includes the enactment date.

Employee benefits

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Treasury shares

Purchases by Group companies of the Company's outstanding shares are recorded at cost and classified as treasury shares within equity. Shares shown as Authorised and Issued include treasury shares. Shares shown as Outstanding do not include treasury shares.

Note 3. Summary of significant accounting policies (continued)

Earnings per share

Basic earnings per share is computed by dividing profit available for distribution to common shareholders of the Company by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting profit available for distribution to common shareholders of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Provisions and contingencies

Certain conditions may exist as of the consolidated financial statements date, which may result in losses to the Group but the impact of which will only be resolved when one or more future events occur or fail to occur.

Liabilities of the Group with high level of probability of loss are recognised in the consolidated financial statements as provisions. Liabilities of the Group with the level of probability that do not meet the conditions in order to be recognised as provisions are considered to be contingent liabilities. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements if probability of disposal of certain resources aimed to settle this liability is not remote. If probability of disposal of certain resources is remote the information about such contingencies is not disclosed.

Environmental expenditures

Estimated losses from environmental remediation obligations are generally recognised no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

Share-based payments

The Group accounts for cash-settled share-based payment awards to employees at fair value on the grant date and as of each reporting date. Expenses are recognised over the vesting period. Equity-settled share-based payment awards to employees are valued at fair value on the grant date and expensed over the vesting period.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial instruments* effective as of 1 January 2018.

Accounting policies effective before 1 January 2018

Revenues

Before 1 January 2018, revenues were recognised when title passed to customers at which point the risks and rewards of ownership were assumed by the customer and the price was fixed or determinable.

Financial assets

Before 1 January 2018, the Group classified non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets were designated at fair value through profit or loss if the Group managed such investments and made purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Directly attributable transaction costs were recognised in profit or loss as incurred.

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Note 3. Summary of significant accounting policies (continued)

If the Group had the positive intent and ability to hold an investment to maturity, then such financial assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they were measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables were measured at amortised cost using the effective interest method, less any impairment losses. Allowances for doubtful debts were recorded to the extent that there was a likelihood that any of the amounts due will not be collected.

Available-for-sale financial assets are non-derivative financial assets that were designated as available-for-sale or not classified in any of the above categories of financial assets. Such assets were recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, were recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment was derecognised, the cumulative gain or loss in equity was reclassified to profit or loss.

Changes in accounting policy in 2018

The following new standards which were applied for the first time in 2018 had changed the accounting policy starting from the current financial year.

IFRS 15, issued in May 2014, replaced the existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The Group adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As permitted by IFRS 15 comparatives have not been restated. The standard does not have a material effect on the Group's consolidated financial statements.

IFRS 9, issued in July 2014, replaced the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 introduced a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

The adoption of IFRS 9 has changed the classification as follows:

- available-for-sale financial assets were reclassified to fair value through other comprehensive income category;
- loans and receivables were reclassified to amortized cost category except for loans given to associates in the amount of 76 billion RUB and to third parties in the amount of 9 billion RUB which were reclassified to fair value through profit or loss category.

The effect of adopting IFRS 9 had no impact on the carrying amounts of financial assets as of 1 January 2018 resulted from reclassification.

In respect of impairment, IFRS 9 replaced the 'incurred loss' model used in IAS 39 with a new 'expected credit loss' model. The adoption of IFRS 9 resulted in recognition of additional allowance for expected credit losses recognised directly in equity in the amount of 6,831 million RUB net of deferred income tax at 1 January 2018. As permitted by IFRS 9 comparatives have not been restated.

Note 4. Use of estimates and judgments

Preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are the following:

- estimation of oil and gas reserves;
- estimation of useful lives of property, plant and equipment;
- impairment of non-current assets;
- assessment and recognition of provisions and contingent liabilities.

Oil and gas reserves estimates that are used for the reporting purposes are made in accordance with the requirements adopted by U.S. Securities and Exchange Commission. Estimates are reassessed on an annual basis.

Note 5. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective at 31 December 2018, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial results. The Group plans to adopt these pronouncements when they become effective.

IFRS 16 *Leases*, issued in January 2016, replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

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

The Group will apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. According to preliminary estimates made by the Company, one-off recognition of non-current assets and financial liabilities will total 140–200 billion RUB as of 1 January 2019. The actual impact of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

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Note 5. New standards and interpretations not yet adopted (continued)

In June 2017, the IASB issued IFRIC 23 *Uncertainty over Income Tax Treatments*. The IFRIC clarifies that for the purposes of calculating current and deferred tax, companies should use a tax treatment of uncertainties, which will probably be accepted by the tax authorities. IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. The Group is evaluating the effect of the adoption of IFRIC 23 and does not expect any material impact from its application on consolidated financial statements.

In March 2018, the IASB issued a revised version of Conceptual Framework for Financial Reporting. In particular, the revised version introduces new definitions of assets and liabilities, as well as amended definitions of income and expenses. The new version is effective for annual periods beginning on or after 1 January 2020. The Group is evaluating the effect of the adoption of the revised version of Conceptual Framework and does not expect any material impact from its application on consolidated financial statements.

Note 6. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash held in RUB	201,073	70,611
Cash held in US dollars	264,538	239,405
Cash held in EUR	18,350	13,490
Cash held in other currencies	8,689	6,884
Total cash and cash equivalents	**492,650**	**330,390**

Note 7. Accounts receivable, net

	31 December 2018	31 December 2017
Trade accounts receivable (net of allowances of 23,031 million RUB and 18,777 million RUB at 31 December 2018 and 2017, respectively)	411,247	393,073
Other current accounts receivable (net of allowances of 4,767 million RUB and 3,182 million RUB at 31 December 2018 and 2017, respectively)	18,698	25,199
Total accounts receivable, net	**429,945**	**418,272**

Note 8. Inventories

	31 December 2018	31 December 2017
Crude oil and petroleum products	325,563	345,216
Materials for extraction and drilling	23,128	19,925
Materials and supplies for refining	4,084	2,999
Other goods, materials and supplies	28,962	30,046
Total inventories	**381,737**	**398,186**

Note 9. Prepaid taxes

	31 December 2018	31 December 2017
Income tax prepaid	12,165	13,543
VAT and excise tax recoverable	37,832	38,930
Export duties prepaid	23,093	15,418
VAT prepaid	18,498	15,655
Other taxes prepaid	4,023	3,792
Total prepaid taxes	**95,611**	**87,338**

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Note 10. Other current assets

	31 December 2018	31 December 2017
Advance payments	19,851	17,487
Prepaid expenses	22,139	23,072
Other assets	10,346	13,808
Total other current assets	**52,336**	**54,367**

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

		Ownership			
Name of the company	**Country**	**31 December 2018**	**31 December 2017**	**31 December 2018**	**31 December 2017**
Joint Ventures:					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	121,204	88,390
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	39,346	27,282
South Caucasus Pipeline Company (SCPC)	Azerbaijan	10.0%	10.0%	34,789	26,965
Others				623	474
Associates:					
Associates				32,091	21,175
Total				**228,053**	**164,286**

TCO is engaged in development of hydrocarbon resources in Kazakhstan. The Group has classified its interest in TCO as a joint venture as it has rights to the net assets of the arrangement.

31 December 2018	**TCO**	**CPC**	**SCPC**	**Others**	**Associates**	**Total**
Current assets	187,272	22,601	9,458	3,354	57,928	**280,613**
Non-current assets	2,390,973	537,226	364,658	1,852	190,463	**3,485,172**
Current liabilities	242,501	129,442	8,303	716	57,173	**438,135**
Non-current liabilities	692,411	115,621	17,921	3,245	117,117	**946,315**
Net assets (100%)	1,643,333	314,764	347,892	1,245	74,101	**2,381,335**
Share in net assets	121,204	39,346	34,789	623	32,091	**228,053**

31 December 2017	**TCO**	**CPC**	**SCPC**	**Others**	**Associates**	**Total**
Current assets	245,662	17,397	5,037	4,319	36,489	**308,904**
Non-current assets	1,442,065	487,236	287,707	673	163,715	**2,381,396**
Current liabilities	151,856	107,246	9,104	1,248	38,201	**307,655**
Non-current liabilities	436,143	179,132	13,989	2,797	119,340	**751,401**
Net assets (100%)	1,099,728	218,255	269,651	947	42,663	**1,631,244**
Share in net assets	88,390	27,282	26,965	474	21,175	**164,286**

2018	**TCO**	**CPC**	**SCPC**	**Others**	**Associates**	**Total**
Revenues	1,080,376	137,675	27,166	8,592	317,802	**1,571,611**
Net income (100%)	364,678	47,238	16,001	1,794	722	**430,433**
Share in net income	16,097	5,905	1,600	897	744	**25,243**

2017	**TCO**	**CPC**	**SCPC**	**Others**	**Associates**	**Total**
Revenues	783,091	115,836	20,417	8,731	104,705	**1,032,780**
Net income (100%)	240,459	28,478	11,717	1,024	3,395	**285,073**
Share in net income	10,074	3,560	1,172	512	1,546	**16,864**

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Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2017	3,902,267	1,236,552	72,543	**5,211,362**
Additions	365,329	91,676	2,189	**459,194**
Capitalised borrowing costs	7,605	-	-	**7,605**
Disposals	(37,837)	(14,859)	(1,331)	**(54,027)**
Changes in estimates of ARO	(7,187)	-	-	**(7,187)**
Foreign currency translation differences	245,644	60,352	2,465	**308,461**
Other	1,003	22	16	**1,041**
31 December 2018	**4,476,824**	**1,373,743**	**75,882**	**5,926,449**
Depreciation and impairment				
31 December 2017	(1,230,717)	(403,445)	(15,617)	**(1,649,779)**
Depreciation for the period	(247,940)	(94,405)	(3,673)	**(346,018)**
Impairment loss	(11,093)	(634)	-	**(11,727)**
Disposals	26,777	7,762	619	**35,158**
Foreign currency translation differences	(122,439)	(23,406)	(775)	**(146,620)**
Other	(1,096)	460	66	**(570)**
31 December 2018	**(1,586,508)**	**(513,668)**	**(19,380)**	**(2,119,556)**
Advance payments for property, plant and equipment				
31 December 2017	10,732	2,717	133	**13,582**
31 December 2018	**5,916**	**15,669**	**686**	**22,271**
Carrying amounts				
31 December 2017	2,682,282	835,824	57,059	**3,575,165**
31 December 2018	**2,896,232**	**875,744**	**57,188**	**3,829,164**
Cost				
31 December 2016	3,478,050	1,155,388	70,186	**4,703,624**
Additions	501,892	66,634	2,292	**570,818**
Acquisitions through business combinations	4,471	5,180	1,067	**10,718**
Capitalised borrowing costs	16,487	68	-	**16,555**
Disposals	(35,131)	(14,564)	(1,273)	**(50,968)**
Changes in estimates of ARO	(5,901)	-	-	**(5,901)**
Foreign currency translation differences	(55,896)	24,797	(634)	**(31,733)**
Other	(1,705)	(951)	905	**(1,751)**
31 December 2017	**3,902,267**	**1,236,552**	**72,543**	**5,211,362**
Depreciation and impairment				
31 December 2016	(1,058,116)	(307,641)	(11,794)	**(1,377,551)**
Depreciation for the period	(218,460)	(94,681)	(3,557)	**(316,698)**
Impairment loss	(22,382)	(3,241)	-	**(25,623)**
Impairment reversal	24,193	-	-	**24,193**
Disposals	15,603	10,205	353	**26,161**
Foreign currency translation differences	28,968	(8,846)	163	**20,285**
Other	(523)	759	(782)	**(546)**
31 December 2017	**(1,230,717)**	**(403,445)**	**(15,617)**	**(1,649,779)**
Advance payments for property, plant and equipment				
31 December 2016	64,764	486	43	**65,293**
31 December 2017	**10,732**	**2,717**	**133**	**13,582**
Carrying amounts				
31 December 2016	2,484,698	848,233	58,435	**3,391,366**
31 December 2017	**2,682,282**	**835,824**	**57,059**	**3,575,165**

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Note 12. Property, plant and equipment (continued)

The cost of assets under construction included in Property, plant and equipment was 335,312 million RUB and 514,886 million RUB at 31 December 2018 and 2017, respectively.

Exploration and evaluation assets

	2018	2017
1 January	86,134	69,829
Capitalised expenditures	31,770	34,266
Reclassified to development assets	(3,962)	(8,627)
Charged to expenses	(9,103)	(10,030)
Foreign currency translation differences	3,657	(510)
Other movements	(1,391)	1,206
31 December	**107,105**	**86,134**

The Company performs a regular annual impairment test of its assets. The test is based on geological models and development programs, which are revised on a regular basis, at least annually.

In the second quarter of 2018, the Group recognized an impairment loss for its exploration and production assets in Russia in the amount of 5,010 million RUB. As a result of the test, in the fourth quarter of 2018, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 5,117 million RUB, for its international exploration and production assets in the amount of 966 million RUB and for its refining, marketing and distribution assets in the amount of 634 million RUB.

The recoverable amount of CGUs subject to impairment test in 2018 in the amount of 4,330 million RUB was determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.7%, for refining, marketing and distribution assets in Russia – from 12.8% to 15.6%

As a result of the test in 2017 the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 20,886 million RUB, for its international exploration and production assets in the amount of 1,496 million RUB and for its refining, marketing and distribution assets in Russia in the amount of 2,219 million RUB.

The recoverable amount of CGUs subject to impairment test in 2017 in the amount of 41,026 million RUB was determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.5%, for refining, marketing and distribution assets in Russia – from 11.3% to 15%.

The Group recognised an impairment reversal of 24,193 million RUB in 2017, which was mainly a result of improvement of economic parameters of our production projects in Western Siberia and European part of Russia in the amount of 22,202 million RUB. The recoverable amount of CGUs subject to impairment reversal was determined as 63,815 million RUB.

Impairment reversal and impairment loss are included in “Other income (expenses)” in the consolidated statement of profit or loss and other comprehensive income.

For impairment test purposes at 31 December 2018 the following Brent Blend price assumptions have been used: $71.5 per barrel in 2019–2021, $73.0 per barrel in 2022–2024, $75.0 per barrel in 2025–2027 and $77.0 per barrel from 2028.

Downward revisions to our oil and gas price outlook based on consensus estimates at year end by 10% may lead to further impairments, which mostly relate to our international upstream portfolio and in aggregate may be material. However, considering substantial uncertainty relevant to other assumptions that would be triggered by a 10% decrease in commodity price forecast, it is impracticable to estimate the possible effect of changes in these assumptions.

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Note 13. Other non-current financial assets

	31 December 2018	31 December 2017
Financial assets measured at fair value through other comprehensive income		
Equity instruments	3,388	5,106
Financial assets measured at amortised cost		
Long-term loans	19,468	69,840
Non-current accounts and notes receivable	2,469	4,680
Other financial assets	102	91
Financial assets measured at fair value through profit or loss		
Long-term loans	57,064	-
Other financial assets	77	-
Total other non-current financial assets	**82,568**	**79,717**

Note 14. Goodwill and other intangible assets

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2017	16,413	2,968	48,335	32,247	**99,963**
Additions as a result of internal developments	673	1,596	-	-	**2,269**
Acquisitions	-	-	4,021	269	**4,290**
Disposals	(286)	(11)	(3,496)	-	**(3,793)**
Foreign currency translation differences	209	4	1,364	3,438	**5,015**
Other	705	(1,019)	72	(273)	**(515)**
31 December 2018	**17,714**	**3,538**	**50,296**	**35,681**	**107,229**
Amortisation and impairment					
31 December 2017	(13,282)	(699)	(34,792)	(9,886)	**(58,659)**
Amortisation for the year	(1,044)	(308)	(4,756)	-	**(6,108)**
Disposals	280	10	1,950	-	**2,240**
Foreign currency translation differences	(196)	(4)	(1,174)	(1,832)	**(3,206)**
Other	-	-	269	-	**269**
31 December 2018	**(14,242)**	**(1,001)**	**(38,503)**	**(11,718)**	**(65,464)**
Carrying amounts					
31 December 2017	3,131	2,269	13,543	22,361	**41,304**
31 December 2018	**3,472**	**2,537**	**11,793**	**23,963**	**41,765**

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Note 14. Goodwill and other intangible assets (continued)

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2016	16,384	2,359	46,419	30,701	**95,863**
Additions as a result of internal developments	634	610	-	-	**1,244**
Acquisitions	-	-	16	-	**16**
Additions – separately acquired	-	-	4,028	-	**4,028**
Disposals	(580)	(4)	(1,114)	-	**(1,698)**
Foreign currency translation differences	(55)	(1)	(989)	1,546	**501**
Other	30	4	(25)	-	**9**
31 December 2017	**16,413**	**2,968**	**48,335**	**32,247**	**99,963**
Amortisation and impairment					
31 December 2016	(12,665)	(460)	(30,473)	(9,131)	**(52,729)**
Amortisation for the year	(1,267)	(237)	(5,886)	-	**(7,390)**
Impairment loss	-	-	(22)	-	**(22)**
Disposals	580	3	824	-	**1,407**
Foreign currency translation differences	68	-	647	(755)	**(40)**
Other	2	(5)	118	-	**115**
31 December 2017	**(13,282)**	**(699)**	**(34,792)**	**(9,886)**	**(58,659)**
Carrying amounts					
31 December 2016	3,719	1,899	15,946	21,570	**43,134**
31 December 2017	**3,131**	**2,269**	**13,543**	**22,361**	**41,304**

Goodwill was tested for impairment and no impairment was identified.

Note 15. Accounts payable

	31 December 2018	31 December 2017
Trade accounts payable	477,444	508,078
Other accounts payable	69,684	51,899
Total accounts payable	**547,128**	**559,977**

Note 16. Short-term borrowings and current portion of long-term debt

	31 December 2018	31 December 2017
Short-term borrowings from third parties	20,885	15,499
Short-term borrowings from related parties	7,843	3,170
Current portion of long-term debt	70,897	110,044
Total short-term borrowings and current portion of long-term debt	**99,625**	**128,713**

Short-term borrowings from third parties include amounts repayable in US dollars of 15,541 million RUB and 5,235 million RUB and amounts repayable in other currencies of 5,344 million RUB and 10,264 million RUB at 31 December 2018 and 2017, respectively. The weighted-average interest rate on short-term borrowings from third parties was 9.83% and 11.30% per annum at 31 December 2018 and 2017, respectively. Approximately 3% of total short-term borrowings from third parties at 31 December 2018 are secured by inventories.

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Note 17. Long-term debt

	31 December 2018	31 December 2017
Long-term loans and borrowings from third parties	161,314	244,000
3.416% non-convertible US dollar bonds, maturing 2018	-	86,384
7.250% non-convertible US dollar bonds, maturing 2019	41,584	34,466
6.125% non-convertible US dollar bonds, maturing 2020	69,385	57,506
6.656% non-convertible US dollar bonds, maturing 2022	34,663	28,748
4.563% non-convertible US dollar bonds, maturing 2023	104,079	86,274
4.750% non-convertible US dollar bonds, maturing 2026	69,321	57,467
Finance lease obligations	25,973	2,846
Total long-term debt	506,319	597,691
Current portion of long-term debt	(70,897)	(110,044)
Total non-current portion of long-term debt	**435,422**	**487,647**

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 137,439 million RUB and 194,251 million RUB and amounts repayable in euros of 23,875 million RUB and 49,749 million RUB at 31 December 2018 and 2017, respectively. This debt has maturity dates from 2019 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.87% and 4.33% per annum at 31 December 2018 and 2017, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 46% of total long-term loans and borrowings from third parties at 31 December 2018 are secured by shares of an associated company, export sales and property, plant and equipment.

US dollar non-convertible bonds

In November 2016, a Group company issued non-convertible bonds totaling $1 billion (69.5 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. All bonds were placed at face value and have a half year coupon period.

In April 2013, a Group company issued two tranches of non-convertible bonds totaling $3 billion (208.4 billion RUB). The first tranche totaling $1.5 billion (104.2 billion RUB) was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling $1.5 billion (104.2 billion RUB) was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period. In April 2018, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling $1 billion (69.5 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling $800 million (55.6 billion RUB) was placed at a price of 99.081% of the bond's face value with a resulting yield to maturity of 6.250%. The second tranche totaling $200 million (13.9 billion RUB) was placed at a price of 102.44% of the bond's face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling $1.5 billion (104.2 billion RUB). The first tranche totaling $900 million (62.5 billion RUB) with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond's face value with a resulting yield to maturity of 6.500%. The second tranche totaling $600 million (41.7 billion RUB) with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period. In November 2014, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

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Note 17. Long-term debt (continued)

In June 2007, a Group company issued two tranches of non-convertible bonds totaling $1 billion (69.5 billion RUB). $500 million (34.7 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million (34.7 billion RUB) were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period. In June 2017, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

Reconciliation of liabilities arising from financing activities

	Loans and borrowings	Bonds	Finance lease obligations	Other liabilities	Total
31 December 2017	262,669	350,845	2,846	64,566	**680,926**
Changes from financing cash flows:					
Proceeds from issuance of short-term borrowings	19,502	-	-	-	**19,502**
Principal repayments of short-term borrowings	(10,909)	-	-	-	**(10,909)**
Proceeds from issuance of long-term debt	39,786	-	-	-	**39,786**
Principal repayments of long-term debt	(161,568)	(92,648)	(2,555)	-	**(256,771)**
Interest paid	-	-	-	(39,921)	**(39,921)**
Dividends paid on Company common stock	-	-	-	(158,370)	**(158,370)**
Total changes from financing cash flows	(113,189)	(92,648)	(2,555)	(198,291)	**(406,683)**
Other changes:					
Interest accrued	-	-	-	39,053	**39,053**
Dividends declared on Company common stock	-	-	-	158,635	**158,635**
The effect of changes in foreign exchange rates	39,824	60,749	72	1,124	**101,769**
Other changes	738	86	25,610	8,833	**35,267**
Total other changes	40,562	60,835	25,682	207,645	**334,724**
31 December 2018	**190,042**	**319,032**	**25,973**	**73,920**	**608,967**

Note 18. Taxes payable

	31 December 2018	31 December 2017
Income tax payable	11,316	8,963
Mineral extraction tax	46,532	47,175
VAT	34,823	34,147
Excise taxes	18,887	17,750
Property tax	4,985	3,652
Other taxes	7,431	6,797
Total taxes payable	**123,974**	**118,484**

Note 19. Other current liabilities

	31 December 2018	31 December 2017
Advances received	30,249	27,698
Dividends payable	72,103	62,254
Other	3,215	3,468
Total other current liabilities	**105,567**	**93,420**

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Note 20. Provisions

	Asset retirement obligations	Provision for employee compensa-tions	Provision for environmen-tal liabilities	Pension provisions	Provision for unused vacations	Other provisions	Total
31 December 2018	**36,424**	**9,401**	**4,014**	**8,910**	**5,968**	**21,472**	**86,189**
Incl.: Non-current	36,042	263	1,604	5,916	178	3,920	**47,923**
Current	382	9,138	2,410	2,994	5,790	17,552	**38,266**
31 December 2017	36,668	36,172	4,176	10,367	5,472	13,360	**106,215**
Incl.: Non-current	36,478	14	1,683	8,292	54	1,441	**47,962**
Current	190	36,158	2,493	2,075	5,418	11,919	**58,253**

Asset retirement obligations changed as follows during 2018 and 2017:

	2018	2017
1 January	36,668	37,460
Provisions made during the year	3,026	4,951
Reversal of provisions	(220)	(200)
Provisions used during the year	(207)	(1,322)
Accretion expense	2,963	2,687
Change in discount rate	(1,331)	(2,378)
Changes in estimates	(7,405)	(4,073)
Foreign currency translation differences	2,902	(666)
Other movements	28	209
31 December	**36,424**	**36,668**

Note 21. Pension obligation

The Group sponsors a postretirement defined benefit pension plan that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a partial payment by the Group (up to 4% of the annual salary of the employee).

Plan assets and pensions payments are managed by a non-state pension fund, JSC "NPF Otkritie" (former "NPF LUKOIL-GARANT"). The Group also provides several long-term social benefits, including lump-sum death-in-service benefit, in case of disability and upon retirement payments. Also certain payments are received by retired employees upon reaching a certain old age or invalidity.

The Company uses 31 December as the measurement date for its pension obligation. An independent actuary has assessed the benefit obligations at 31 December 2018 and 2017.

The following table sets out movement in the net liabilities before taxation during 2018 and 2017.

	2018	2017
1 January	10,367	8,049
Components of defined benefit costs recorded in profit or loss	518	1,009
Components of defined benefit costs recorded in other comprehensive loss	228	2,709
Contributions from employer	(1,451)	(1,702)
Benefits paid	(785)	(666)
Opening balance adjustment	33	6
Liability assumed in business combination	-	119
Other	-	843
31 December	**8,910**	**10,367**

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Note 22. Equity

Common shares

	31 December 2018 (thousands of shares)	31 December 2017 (thousands of shares)
Authorised and issued common shares, par value of 0.025 RUB each	750,000	850,563
Treasury shares	(53,107)	(140,930)
Outstanding common shares	**696,893**	**709,633**

According to the resolution of the extraordinary general shareholders' meeting held on 24 August 2018, 100,563 thousands of common shares of the Company were cancelled on 1 November 2018. As a result the number of authorized and issued common shares was reduced to 750 million.

In the second half of 2018, under the buy-back programme, a Group company repurchased on an open market 12,740 thousands of common shares of the Company for 62,916 million RUB.

Dividends

At the extraordinary shareholders' meeting on 3 December 2018, interim dividends for 2018 were approved in the amount of 95.00 RUB per common share.

At the annual general shareholders' meeting on 21 June 2018, dividends for 2017 were approved in the amount of 130.00 RUB per common share. At the extraordinary general shareholders' meeting on 4 December 2017, interim dividends for 2017 were approved in the amount of 85.00 RUB per common share. Total dividends for 2017 were approved in the amount of 215.00 RUB per common share.

Dividends on the Company's shares payable of 70,610 million RUB and 61,283 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2018 and 2017, respectively.

Earnings per share

The calculation of basic and diluted earnings per share was as follows:

	2018	2017
Profit for the year attributable to PJSC LUKOIL	619,174	418,805
Weighted average number of common shares (thousands of shares)	708,059	710,871
Dilutive effect of equity-settled share-based compensation plan (thousands of shares)	7,588	-
Weighted average number of common shares, assuming dilution (thousands of shares)	715,647	710,871
Earnings per share of common stock attributable to PJSC LUKOIL (in Russian rubles):		
Basic	874.47	589.14
Diluted	865.19	589.14

Note 23. Personnel expenses

Personnel expenses were as follows:

	2018	2017
Salary	135,671	127,851
Statutory insurance contributions	32,531	35,387
Share-based compensation	31,300	1,135
Total personnel expenses	**199,502**	**164,373**

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Note 24. Finance income and costs

Finance income was as follows:

	2018	2017
Interest income from deposits	10,595	5,222
Interest income from loans	6,484	6,715
Other finance income	2,451	3,214
Total finance income	**19,530**	**15,151**

Finance costs were as follows:

	2018	2017
Interest expense	32,191	23,116
Accretion expense	2,994	2,705
Other finance costs	3,113	1,510
Total finance costs	**38,298**	**27,331**

Note 25. Other income and expenses

Other income was as follows:

	2018	2017
Gain on disposal of assets	2,919	58,233
Reversal of impairment of assets	-	28,448
Other income	18,351	18,176
Total other income	**21,270**	**104,857**

At the end of 2016, the Company entered into a contract with a company of the "Otkritie Holding" group to sell the Group's 100% interest in JSC "Arkhangelskgeoldobycha" ("AGD"), a company developing the diamond field named after V.P. Grib located in Arkhangelsk region of Russia. The transaction in the amount of Russian ruble equivalent of $1.45 billion was completed on 24 May 2017 after all necessary governmental approvals were received. As a result in 2017 the Group recognized profit before income tax in the amount of 48 billion RUB that is included in "Other income (expenses)" in the consolidated statement of profit or loss and other comprehensive income (profit after income tax – 38 billion RUB).

Other expenses were as follows:

	2018	2017
Impairment loss	11,727	31,386
Loss on disposal of assets	17,253	15,944
Charity expenses	8,785	9,009
Other expenses	22,439	15,586
Total other expenses	**60,204**	**71,925**

Note 26. Income tax

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

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

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

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Note 26. Income tax (continued)

Income tax was as follows:

	2018	2017
Current income tax expense for the year	136,996	97,573
Adjustment for prior periods	66	2,403
Current income taxes	**137,062**	**99,976**
Deferred income tax	**14,855**	**3,786**
Total income tax expense	**151,917**	**103,762**

The following table is a reconciliation of the amount of income tax expense that would result from applying the Russian combined statutory income tax rate of 20% applicable to the Company to profit before income taxes to total income taxes.

	2018	2017
Profit before income taxes	773,019	524,184
Notional income tax at the Russian statutory rate	154,604	104,837
Increase (reduction) in income tax due to:		
Non-deductible items, net	21,777	14,614
Domestic and foreign rate differences	(25,932)	(16,823)
Change in recognised deductible temporary differences	1,468	1,134
Total income tax expense	**151,917**	**103,762**

The following table sets out the tax effects of each type of temporary differences which give rise to deferred income tax assets and liabilities.

	31 December 2018	31 December 2017
Property, plant and equipment	8,251	6,666
Inventories	5,972	6,010
Accounts receivable	1,106	922
Accounts payable and provisions	15,874	10,931
Tax loss carry forward	32,989	33,516
Other	532	1,483
Total deferred income tax assets	64,724	59,528
Set off of tax	(33,683)	(34,400)
Deferred income tax assets	**31,041**	**25,128**
Property, plant and equipment	(267,422)	(254,956)
Investments	(6,949)	(3,348)
Inventories	(4,748)	(6,187)
Accounts receivable	(10,251)	(5,065)
Accounts payable and provisions	(902)	(63)
Other	(2,247)	(2,761)
Total deferred income tax liabilities	(292,519)	(272,380)
Set off of tax	33,683	34,400
Deferred income tax liabilities	**(258,836)**	**(237,980)**
Net deferred income tax liabilities	**(227,795)**	**(212,852)**

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Note 26. Income tax (continued)

	31 December 2017	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2018
Property, plant and equipment	(248,290)	(8,254)	-	(2,627)	(259,171)
Investments	(3,348)	(4,121)	-	520	(6,949)
Inventories	(177)	1,603	-	(202)	1,224
Accounts receivable	(4,143)	(4,083)	-	(919)	(9,145)
Accounts payable and provisions	10,868	1,912	-	2,192	14,972
Tax loss carry forward	33,516	(2,243)	-	1,716	32,989
Other	(1,278)	331	-	(768)	(1,715)
Net deferred income tax liabilities	**(212,852)**	**(14,855)**	**-**	**(88)**	**(227,795)**

	31 December 2016	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2017
Property, plant and equipment	(245,169)	(3,194)	(918)	991	(248,290)
Investments	(3,452)	94	-	10	(3,348)
Inventories	(2,423)	2,249	-	(3)	(177)
Accounts receivable	(4,003)	(322)	-	182	(4,143)
Accounts payable and provisions	10,166	389	(2)	315	10,868
Tax loss carry forward	35,086	(2,665)	-	1,095	33,516
Other	(937)	(337)	3	(7)	(1,278)
Net deferred income tax liabilities	**(210,732)**	**(3,786)**	**(917)**	**2,583**	**(212,852)**

Deferred tax assets have not been recognised in respect of the temporary differences related to the following items:

	31 December 2018	31 December 2017
Property, plant and equipment	2,416	2,433
Tax loss carry forward	12,695	10,790
Other	1,186	1,090
Total unrecognised deferred tax assets	**16,297**	**14,313**

Management believes that it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

Amounts recognised in other comprehensive income during 2018:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	172,037	-	172,037
Change in fair value of financial assets at fair value through other comprehensive income	(2,393)	-	(2,393)
Remeasurements of defined benefit liability/asset of pension plan	(228)	32	(196)
Total	**169,416**	**32**	**169,448**

Note 26. Income tax (continued)

Amounts recognised in other comprehensive income during 2017:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	2,626	-	2,626
Change in fair value of available-for-sale financial assets	(2,180)	-	(2,180)
Remeasurements of defined benefit liability/asset of pension plan	(2,709)	384	(2,325)
Total	**(2,263)**	**384**	**(1,879)**

Retained earnings of foreign subsidiaries for which deferred taxation has not been provided included 736,680 million RUB and 585,547 million RUB at 31 December 2018 and 2017, respectively. This liability was not recognised because the Group considers such amounts to be indefinitely invested, i.e. management believes that they will not be returned in the foreseeable future. Moreover the Group controls the dividend policy of its subsidiaries and is able to veto the payment of dividends.

The consequences of taxation in Russia of certain profits of controlled foreign corporations in accordance with applicable tax legislation are accounted for within current and deferred tax liabilibilities.

Note 27. Operating lease

At 31 December 2018 and 2017, Group companies had commitments primarily for the lease of vessels, tank-cars, storage facilities and petroleum distribution outlets. Commitments for minimum rentals under non-cancellable leases are payable as follows:

	31 December 2018	31 December 2017
Less than a year	27,333	24,753
1-5 years	61,836	54,917
More than 5 years	93,573	88,277
Total	**182,742**	**167,947**

Note 28. Commitments and contingencies

Capital commitments

At 31 December 2018, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 473,615 million RUB.

Insurance

The insurance industry in the Russian Federation and certain other areas where the Group has operations is in the course of development. Management believes that the Group has adequate property damage coverage for its main production assets. In respect of third party liability for property and environmental damage arising from accidents on Group property or relating to Group operations, the Group has insurance coverage that is generally higher than insurance limits set by the local legal requirements. Management believes that the Group has adequate insurance coverage of the risks, which could have a material effect on the Group's operations and financial position.

Environmental liabilities

Group companies and their predecessor companies have operated in the Russian Federation and other countries for many years and, within certain parts of the operations, environmental related problems have developed. Environmental regulations are currently under consideration in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their obligations in response to new and changing legislation.

Note 28. Commitments and contingencies (continued)

As liabilities in respect of the Group's environmental obligations are able to be determined, they are recognised in profit or loss. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material. Under existing legislation, however, management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

Social assets

Certain Group companies contribute to Government sponsored programs, the maintenance of local infrastructure and the welfare of their employees within the Russian Federation and elsewhere. Such contributions include assistance with the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. The funding of such assistance is periodically determined by management and is appropriately capitalised or expensed as incurred.

Taxation environment

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose substantial fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors significantly increase taxation risks in the Russian Federation and other emerging markets where Group companies operate, comparing to other countries where taxation regimes have been subject to development and clarification over longer periods.

The tax authorities in each region of the Russian Federation may have a different interpretation of similar taxation issues which may result in taxation issues successfully defended by the Group in one region being unsuccessfully defended by the Group in another region. There is some direction provided from the central authority based in Moscow on particular taxation issues.

The Group has implemented tax planning and management strategies based on existing legislation. The Group is subject to tax authority audits on an ongoing basis, which is a normal practice in the Russian Federation and other republics of the former Soviet Union, and, at times, the authorities have attempted to impose additional significant taxes on the Group. Management believes that it has adequately met the requirements and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on the consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Litigation and claims

In July 2015, the prosecutors with the Ploesti Court of Appeals (hereinafter the "Prosecutor's Office") charged the general director and several officers of PETROTEL-LUKOIL S.A., a Group company, with bad faith use of the company's credit and money laundering. Similar charges were brought against LUKOIL Europe Holdings B.V., a Group company, for 2010–2014. On 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. Upon preliminary hearings the Prosecutor's Office revised the amount of damage claimed from $2.2 billion (152.8 billion RUB) to $1.5 billion (104.2 billion RUB). An expertise of all relevant issues of the criminal case was carried out during 2017, the results of which were accepted by the Tribunal on 12 February 2018.

Note 28. Commitments and contingencies (continued)

At the final hearing on the case which was held 23 October 2018 the court issued a not guilty decision to all the accused, including general director of PETROTEL-LUKOIL S.A., his deputies and PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. itself. As a result freezing injunction in the amount of approximately $1.5 billion (104.2 billion RUB) was removed from all assets of the refinery, shares and accounts of PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. On 1 November 2018, this decision was appealed by the Prosecutor's Office. It is expected that the hearing of the appeal will take place in May – June 2019. Management does not believe that the outcome of this matter will have a material adverse effect on the Group's financial position.

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the disputes with the Republic of Kazakhstan with respect to cost recovery in 2010–2014 (the "CR") and the calculation of the "Fairness index" (the "FI") in accordance with the Final Production Sharing Agreement relating to the Contract Area of the Karachaganak Oil and Gas Condensate Field. In relation to the CR, the parties are making efforts to resolve the dispute through negotiations and in relation to the FI the parties are taking part in an arbitration which is at its initial stage, and management believes that the amounts of claims, as well as calculations of potential losses arising from these disputes to be preliminary and should not be disclosed in order to avoid any adverse impact on the arbitration process and the positions of the parties therein. At the same time management does not preclude the possibility of settlement of the FI related dispute and believes that the final outcome of the above mentioned disputes will not have a material adverse effect on the Group's financial position.

The Group is involved in various other claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition.

Political situation

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

In August – October 2017, the US expanded abovementioned sanctions to include international oil projects initiated on or after 29 January 2018 that have the potential to produce oil in any location, and in which companies placed on the Sectoral Sanctions Identifications List (subject to Directive 4) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

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

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

Note 29. Related party transactions

The senior management of the Company believes that the Group has appropriate procedures in place to identify and properly disclose transactions with related parties and has disclosed all of the relationships identified which it deemed to be significant. Related party sales and purchases of oil and oil products were primarily to and from associates and joint ventures. Other financial assets mostly represent loans given to associates and joint ventures.

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Note 29. Related party transactions (continued)

Outstanding balances with related parties were as follows:

	31 December 2018	31 December 2017
Accounts receivable	1,927	10,567
Other financial assets	64,007	82,288
Total assets	**65,934**	**92,855**
Accounts payable	13,492	6,696
Loans and borrowings	3,356	3,170
Total liabilities	**16,848**	**9,866**

Related party transactions were as follows:

	2018	2017
Sales of oil and oil products	35,325	14,927
Other sales	4,593	4,055
Purchases of oil and oil products	209,599	86,548
Other purchases	9,690	7,388
Proceeds from sale of other financial assets, net	18,749	6,948
Proceeds from issuance (principal repayments) of loans, net	23	(798)

During 2017, a Group company acquired from a related party 3,300,000 shares of the Company for 9,474 million RUB.

Key management remuneration

Key management personnel includes members of the Board of Directors and members of the Management Board. Remuneration of key management personnel, including basic salary, bonuses and other payments, amounted to 1,518 million RUB and 1,588 million RUB during 2018 and 2017, respectively.

Also, during 2018, a provision under the new compensation plan (disclosed in Note 30 "Compensation plan") was accrued in relation to the Company's key management personnel in the amount of 3,137 million RUB.

Note 30. Compensation plan

During the period from 2013 to 2017, the Company had a compensation plan available to certain members of management, which was based on assigned shares and provided compensation consisting of two parts. The first part represented annual bonuses that were based on the number of assigned shares and amount of dividend per share. The payment of these bonuses was contingent on the Group meeting certain financial KPIs in each financial year. The second part was based upon the Company's common shares appreciation from 2013 to 2017, with rights vested in December 2017. The number of assigned shares for this compensation plan was approximately 19 million shares.

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as cash-settled. The grant date fair value of this part of the plan was estimated at 7.6 billion RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 6.50% per annum, an expected dividend yield of 4.09% per annum, an expected time to maturity of five years and a volatility factor of 16.10%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company's shares for the previous seven year period up to January 2013. All the liabilities related to this plan were settled.

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

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Note 30. Compensation plan (continued)

The fair value of the plan was estimated at the grant date at 156.8 billion RUB based on forecasting principles of Monte-Carlo model and is not going to be recalculated in the future. The fair value was estimated assuming a spot-price of the Company's share in the amount of 4,355 RUB at the grant date, discount for illiquidity in the amount of 9.95% per annum, a risk-free interest rate of 7.50% per annum, an expected dividend yield of 4.99% per annum, an expected time to maturity of five years and a volatility factor of 25.68%. The expected volatility factor was estimated based on the historical volatility of the Company's shares for the previous five years. The vesting of shares is contingent on meeting the requisite service period, certain KPIs and share price appreciation. The Group is planning to recognise expenses related to the plan evenly during the vesting period.

Related to these share plans the Group recognized compensation expenses of 31,300 million RUB and 1,135 million RUB during 2018 and 2017, respectively.

Note 31. Segment information

The Group has the following operating segments – exploration and production; refining, marketing and distribution; corporate and other. These segments have been determined based on the nature of their operations. Management on a regular basis assesses the performance of these operating segments.

The exploration and production segment explores for, develops and produces primarily crude oil. The refining, marketing and distribution segment processes crude oil into refined products, purchases, sells and transports crude oil and refined petroleum products, refines and sells chemical products, produces steam and electricity, distributes them and provides related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group's traditional operations.

Geographical segments are based on the area of operations and include two segments: Russia and International.

Operating earnings are supplemental non-IFRS financial measure used by management to evaluate segments performance. Operating earnings are defined as profit before finance income and expense, income tax expense, depreciation, depletion and amortisation.

Operating segments

2018	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	247,657	7,763,810	24,422	-	8,035,889
Inter-segment	2,143,810	70,529	46,639	(2,260,978)	-
Total revenues	2,391,467	7,834,339	71,061	(2,260,978)	8,035,889
Operating expenses	273,012	243,214	19,554	(71,313)	464,467
Selling, general and administrative expenses	38,559	127,089	61,733	(34,948)	192,433
Profit (loss) for the year	508,401	156,805	(28,401)	(17,631)	619,174
Operating earnings	888,816	291,947	(26,458)	(21,361)	1,132,944
Income tax expense					(151,917)
Finance income					19,530
Finance costs					(38,298)
Depreciation, depletion and amortisation					(343,085)
Profit for the year attributable to PJSC LUKOIL shareholders					619,174

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Note 31. Segment information (continued)

2017	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
Sales and other operating revenues					
Third parties	160,780	5,745,957	29,968	-	5,936,705
Inter-segment	1,553,442	71,140	45,522	(1,670,104)	-
Total revenues	1,714,222	5,817,097	75,490	(1,670,104)	5,936,705
Operating expenses	265,911	235,052	21,432	(65,630)	456,765
Selling, general and administrative expenses	48,671	129,902	25,496	(38,738)	165,331
Profit for the year	269,670	135,102	15,466	(1,433)	418,805
Operating earnings	560,861	267,412	31,081	447	859,801
Income tax expense					(103,762)
Finance income					15,151
Finance costs					(27,331)
Depreciation, depletion and amortisation					(325,054)
Profit for the year attributable to PJSC LUKOIL shareholders					418,805

Geographical segments

	2018	2017
Sales of crude oil within Russia	47,508	37,525
Export of crude oil and sales of crude oil by foreign subsidiaries	2,666,156	1,641,238
Sales of petroleum products within Russia	938,092	776,002
Export of petroleum products and sales of petroleum products by foreign subsidiaries	3,961,784	3,144,226
Sales of chemicals within Russia	46,085	34,451
Export of chemicals and sales of chemicals by foreign subsidiaries	67,682	48,187
Sales of gas within Russia	33,352	31,109
Sales of gas by foreign subsidiaries	112,990	54,611
Sales of energy and related services within Russia	54,353	61,028
Sales of energy and related services by foreign subsidiaries	15,600	12,884
Other sales within Russia	46,127	45,727
Other export sales and other sales of foreign subsidiaries	46,160	49,717
Total sales	**8,035,889**	**5,936,705**

2018	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,269,047	6,766,842	-	8,035,889
Inter-segment	1,621,187	3,270	(1,624,457)	-
Total revenues	2,890,234	6,770,112	(1,624,457)	8,035,889
Operating expenses	333,749	129,515	1,203	464,467
Selling, general and administrative expenses	96,486	99,755	(3,808)	192,433
Profit for the year	588,479	50,433	(19,738)	619,174
Operating earnings	956,807	193,166	(17,029)	1,132,944

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Note 31. Segment information (continued)

2017	Russia	International	Elimination	Consolidated
Sales and other operating revenues				
Third parties	1,064,086	4,872,619	-	5,936,705
Inter-segment	1,197,440	3,713	(1,201,153)	-
Total revenues	2,261,526	4,876,332	(1,201,153)	5,936,705
Operating expenses	333,178	117,467	6,120	456,765
Selling, general and administrative expenses	97,804	72,724	(5,197)	165,331
Profit for the year	381,351	40,411	(2,957)	418,805
Operating earnings	706,878	155,649	(2,726)	859,801

In the International segment the Group receives the most substantial revenues in Switzerland, the USA and Singapore.

	2018	2017
Sales revenues		
in Switzerland	3,739,647	2,755,567
in the USA	922,045	572,264
in Singapore	684,276	457,913

These amounts are attributed to individual countries based on the jurisdiction of subsidiaries making the sale.

Note 32. Subsidiaries

The most significant subsidiaries of the Group are presented below:

		31 December 2018		31 December 2017	
Subsidiary	**Country of incorporation**	Total shares	Voting shares	Total shares	Voting shares
LUKOIL-West Siberia LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-PERM LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Komi LLC	Russia	100.00%	100.00%	100.00%	100.00%
RITEK LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Permnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhegorodnefteorgsintez LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Nizhnevolzhskneft LLC	Russia	100.00%	100.00%	100.00%	100.00%
LUKOIL-Volgogradneftepererabotka LLC	Russia	100.00%	100.00%	100.00%	100.00%
ISAB S.r.l.	Italy	100.00%	100.00%	100.00%	100.00%
LITASCO SA	Switzerland	100.00%	100.00%	100.00%	100.00%
LUKARCO B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL INTERNATIONAL GmbH	Austria	100.00%	100.00%	100.00%	100.00%
LUKOIL International Upstream Holding B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Neftohim Burgas AD	Bulgaria	99.85%	99.85%	99.83%	99.83%
LUKOIL Overseas Karachaganak B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Shah Deniz Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Uzbekistan Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
SOYUZNEFTEGAZ VOSTOK LIMITED	Cyprus	100.00%	100.00%	100.00%	100.00%

Note 33. Fair value

There are the following methods of fair value measurement based on the valuation method:
Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3 – unobservable inputs.

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Note 33. Fair value (continued)

The following tables show the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 31 December 2018 and 2017:

		Fair value			
31 December 2018	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Commodity derivative contracts	8,676	-	8,676	-	**8,676**
Financial assets at fair value through profit or loss	64,038	-	-	64,038	**64,038**
Financial assets at fair value through other comprehensive income	3,388	3,388	-	-	**3,388**
Financial liabilities:					
Commodity derivative contracts	8,413	-	8,413	-	**8,413**
Loans and borrowings	506,319	321,535	-	192,519	**514,054**

		Fair value			
31 December 2017	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Commodity derivative contracts	11,634	-	11,634	-	**11,634**
Available for sale securities	5,106	5,106	-	-	**5,106**
Financial liabilities:					
Commodity derivative contracts	11,978	-	11,978	-	**11,978**
Loans and borrowings	597,691	368,811	-	260,214	**629,025**

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and other similar main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 December 2018 and 2017.

Note 34. Capital and risk management

The Group's governing bodies pay great attention to risk management issues to provide a reasonable guarantee for the achievement of the set objectives under the conditions characterized by uncertainties and negative impact factors. The Group is constantly identifying, describing, estimating and monitoring the possible events that may affect its activities, and is elaborating measures to prevent them or mitigate their negative impact to the greatest extent possible if such events do take place.

The Group seeks to actively promote risk management and is presently focusing its efforts on the improvement of a general enterprise risk management system (ERM) based on the best international practices. The Group is constantly improving the applicable regulatory methodological risk management base that establishes requirements aimed at organizing the risk management process at all stages, and defines management standards for certain risk types of utmost importance, which are uniform for all of Group organizations. The Risk Committee, a dedicated body under the President of the Company, was set up and began its work in 2011.

Note 34. Capital and risk management (continued)

The information with regard to key financial risks of the Group is presented below.

Credit risk

The Group's most significant credit risks include first of all the risk of failure by its counterparties to perform their obligations in terms of payment for the products supplied by the Group. In order to mitigate these risks, the Group focuses on partnerships with counterparties that have high credit ratings, accepts letters of credit and guarantees issued by reputable banks and sometimes demands prepayment for the products supplied. In addition, it utilizes tools to limit the credit risks of a given counterparty.

Another group of credit risks includes risks associated with contractor banks' activities and potential impairment of their financial stability. In order to mitigate these risks, the Group is involved in centralized treasury operations, part of which are aimed at fund raising, investment and operations involving currency exchange and financial derivatives. The credit ratings of contractor banks are monitored on a regular basis.

The carrying amount of financial assets represents the maximum exposure to credit risk.

Trade and other receivables

Analysis of the aging of receivables:

	31 December 2018	31 December 2017
Not past due	381,900	356,538
Past due less than 45 days	14,051	29,710
Past due from 46 to 180 days	14,464	7,364
Past due from 181 to 270 days	3,129	7,306
Past due from 271 to 365 days	1,964	5,234
Past due more than 365 days	14,437	12,120
Total trade and other receivables	**429,945**	**418,272**

Not past due accounts receivable are not considered of high credit risk.

Allowance for expected credit losses changed as follows during 2018:

31 December 2017	21,959
Adjustment on adoption of IFRS 9, before tax	7,200
1 January 2018	29,159
Decrease in allowance charged to profit or loss	(1,005)
Write-off	(3,964)
Foreign currency translation differences	2,641
Other	967
31 December 2018	**27,798**

Allowance for doubtful accounts receivable changed as follows during 2017:

1 January 2017	20,189
Increase in allowance charged to profit or loss	6,130
Write-off	(2,922)
Foreign currency translation differences	(579)
Other	(859)
31 December 2017	**21,959**

Financial instruments used by the Group and potentially exposed to concentrations of credit risk consist primarily of cash equivalents, over-the-counter production contracts and trade receivables. The cash and cash equivalents are held with banks, which are generally highly rated.

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Notes to Consolidated Financial Statements
(Millions of Russian rubles, unless otherwise noted)

Note 34. Capital and risk management (continued)

The credit risk from the Group's over-the-counter derivative contracts, such as forwards and swaps, derives from the counterparty to the transaction, typically a major bank or financial institution. Individual counterparty exposure is managed within predetermined credit limits and includes the use of cash-call margins when appropriate, thereby reducing the risk of significant non-performance. The Group also uses futures contracts, but futures have a negligible credit risk because they are traded on the New York Mercantile Exchange or the Intercontinental Exchange (ICE Futures).

Liquidity risk

The Group's liquidity is managed on a centralized basis. There is an efficient global system in place to manage the Group's liquidity, which includes an automated system of concentrating and re-distributing the funds, corporate dealing and also rolling cash-flow forecasts. The liquidity indicators are monitored on a continuous basis.

Contractual maturities of the Group's financial liabilities (the Group itself determines the grouping of the maturity based on contractual maturities and, where relevant, on judgment):

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1–2 years	2–5 years	Over 5 years
Loans and borrowings, including interest expense	190,704	221,656	61,445	34,972	72,107	53,132
Bonds, including interest expense	321,681	378,851	56,207	79,734	160,426	82,484
Finance lease obligations	25,973	33,653	6,069	6,078	16,124	5,382
Trade and other payables	537,519	537,519	535,882	1,076	474	87
Derivative financial liabilities	8,413	8,413	8,413	-	-	-
31 December 2018	**1,084,290**	**1,180,092**	**668,016**	**121,860**	**249,131**	**141,085**

	Carrying amount	Contractual cash flows (undiscounted)	Less than 12 months	1–2 years	2–5 years	Over 5 years
Loans and borrowings, including interest expense	263,202	304,938	52,147	50,855	158,868	43,068
Bonds, including interest expense	353,595	421,167	103,998	46,588	111,993	158,588
Finance lease obligations	2,846	5,344	1,398	1,311	2,635	-
Trade and other payables	545,734	545,734	545,113	192	319	110
Derivative financial liabilities	11,978	11,978	11,978	-	-	-
31 December 2017	**1,177,355**	**1,289,161**	**714,634**	**98,946**	**273,815**	**201,766**

Currency risk

The Group is subject to foreign exchange risks since it operates in a number of countries. The exchange rate of the Russian ruble to the US dollar produces the greatest impact on transaction results, since the Group's export proceeds are denominated in dollars, while the major costs are incurred in Russia and are denominated in Russian rubles.

As part of the centralized approach to management of the treasury operations and liquidity of the Group, the risks associated with unfavorable changes in the exchange rates are generally consolidated at the corporate level. In a number of cases currency risks at trading floors are minimized due to the financial derivative operations conducted as part of the corporate dealing process.

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Notes to Consolidated Financial Statements
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Note 34. Capital and risk management (continued)

The carrying amounts of the Group's assets and liabilities which form currency risk at 31 December 2018 and 2017 are presented in the tables below and contain balances between Group companies whose functional currency is different from the currency of the contract.

31 December 2018	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	6,864	15,701	1,162
Trade and other receivables	152,115	3,855	4,553
Loans	178,993	-	-
Other financial assets	1,421	30	233
Financial liabilities:			
Loans and borrowings	(364,268)	(15,238)	-
Trade and other payables	(57,641)	(8,605)	(10,645)
Net exposure	**(82,516)**	**(4,257)**	**(4,697)**

31 December 2017	USD	EUR	Other currencies
Financial assets:			
Cash and cash equivalents	68,136	11,781	1,034
Trade and other receivables	162,005	1,787	4,727
Loans	175,173	3,548	-
Other financial assets	2,181	6	12
Financial liabilities:			
Loans and borrowings	(103,680)	(33,041)	(87)
Trade and other payables	(68,694)	(5,688)	(7,146)
Net exposure	**235,121**	**(21,607)**	**(1,460)**

The following exchange rates applied:

	31 December 2018	31 December 2017
USD	69.47	57.60
EUR	79.46	68.87

Sensitivity analysis

Analysis of the currency position shows that the Group mainly uses RUR, US dollar and EUR in its operating activity. Thus sensitivity analysis shows how strengthening (weakening) of these currencies at 31 December 2018 and 2017 would have affected the measurement of financial assets and liabilities denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

	Profit (loss)	
	2018	2017
US Dollar (increase by 10%)	(7,726)	22,026
Euro (increase by 10%)	2,566	(249)
Russian ruble (increase by 10%)	4,937	(19,384)

The weakening of these currencies by 10% will have equal effect on profit (loss) but with opposite sign.

Interest rate risk

The Group is exposed to a significant interest rate risk both in the short- and long-term. A change in interest rates may affect the cost of funds borrowed by the Group as well as the size of cash flows.

PJSC LUKOIL
Notes to Consolidated Financial Statements
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Note 34. Capital and risk management (continued)

To mitigate this risk, the Group is constantly monitoring market conditions, taking measures to improve the debt structure by reaching an optimum balance between fixed and variable interest rates, controlling the need for additional financing and outstanding debt refinancing, extending the term of debt obligations.

The interest rate profiles of the Group are presented below:

	31 December 2018	31 December 2017
Fixed rate instruments:		
Financial assets	92,124	45,354
Financial liabilities	(354,566)	(367,525)
Net exposure	**(262,442)**	**(322,171)**
Variable rate instruments:		
Financial assets	14,175	49,244
Financial liabilities	(180,481)	(248,835)
Net exposure	**(166,306)**	**(199,591)**

Sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at 31 December 2018 and 2017 would have increased (decreased) profit (loss) before taxes by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit (loss) before taxes	
	100 bp increase	100 bp decrease
2018		
Net financial liabilities	(1,663)	1,663
2017		
Net financial liabilities	(1,996)	1,996

Capital management

The Group's capital management objectives are to secure the ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders. The Company's management performs regular assessment of the net debt to capital ratio to ensure it meets the Company's current rating requirements. The capital consists of debt obligations, which include long and short-term loans and borrowings, equity that includes share capital, reserves and retained earnings, as well as non-controlling interests. Net debt is a non-IFRS measure and is calculated as a sum of loans and borrowings, as presented in the consolidated statement of financial position, less cash and cash equivalents. Net debt to equity ratio enables the users to see how significant net debt is.

The Group's net debt to equity ratio was as follows:

	31 December 2018	31 December 2017
Total debt	535,047	616,360
Less cash and cash equivalents	(492,650)	(330,390)
Net debt	42,397	285,970
Equity	4,073,526	3,490,399
Net debt to equity ratio	**1.04%**	**8.19%**

PJSC LUKOIL
Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of Russian rubles, unless otherwise noted)

Supplementary Information on Oil and Gas Exploration and Production Activities

IFRS do not require the information on oil and gas reserves to be disclosed in consolidated financial statements. However, management believes that this supplementary information will benefit the users of consolidated financial statements of the Group.

The information on oil and gas exploration and production activities is presented in six separate tables:

I. Capitalised costs relating to oil and gas producing activities.
II. Costs incurred in oil and gas property acquisition, exploration, and development activities.
III. Results of operations for oil and gas producing activities.
IV. Reserve quantity information.
V. Standardised measure of discounted future net cash flows.
VI. Principal sources of changes in the standardised measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalised costs relating to oil and gas producing activities

31 December 2018	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	86,809	93,344	180,153	31,093
Proved oil and gas properties	1,368,594	2,928,077	4,296,671	287,271
Accumulated depreciation, depletion, and amortisation	(742,820)	(843,688)	(1,586,508)	(98,981)
Net capitalised costs	**712,583**	**2,177,733**	**2,890,316**	**219,383**

31 December 2017	International	Russia	Total consolidated companies	Group's share in equity companies
Unproved oil and gas properties	61,885	78,372	140,257	22,684
Proved oil and gas properties	1,104,857	2,657,153	3,762,010	185,749
Accumulated depreciation, depletion, and amortisation	(571,017)	(659,700)	(1,230,717)	(53,333)
Net capitalised costs	**595,725**	**2,075,825**	**2,671,550**	**155,100**

II. Costs incurred in oil and gas property acquisition, exploration, and development activities

2018	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – unproved	924	153	1,077	-
Exploration costs	11,678	17,677	29,355	686
Development costs	51,770	286,781	338,551	11,202
Total costs incurred	**64,372**	**304,611**	**368,983**	**11,888**

2017	International	Russia	Total consolidated companies	Group's share in equity companies
Acquisition of properties – proved	-	1,520	1,520	-
Acquisition of properties – unproved	-	2,972	2,972	-
Exploration costs	6,715	26,791	33,506	1,382
Development costs	129,468	299,738	429,206	8,897
Total costs incurred	**136,183**	**331,021**	**467,204**	**10,279**

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Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of Russian rubles, unless otherwise noted)

III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. Sales and transfers to Group companies are based on market prices, income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

2018	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	192,648	1,023,155	1,215,803	63,318
Transfers	-	951,069	951,069	1,432
Total revenues	192,648	1,974,224	2,166,872	64,750
Production costs (excluding production taxes)	(38,684)	(175,131)	(213,815)	(6,469)
Exploration expenses	(1,872)	(1,710)	(3,582)	(25)
Depreciation, depletion, and amortisation	(69,471)	(176,885)	(246,356)	(7,960)
Taxes other than income taxes	(716)	(1,071,761)	(1,072,477)	(16,483)
Related income taxes	(8,108)	(97,572)	(105,680)	(13,476)
Total results of operations for producing activities	**73,797**	**451,165**	**524,962**	**20,337**

2017	International	Russia	Total consolidated companies	Group's share in equity companies
Revenue				
Sales	112,088	704,254	816,342	47,044
Transfers	-	705,802	705,802	1,243
Total revenues	112,088	1,410,056	1,522,144	48,287
Production costs (excluding production taxes)	(31,405)	(177,554)	(208,959)	(6,125)
Exploration expenses	(2,775)	(9,573)	(12,348)	(21)
Depreciation, depletion, and amortisation	(43,949)	(174,683)	(218,632)	(7,446)
Taxes other than income taxes	(475)	(709,670)	(710,145)	(10,955)
Related income taxes	(6,766)	(53,041)	(59,807)	(8,544)
Total results of operations for producing activities	**26,718**	**285,535**	**312,253**	**15,196**

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves which according to geological and engineering data are going to be recoverable with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. Existing economic and operating conditions are based on the 12-months average price and the year-end costs. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies to both newly issued and old licenses and the Group has currently renewed 67% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

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Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of Russian rubles, unless otherwise noted)

Estimated net proved oil and gas reserves and changes thereto for 2018 and 2017 are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
Crude oil	**International**	**Russia**	**Total**	
31 December 2016	628	11,561	12,189	293
Revisions of previous estimates	(128)	(55)	(183)	(5)
Purchase of hydrocarbons in place	-	11	11	-
Extensions and discoveries	8	408	416	14
Production	(29)	(609)	(638)	(20)
31 December 2017	479	11,316	11,795	282
Revisions of previous estimates	(148)	273	125	16
Purchase of hydrocarbons in place	-	3	3	-
Extensions and discoveries	12	500	512	8
Production	(27)	(614)	(641)	(18)
31 December 2018	**316**	**11,478**	**11,794**	**288**
Proved developed reserves				
31 December 2017	250	7,331	7,581	131
31 December 2018	**204**	**7,602**	**7,806**	**133**

The non-controlling interest share included in the above total proved reserves was 73 million barrels and 94 million barrels at 31 December 2018 and 2017, respectively. The non-controlling interest share included in the above proved developed reserves was 39 million barrels and 57 million barrels at 31 December 2018 and 2017, respectively. All non-controlling interests relate to reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
Natural gas	**International**	**Russia**	**Total**	
31 December 2016	7,058	16,270	23,328	165
Revisions of previous estimates	157	563	720	29
Extensions and discoveries	140	281	421	5
Production	(349)	(638)	(987)	(32)
31 December 2017	7,006	16,476	23,482	167
Revisions of previous estimates	(158)	351	193	98
Purchase of hydrocarbons in place	-	2	2	-
Extensions and discoveries	37	297	334	2
Production	(533)	(626)	(1,159)	(26)
31 December 2018	**6,352**	**16,500**	**22,852**	**241**
Proved developed reserves:				
31 December 2017	5,409	5,558	10,967	121
31 December 2018	**5,072**	**5,758**	**10,830**	**146**

The non-controlling interest share included in the above total proved reserves was 27 billion cubic feet at 31 December 2018 and 2017. The non-controlling interest share included in the above proved developed reserves was 14 and 13 billion cubic feet at 31 December 2018 and 2017, respectively. All non-controlling interests relate to reserves in the Russian Federation.

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Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of Russian rubles, unless otherwise noted)

V. Standardised measure of discounted future net cash flows

Estimated future cash inflows from hydrocarbons production are computed by applying the 12-months average price for oil and gas and the year-end exchange rates to year-end quantities of estimated net proved reserves. Adjustments in this calculation for future price changes are limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

31 December 2018	International	Russia	Total consolidated companies	Group's share in equity companies
Future cash inflows	2,938,283	49,617,947	52,556,230	1,207,677
Future production and development costs	(1,620,666)	(36,498,385)	(38,119,051)	(746,756)
Future income tax expenses	(131,008)	(2,297,381)	(2,428,389)	(139,882)
Future net cash flows	1,186,609	10,822,181	12,008,790	321,039
Discount for estimated timing of cash flows (10% p.a.)	(449,443)	(5,922,682)	(6,372,125)	(162,831)
Discounted future net cash flows	**737,166**	**4,899,499**	**5,636,665**	**158,208**
Non-controlling share in discounted future net cash flows	-	36,032	36,032	-

31 December 2017	International	Russia	Total consolidated companies	Group's share in equity companies
Future cash inflows	2,460,227	23,774,561	26,234,788	685,571
Future production and development costs	(1,663,223)	(17,196,531)	(18,859,754)	(447,375)
Future income tax expenses	(54,737)	(1,018,876)	(1,073,613)	(43,283)
Future net cash flows	742,267	5,559,154	6,301,421	194,913
Discount for estimated timing of cash flows (10% p.a.)	(331,525)	(3,110,698)	(3,442,223)	(100,127)
Discounted future net cash flows	**410,742**	**2,448,456**	**2,859,198**	**94,786**
Non-controlling share in discounted future net cash flows	-	22,136	22,136	-

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Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)
(Millions of Russian rubles, unless otherwise noted)

VI. Principal sources of changes in the standardised measure of discounted future net cash flows

Consolidated companies	**2018**	**2017**
Discounted present value at 1 January	2,859,198	2,379,847
Net changes due to purchases and sales of minerals in place	1,367	2,167
Sales and transfers of oil and gas produced, net of production costs	(876,998)	(590,692)
Net changes in prices and production costs estimates	11,583,655	1,641,159
Net changes in mineral extraction taxes	(8,206,395)	(1,129,879)
Extensions and discoveries, less related costs	257,337	104,704
Previously estimated development cost incurred during the year	300,233	349,720
Revisions of previous quantity estimates	31,469	(26,040)
Net change in income taxes	(626,197)	(44,824)
Accretion of discount	312,181	262,831
Other changes	815	(89,795)
Discounted present value at 31 December	**5,636,665**	**2,859,198**

Group's share in equity companies	**2018**	**2017**
Discounted present value at 1 January	94,786	45,250
Sales and transfers of oil and gas produced, net of production costs	(41,773)	(31,186)
Net changes in prices and production costs estimates	227,904	101,022
Net changes in mineral extraction taxes	(131,737)	(47,336)
Extensions and discoveries, less related costs	4,258	4,402
Previously estimated development cost incurred during the year	29,688	27,167
Revisions of previous quantity estimates	15,001	(316)
Net change in income taxes	(46,305)	(7,185)
Accretion of discount	11,273	5,791
Other changes	(4,887)	(2,823)
Discounted present value at 31 December	**158,208**	**94,786**

PJSC LUKOIL

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

for the three months ended 31 December and 30 September 2018 and for the years 2018 and 2017

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 December 2018 and the results of its operations for the three months ended 31 December and 30 September 2018 and for the years 2018 and 2017, as well as significant factors that may affect its future performance. It should be read in conjunction with our International Financial Reporting Standards ("IFRS") consolidated financial statements, including notes and supplementary information on oil and gas exploration and production activities.

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

This report includes forward-looking statements – words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results. Please see "Forward-looking statement" on page 142 for a discussion of some factors that could cause actual results to differ materially.

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Business overview

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

LUKOIL is one of the world's largest publicly traded vertically integrated energy companies. Our proved reserves under SEC standards amounted to 15.9 billion BOE at 1 January 2019 and comprised of 12.1 billion barrels of crude oil and 23.1 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia, our major oil producing regions are West Siberia, Timan-Pechora, Ural and Volga region. Our international upstream segment includes stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria and Mexico. Our daily hydrocarbon production in 2018 amounted to 2.3 million BOE, with liquid hydrocarbons representing approximately 77% of our overall production volumes.

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

We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. We also own two petrochemical plants in Russia and have petrochemical capacities at our refineries in Bulgaria and Italy. Along with our own production of refined products we refine crude oil at third party refineries depending on market conditions and other factors. Our refinery throughput in 2018 amounted to 1.4 million barrels per day, and we produced 1.2 million tonnes of petrochemicals.

We market our own and third-party crude oil and refined products through our sales channels in Russia, Europe, South-East Asia, Central and North America and other regions. We own petrol stations in 18 countries. Most of our retail networks are located close to our refineries. Our retail sales in 2018 amounted to 15.1 million tonnes of refined products.

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally. In 2018, our total output of electrical energy was 19.9 billion kWh.

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

Key financial and operational results

	Q4 2018	Q3 2018	Change, %	12 months of 2018	12 months of 2017	Change, %
	(millions of rubles, except for figures in percent)					
Sales	2,043,217	2,305,886	(11.4)	8,035,889	5,936,705	35.4
EBITDA[1], including	278,315	321,810	(13.5)	1,114,800	831,570	34.1
Exploration and production segment	190,039	268,631	(29.3)	870,287	569,417	52.8
Refining, marketing and distribution segment	81,486	82,189	(0.9)	282,144	263,385	7.1
EBITDA[1] net of West Qurna-2 project	274,061	312,666	(12.3)	1,089,370	814,382	33.8
Profit for the period attributable to LUKOIL shareholders	159,027	183,767	(13.5)	619,174	418,805	47.8
Capital expenditures	113,266	111,426	1.7	451,526	511,496	(11.7)
Free cash flow[2]	212,245	159,773	32.8	555,125	246,994	124.8
Free cash flow before changes in working capital	138,052	199,705	(30.9)	588,717	271,977	116.5
	(thousand BOE per day, except for figures in percent)					
Production of hydrocarbons, including our share in equity affiliates	2,391	2,362	1.2	2,347	2,269	3.4
Crude oil and natural gas liquids	1,821	1,817	0.2	1,806	1,804	0.1
Gas	570	545	4.6	541	465	16.3
Refinery throughput at the Group refineries	1,355	1,392	(2.7)	1,352	1,350	0.1

[1] Profit from operating activities before depreciation, depletion and amortization.
[2] Cash flow from operating activities less capital expenditures.

In 2018, our results were positively impacted by an increase in international hydrocarbon prices and the ruble devaluation, bigger share of high-margin projects in crude oil production, as well as growth in international gas production volumes. Among the restraining factors for 2018 results were domestic refined products prices lagging the export netbacks, negative export duty lag effect as well as negative inventory effect at our refineries compared to 2017.

Compared to the third quarter of 2018, our results were negatively affected by a sharp decrease in international hydrocarbon prices, as well as negative export duty lag effect and negative inventory effect at our refineries. Key supportive factor for our results was an increase in domestic refining margins.

In 2018, the Group recognized expenses of 31.3 billion RUB in relation to the new share-based compensation plan, which were included in selling, general and administrative expenses.

As a result, our EBITDA amounted to 1,115 billion RUB in 2018, an increase of 34.1% to 2017, and to 278 billion RUB in the fourth quarter of 2018, a decrease of 13.5% to the third quarter of 2018.

In 2018, our profit was positively impacted by a foreign exchange gain (compared to a foreign exchange loss in 2017) and negatively impacted by increased depreciation, depletion and amortization due to commissioning of new production assets and production growth in the Caspian Sea and Uzbekistan. Our profit dynamics was also affected by a gain on sale of JSC "Arkhangelskgeoldobycha" in the after-tax amount of 38 billion RUB in the second quarter of 2017.

Due to significant increase in proved developed hydrocarbon reserves at some of our fields as of the end of 2018 and consequent recalculation of depletion of these upstream assets for 2018, our depreciation, depletion and amortization expenses decreased significantly in the fourth quarter of 2018.

In 2018, profit attributable to LUKOIL shareholders amounted to 619 billion RUB, an increase of 47.8% to 2017, and in the fourth quarter of 2018, it amounted to 159 billion RUB, a decrease of 13.5% to the third quarter of 2018.

Compared to 2017, our capital expenditures decreased by 60 billion RUB, or by 11.7%, mainly due to lower spending in Uzbekistan after completion of main construction works as part of the Gissar and Kandym projects. Compared to the third quarter of 2018, our capital expenditures did not change significantly.

In 2017, our free cash flow increased to 555 billion RUB, or by 124.8%, due to increase in profitability of our core operations and lower capital expenditures. Our free cash flow increased to 212 billion RUB, or by 32.8%, in the fourth quarter of 2018 mainly as a result of a changes in working capital.

The Group's average daily hydrocarbon production increased by 3.4% compared to 2017 and by 1.2% compared to the third quarter of 2018, driven primarily by growth in gas production volumes in Uzbekistan. In Russia, planned increase in production from high-margin fields continued.

Throughput at our refineries didn't change significantly compared to 2017 and decreased by 2.7% compared to the previous quarter. We continued enhancing the output structure at our refineries. Fuel oil production volumes decreased by 9.2% compared to 2017.

Changes in Group structure

In December 2016, the Company entered into a contract with a company of the "Otkrytie Holding" group to sell the Group's 100% interest in JSC "Arkhangelskgeoldobycha" ("AGD"), a company developing the diamond field named after V.P. Grib located in Arkhangelsk region of Russia. The transaction in the amount of Russian ruble equivalent of $1.45 billion was completed on 24 May 2017 after all necessary governmental approvals were received. As a result the Group recognized profit before income tax in the amount of 48 billion RUB that is included in "Other income (expenses)" in the consolidated statement of profit or loss and other comprehensive income (profit after income tax – 38 billion RUB).

In February 2017, the Group completed the sale of wholly owned subsidiary – LUKOIL Chemical B.V., which owns "Karpatneftekhim" petrochemical plant located in the Ivano-Frankovsk area of Ukraine.

Main macroeconomic factors affecting our results of operations

International crude oil and refined products prices

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

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

In 2018, the price for Brent crude oil fluctuated between $50 and $86 per barrel, reached its maximum of $86.2 in early October and its minimum of $50.2 in the end of December. Average price expressed in US dollars decreased by 10.4% compared to the third quarter of 2018 and increased by 30.7% compared to 2017.

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

	Q4 2018	Q3 2018	Change, %	12 months of 2018	12 months of 2017	Change, %
	(in US dollars per barrel, except for figures in percent)					
Brent crude	67.43	75.25	(10.4)	70.94	54.28	30.7
Urals crude (CIF Mediterranean)	67.22	74.42	(9.7)	69.89	53.37	31.0
Urals crude (CIF Rotterdam)	66.81	74.09	(9.8)	69.57	52.92	31.5
	(in US dollars per metric tonne, except for figures in percent)					
Diesel fuel 10 ppm (FOB Rotterdam)	636.64	668.03	(4.7)	638.76	493.92	29.3
High-octane gasoline (FOB Rotterdam)	596.82	733.68	(18.7)	671.85	557.66	20.5
Naphtha (FOB Rotterdam)	537.80	649.09	(17.1)	597.08	480.75	24.2
Jet fuel (FOB Rotterdam)	671.92	707.38	(5.0)	683.19	526.17	29.8
Vacuum gas oil (FOB Rotterdam)	462.35	511.19	(9.6)	487.88	369.15	32.2
Fuel oil 3.5% (FOB Rotterdam)	395.92	424.60	(6.8)	393.98	300.49	31.1

Source: Platts.

	Q4 2018	Q3 2018	Change, %	12 months of 2018	12 months of 2017	Change, %
	(in rubles per barrel, except for figures in percent)					
Brent crude	4,483	4,931	(9.1)	4,449	3,167	40.5
Urals crude (CIF Mediterranean)	4,469	4,877	(8.4)	4,383	3,114	40.8
Urals crude (CIF Rotterdam)	4,441	4,855	(8.5)	4,363	3,088	41.3
	(in rubles per metric tonne, except for figures in percent)					
Diesel fuel 10 ppm (FOB Rotterdam)	42,325	43,777	(3.3)	40,055	28,822	39.0
High-octane gasoline (FOB Rotterdam)	39,678	48,080	(17.5)	42,130	32,541	29.5
Naphtha (FOB Rotterdam)	35,754	42,537	(15.9)	37,441	28,053	33.5
Jet fuel (FOB Rotterdam)	44,671	46,356	(3.6)	42,842	30,703	39.5
Vacuum gas oil (FOB Rotterdam)	30,738	33,499	(8.2)	30,594	21,541	42.0
Fuel oil 3.5% (FOB Rotterdam)	26,321	27,825	(5.4)	24,706	17,534	40.9

Translated into rubles using average exchange rate for the period.

Domestic crude oil and refined products prices

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

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

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

	Q4 2018	Q3 2018	Change, %	12 months of 2018	12 months of 2017	Change, %
	(in rubles per metric tonne, except for figures in percent)					
Diesel fuel	45,143	42,888	5.3	41,582	33,288	24.9
High-octane gasoline (Regular)	41,737	40,572	2.9	40,185	36,191	11.0
High-octane gasoline (Premium)	45,791	42,260	8.4	42,005	37,011	13.5
Fuel oil	25,162	18,439	36.5	17,747	10,507	68.9

Source: InfoTEK (excluding VAT).

Changes in ruble exchange rate and inflation

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

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
Ruble inflation (CPI), %	1.7	0.4	4.2	2.5
Ruble to US dollar exchange rate				
Average for the period	66.5	65.5	62.7	58.4
At the beginning of the period	65.6	62.8	57.6	60.7
At the end of the period	69.5	65.6	69.5	57.6
Ruble to euro exchange rate				
Average for the period	75.9	76.2	74.0	65.9
At the beginning of the period	76.2	73.0	68.9	63.8
At the end of the period	79.5	76.2	79.5	68.9

Source: CBR, Federal State Statistics Service.

Taxation

The Russian Government implements the tax manoeuvre in the oil industry which involves reduction of export duty rate and increase in the crude oil extraction tax and excise tax rates. Changes that became effective from January 2017 had a positive impact on our upstream margins and a negative impact on our refining and marketing margins, while overall impact of tax changes on our financial results wasn't significant.

In 2018, there were no material amendments to the export duty and crude oil mineral extraction tax rates formulas, however, during the year the Russian Government adopted new laws which came into effect on 1 January 2019. The laws provide for concluding the tax maneuver by 2024 through the gradual reduction of crude oil export duty rate to zero and the equivalent increase in the extraction tax rate for crude oil. To eliminate the negative effect of export duty reduction on refining margins, a negative excise on refinery feedstock was introduced. To reduce the sensitivity of domestic prices for motor fuel to changes in international prices a so called damper coefficient was included into the negative excise formula. We expect neutral impact of the above changes on our financial results subject to dynamics of domestic prices for petroleum products.

The following tables represent average enacted rates for taxes specific to the oil industry in Russia for the respective periods.

	Q4 2018	Q3 2018	Change, %	12 months of 2018	12 months of 2017	Change, %
	(in US dollars per tonne, except for figures in percent)					
Export duties on crude oil	141.42	134.89	4.8	128.52	86.71	48.3
Export duties on refined products						
Fuel oil	141.42	134.89	4.8	128.52	86.71	48.3
Motor gasoline	42.40	40.45	4.8	38.53	25.98	48.3
Straight-run gasoline	77.77	74.16	4.8	70.65	47.65	48.3
Diesel fuel and refined products	42.40	40.45	4.8	38.53	25.98	48.3
Mineral extraction tax[1]						
Crude oil	188.76	213.80	(11.7)	198.83	139.39	42.6
	(in US dollars per thousand cubic meters, except for figures in percent)					
Natural gas (Nakhodkinskoe field)	4.66	4.72	(1.4)	4.86	4.34	12.0
Natural gas (Pyakyakhinskoye field)	7.96	8.50	(6.5)	8.55	8.28	3.2

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

	Q4 2018	Q3 2018	Change, %	12 months of 2018	12 months of 2017	Change, %
	(in rubles per tonne, except for figures in percent)					
Export duties on crude oil[1]	9,402	8,840	6.4	8,059	5,060	59.3
Export duties on refined products[1]						
Fuel oil	9,402	8,840	6.4	8,059	5,060	59.3
Motor gasoline	2,819	2,651	6.4	2,416	1,516	59.3
Straight-run gasoline	5,170	4,860	6.4	4,430	2,781	59.3
Diesel fuel and refined products	2,819	2,651	6.4	2,416	1,516	59.3
Mineral extraction tax						
Crude oil	12,549	14,011	(10.4)	12,468	8,134	53.3
	(in rubles per thousand cubic meters, except for figures in percent)					
Natural gas (Nakhodkinskoe field)	310	310	–	305	253	20.4
Natural gas (Pyakyakhinskoye field)	529	557	(5.1)	536	483	10.9

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

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

	Mineral extraction tax	Export duty	Total	As % of oil price
	(in US dollars per barrel, except for figures in percent)			
Under 2018 tax formulas				
Standard	**17.7**	**11.5**	**29.2**	**58.4**
Yaregskoye field	0.0	1.8	1.8	3.6
Yu. Korchagin field	7.4	0.0	7.4	14.9
V. Filanovsky field	7.5	0.0	7.5	15.0
Usinskoye (Permian layers)	7.4	11.5	18.9	37.9
Pyakyakhinskoye field	7.4	11.5	18.9	37.9
V. Vinogradov field	9.5	11.5	21.0	42.0
Fields with depletion above 80%	10.5–17.7	11.5	22.0–29.2	44.0–58.4
New fields with reserves below 5 million tonnes	11.3–17.7	11.5	22.8–29.2	45.6–58.4
Tyumen deposits	15.6	11.5	27.1	54.3

The rates of taxes specific to the oil industry in Russia are linked to international crude oil prices and are changed in line with them. The methods to determine the rates for such taxes are presented below.

Crude oil extraction tax rate is changed monthly. Crude oil extraction tax is payable in rubles per metric tonne extracted. In 2017–2018, the tax rate was calculated according to the formula below:

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

where *Price* is a Urals blend price in US dollars per barrel and *Exchange Rate* is an average ruble exchange rate to US dollar during the period. The *Fixed Factor* was equal to 306 RUB in 2017 and 357 RUB in 2018.

Starting from 2019, additional factors were added to the crude oil extraction tax formula. The first factor equals to the amount of export duty rate reduction. The other two factors are applicable when the corresponging components of the damper coefficient are positive. The fixed factor, damper factor and export duty rate reduction factor are presented in the below table:

	2019	2020	2021	2022	2023	2024 and further
Export duty rate reduction factor	0.167	0.333	0.5	0.667	0.833	0
			(rubles)			
Fixed factor	428	428	428	0	0	0
Damper factor for gasoline	125	105	105	105	105	105
Damper factor for diesel fuel	110	92	92	92	92	92

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

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

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

The table on p. 108 illustrates the impact of crude oil extraction tax incentives on taxation of crude oil production from our different fields and deposits at $50 per barrel Urals price.

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

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

Crude oil export duty rate is denominated in US dollars per tonne of crude oil exported and is calculated according to the table below.

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

The export duty rate changes every month with the rate for the next month being based on average Urals price for the period from the 15th day of the previous month to the 14th day of the current month. This calculation methodology results in the so-called "export duty lag effect," when export duty rate lags the oil price changes, which may result in sizeable impact on our financial results in the periods of high oil price volatility.

The table below illustrates the impact of the "export duty lag effect" on the Urals price net of taxes.

	Q4 2018	Q3 2018	Change, %	12 months of 2018	12 months of 2017	Change, %
	(in US dollars per barrel, except for figures in percent)					
Urals price (Argus)	67.16	74.12	(9.4)	69.75	53.09	31.4
Export duty on crude oil	19.37	18.48	4.8	17.61	11.88	48.3
Mineral extraction tax on crude oil	25.86	29.29	(11.7)	27.24	19.09	42.7
Net Urals price[1]	21.93	26.35	(16.8)	24.90	22.11	12.6
Export duty lag effect	(2.73)	0.25	–	(0.19)	0.54	–
Net Urals price[1] assuming no lag	24.66	26.10	(5.5)	25.09	21.57	16.3
	(in rubles per barrel, except for figures in percent)[2]					
Urals price (Argus)	4,465	4,857	(8.1)	4,374	3,098	41.2
Export duty on crude oil	1,288	1,211	6.4	1,104	693	59.3
Mineral extraction tax on crude oil	1,719	1,919	(10.4)	1,708	1,114	53.3
Net Urals price[1]	1,458	1,727	(15.6)	1,562	1,291	21.0
Export duty lag effect	(181)	16	–	(12)	32	–
Net Urals price[1] assuming no lag	1,639	1,711	(4.2)	1,574	1,259	25.0

[1] Urals price net of export duty and mineral extraction tax on crude oil.
[2] Translated to rubles using average exchange rate for the period.

From 2019 to 2024 the export duty rate will be gradually reduced to zero by applying an adjusting factor to the standard crude oil export duty rate in accordance with the below table:

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

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

The table on p. 108 illustrates the impact of crude oil export duty incentives on taxation of export of crude oil produced from our different fields and deposits at $50 per barrel Urals price.

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

	2017 and further
Multiplier for:	
Light and middle distillates	0.30
Diesel fuel	0.30
Gasolines	0.30
Straight-run gasoline	0.55
Fuel oil	1.00

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

Tax on additional income. Starting from 2019, a tax on additional income from the hydrocarbon production (hereinafter TAI) will be implemented for certain fields. The TAI rate is set at 50% and is applied to the estimated sales revenue less actual and estimated costs. For crude oil production subject to TAI, a special mineral extraction tax rate formula is applied.

The Company expects TAI to have significant positive impact on development plans for, and production profile of, its fields subject to TAI.

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

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

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

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

	Q4 2018	Q3 2018	Change, %	12 months of 2018	12 months of 2017	Change, %
	(in rubles per tonne, except for figures in percent)					
Gasoline						
Below Euro-5	13,100	13,100	–	13,100	13,100	–
Euro-5	8,213	8,213	–	9,454	10,130	(6.7)
Diesel fuel						
All ecological classes	5,665	5,665	–	6,492	6,800	(4.5)
Motor oils	5,400	5,400	–	5,400	5,400	–
Middle distillates	6,665	6,665	–	7,491	7,800	(4.0)
Straight-run gasoline	13,100	13,100	–	13,100	13,100	–

From June to December 2018, excise rates on refined products were temporarily reduced by 3,000 rubles per tonne of motor gasoline (Euro-5) and by 2,000 rubles per tonne of diesel fuel (all ecological classes).

Established excise tax rates starting from 2018 are listed below.

	1 January to 31 May 2018	1 June to 31 December 2018	2019	2020	2021
	(in rubles per tonne)				
Gasoline					
Below Euro-5	13,100	13,100	13,100	13,100	13,624
Euro-5	11,213	8,213	12,314	12,752	13,262
Diesel fuel					
All ecological classes	7,665	5,665	8,541	8,835	9,188
Motor oils	5,400	5,400	5,400	5,616	5,841
Middle distillates	8,662	6,665	9,241	9,535	9,916
Straight-run gasoline	13,100	13,100	13,912	14,720	15,533

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

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

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

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

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

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

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

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

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

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

	4rd quarter of 2018 to 3nd quarter of 2018	12 months of 2018 to 12 months of 2017
Transneft		
Crude oil	0.0%	4.0%
Russian Railways		
Crude oil and refined products	0.0%	5.3%

Since 1 January 2019, the tariffs for transportation of crude oil and refined products were changed. Tariffs for crude oil export through the trunk oil pipeline system increased by 3.87%. Tariffs for refined products transportation via railway infrastructure increased by 3.56%, while tariffs for transportation of refined products by pipeline changed in a range from 3.61% to 3.83% for the Groups' refineries.

Reserves base

The tables below summarize the net proved reserves of consolidated subsidiaries and our share in equity affiliates under the standards of the US Securities and Exchange Commission (until the economic limit of commercial production is reached) that have been derived from our reserve reports audited by Miller and Lents Ltd, our independent reservoir engineers, at 31 December 2018 and 2017.

		Changes in 2018			
(hydrocarbons, millions of BOE)	31 December 2018	Production[1]	Extensions, discoveries and changes in structure	Revision of previous estimates	31 December 2017
Western Siberia	8,304	(360)	265	15	8,384
Timan-Pechora	2,424	(129)	128	115	2,311
Ural region	2,261	(126)	80	111	2,196
Volga region	1,156	(96)	81	83	1,088
Other in Russia	185	(11)	6	10	179
Outside Russia	1,601	(134)	20	(145)	1,860
Proved oil and gas reserves	**15,931**	**(856)**	**580**	**189**	**16,018**
Probable oil and gas reserves	**6,424**				**6,409**
Possible oil and gas reserves	**3,242**				**3,087**

[1] Gas production shown before own consumption.

		Changes in 2018			
(crude oil, millions of barrels)	31 December 2018	Production	Extensions, discoveries and changes in structure	Revision of previous estimates	31 December 2017
Western Siberia	6,184	(283)	236	(24)	6,255
Timan-Pechora	2,291	(117)	116	109	2,183
Ural region	2,122	(120)	77	103	2,062
Volga region	797	(86)	74	77	732
Other in Russia	183	(11)	6	10	178
Outside Russia	505	(42)	14	(134)	667
Proved oil reserves	**12,082**	**(659)**	**523**	**141**	**12,077**
Probable oil reserves	**4,855**				**4,835**
Possible oil reserves	**2,727**				**2,581**

		Changes in 2018			
(gas, billions of cubic feet)	31 December 2018	Production[1]	Extensions, discoveries and changes in structure	Revision of previous estimates	31 December 2017
Western Siberia	12,723	(460)	168	235	12,780
Timan-Pechora	797	(74)	77	33	761
Ural region	832	(33)	14	49	802
Volga region	2,153	(62)	43	38	2,134
Other in Russia	14	(2)	–	2	14
Outside Russia	6,574	(554)	36	(66)	7,158
Proved gas reserves	**23,093**	**(1,185)**	**338**	**291**	**23,649**
Probable gas reserves	**9,414**				**9,446**
Possible gas reserves	**3,091**				**3,038**

[1] Gas production shown before own consumption.

The Company's proved hydrocarbon reserves at 31 December 2018 amounted to 15.9 billion BOE and comprised of 12.1 billion barrels of crude oil and 23.1 trillion cubic feet of gas.

As a result of geological exploration and production drilling conducted in 2018, LUKOIL added 576 million barrels of oil equivalent to proven reserves. The major addition was provided by production drilling in West Siberia and Timan-Pechora.

Higher average oil price, optimization of development systems and programs of geological and engineering operations at existing fields, conversion of contingent resources to reserves as a result of adoption of the final investment decision on the Rakushechnoye field in the Caspian Sea as well as introducing the tax on additional income for a number of fields, resulted in a positive revision of the proven reserves in the aggregate of 297 million BOE. The reserves dynamics were negatively affected by reserves reassessment for the international projects based on PSAs and service contracts, as a result of average hydrocarbon prices growth and changes in the West Qurna-2 project development program.

Segments highlights

Our operations are divided into three main business segments:

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

Each of our segments is dependent on the others, with a portion of the revenues of one segment being a part of the costs of the others. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the "Domestic crude oil and refined products prices" section on p. 106, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. We present the financial data for each segment in Note 31 "Segment information" to our consolidated financial statements.

Exploration and production

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
		(millions of rubles)		
EBITDA	190,039	268,631	870,287	569,417
- in Russia	148,749	220,313	717,244	491,191
- outside Russia and Iraq	37,036	39,174	127,613	61,038
- in Iraq	4,254	9,144	25,430	17,188
Hydrocarbon extraction expenses	56,364	53,690	213,815	208,959
- in Russia	44,949	43,608	175,131	177,554
- outside Russia and Iraq	6,406	5,339	21,096	15,227
- in Iraq	5,009	4,743	17,588	16,178
		(ruble per BOE)		
Hydrocarbon extraction expenses (excluding Iraq)	242	234	238	244
- in Russia	246	240	244	248
- outside Russia and Iraq	214	196	199	204
		(US dollar per BOE)		
Hydrocarbon extraction expenses (excluding Iraq)	3.63	3.58	3.81	4.18
- in Russia	3.70	3.67	3.90	4.25
- outside Russia and Iraq	3.21	3.00	3.16	3.50

Our upstream EBITDA decreased by 29.3%, compared to the third quarter of 2018. In Russia, this was mainly a result of lower hydrocarbon prices, negative export duty lag effect, as well as a decrease in crude oil sales volumes. Outside Russia, the decrease was due to lower hydrocarbon prices, lower EBITDA of the West Qurna-2 project in Iraq, as well as one-off adjustments related to the Group's PSA projects in Uzbekistan.

Compared to 2017, our upstream EBITDA increased by 52.8%. Both in and outside Russia, that was mainly a result of higher hydrocarbon prices and the ruble devaluation. The growth in gas production in Uzbekistan, as well as higher EBITDA of the West Qurna-2 project in Iraq contributed to the year-on-year increase in our EBITDA outside Russia. In Russia, the growth was supported by bigger share of high-margin projects in crude oil production. At the same time, dynamics of our upstream EBITDA in Russia was constrained by negative export duty lag effect.

The following table summarizes our hydrocarbon production by major regions.

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(thousand BOE per day)			
Crude oil and natural gas liquids				
Consolidated subsidiaries				
West Siberia	774	780	774	801
Timan-Pechora	323	318	318	312
Ural region	333	326	328	324
Volga region	242	235	229	199
Other in Russia	31	31	32	33
Total in Russia	1,703	1,690	1,681	1,669
Iraq[1]	20	35	28	34
Other outside Russia	49	45	47	45
Total outside Russia	69	80	75	79
Total consolidated subsidiaries	**1,772**	**1,770**	**1,756**	**1,748**
Our share in equity affiliates				
in Russia	13	13	13	19
outside Russia	36	34	37	37
Total share in equity affiliates	**49**	**47**	**50**	**56**
Total crude oil and natural gas liquids	**1,821**	**1,817**	**1,806**	**1,804**
Natural and petroleum gas[2]				
Consolidated subsidiaries				
West Siberia	203	206	210	217
Timan-Pechora	34	33	33	35
Ural region	15	16	15	16
Volga region	28	27	27	23
Other in Russia	–	1	1	1
Total in Russia	280	283	286	292
Total outside Russia	278	251	243	159
Total consolidated subsidiaries	**558**	**534**	**529**	**451**
Share in equity affiliates				
in Russia	2	2	2	2
outside Russia	10	9	10	12
Total share in production of equity affiliates	**12**	**11**	**12**	**14**
Total natural and petroleum gas	**570**	**545**	**541**	**465**
Total daily hydrocarbon production	**2,391**	**2,362**	**2,347**	**2,269**
Including natural gas liquids produced at the gas processing plants	44	36	42	36

(1) Compensation crude oil related to the Group.

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

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(thousands of tonnes)			
West Siberia	9,446	9,552	37,471	38,779
Timan-Pechora	4,119	4,063	16,124	15,837
Ural region	3,892	3,862	15,251	15,139
Volga region	2,903	2,829	10,969	9,554
Other in Russia	403	400	1,597	1,686
Crude oil produced in Russia	20,763	20,706	81,412	80,995
Iraq[1]	276	469	1,514	1,822
Other outside Russia	497	457	1,901	2,003
Crude oil produced outside Russia	773	926	3,415	3,825
Total crude oil produced by consolidated subsidiaries	**21,536**	**21,632**	**84,827**	**84,820**
Our share in crude oil produced by equity affiliates:				
in Russia	159	159	633	884
outside Russia	413	395	1,664	1,710
Total crude oil produced	**22,108**	**22,186**	**87,124**	**87,414**

[1] Compensation crude oil related to the Group.

Our main oil producing region is West Siberia where we produced 43.9% and 44.2% of our crude oil in the fourth quarter and the twelve months of 2018, respectively (44.2% in the third quarter of 2018, 45.7% in 2017).

The dynamics of our crude oil production volumes was mainly driven by a temporary external limitation due to an agreement of OPEC and some of the non-OPEC countries, including Russia, to cut production from October 2016 levels in order to stabilize the global crude oil market (OPEC+ agreement). Since 2017, the Group limited production in our traditional regions (West Siberia, Timan-Pechora, Ural) by closing least-productive wells, wells with high water cut and high lifting costs. We also decreased a number of workover operations.

In June 2018, the OPEC+ countries agreed to increase the crude oil production volumes from July 2018 that resulted in an increase in our domestic crude oil production in the second half of 2018. In December 2018, the OPEC+ countries agreed to decrease crude oil production since January till June 2019 from October 2018 levels.

We continued increasing production at the V. Filanovsky (Caspian sea), Pyakyakhinskoye and other high-margin fields, which have a major positive impact on our financial results due to high quality reserve base and tax incentives.

In 2018, four production wells were launched at the second development stage of the V. Filanovsky field, which enabled to increase daily production to project levels. As a result in 2018, we produced 6,074 thousand tonnes of crude oil at this field, an increase of 32.5%, compared to 2017.

At Yu. Korchagin field three new production wells and two sidetracks were launched at the first and second development stages. As a result in the fourth quarter of 2018, oil production at Yu. Korchagin field increased by 23% compared to the first quarter of 2018.

We also produced 1,599 thousand tonnes of liquids at the Pyakyakhinskoye field, an increase of 4% to 2017.

The development of the Yaregskoye field and the Permian layers of our Usinskoye field in Timan-Pechora led to an increase in the high viscosity crude oil production to 4.3 million tonnes, or by 25%, compared to 2017.

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(millions of cubic meters)			
West Siberia	3,180	3,221	13,001	13,479
Timan-Pechora	530	519	2,072	2,166
Ural region	232	250	923	978
Volga region	436	427	1,690	1,425
Other in Russia	7	6	26	32
Gas produced in Russia	4,385	4,423	17,712	18,080
Uzbekistan	3,855	3,516	13,423	8,055
Other outside Russia	486	403	1,673	1,830
Gas produced outside Russia	4,341	3,919	15,096	9,885
Total gas produced by consolidated subsidiaries	**8,726**	**8,342**	**32,808**	**27,965**
Our share in gas produced by equity affiliates:				
in Russia	20	24	92	96
outside Russia	159	146	643	800
Total gas produced	**8,905**	**8,512**	**33,543**	**28,861**

In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where the major part of gas is produced from the Nakhodkinskoe field, which has been developed since 2005. In January 2017, we started gas production from our second field in Bolshekhetskaya depression, the Pyakyakhinskoye field. Gas production from Pyakyakhinskoe field amounted to 3,863 million cubic meters, an increase of 38.5% to 2017. Our international gas production (including our share in affiliates' production) increased by 47.3%, compared to 2017, as a result of commissioning of new gas treatment facilities at Gissar and Kandym projects in Uzbekistan.

West Qurna-2 project

The West Qurna-2 field in Iraq is developed under the service contract, signed in January 2010. In May 2018, a Group company and Iraqi party signed a new field development plan, according to which, crude oil production is planned to increase to 800 thousand barrels per day by 2025.

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

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

There are two steps of revenue recognition:

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

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

	Costs incurred[1]	Remuneration fee	Crude oil received	Crude oil to be received
		(millions of US dollars)		
Cumulative at 31 December 2017	8,072	303	7,842	533
Change in 2018	525	121	839	(193)
Cumulative at 31 December 2018	**8,597**	**424**	**8,681**	**340**

[1] Including prepayments.

The West Qurna-2 project summary is presented below:

	Q4 2018		Q3 2018	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production	36,146	5,285	35,614	5,207
Production related to cost compensation and remuneration	1,886	276	3,206	469
Shipment of compensation crude oil[1]	3,011	440	2,953	432
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation	6,549	98	9,538	146
Remuneration fee	2,111	32	4,108	63
	8,660	130	13,646	209
Cost of compensation crude oil, received as liability settlement (included in *Cost of purchased crude oil, gas and products*)[1]	10,602	159	14,180	217
Extraction expenses	5,009	76	4,743	72
Depreciation, depletion and amortization	1,581	24	4,826	73
EBITDA	4,254	64	9,144	139

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

	12 months of 2018		2017	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production	139,430	20,385	142,224	20,793
Production related to cost compensation and remuneration	10,355	1,514	12,466	1,822
Shipment of compensation crude oil[1]	12,851	1,879	11,854	1,733
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation	32,665	523	32,322	554
Remuneration fee	9,685	153	5,307	91
	42,350	676	37,629	645
Cost of compensation crude oil, received as liability settlement (included in *Cost of purchased crude oil, gas and products*)[1]	52,817	839	33,191	567
Extraction expenses	17,588	280	16,178	278
Depreciation, depletion and amortization	15,218	246	16,454	282
EBITDA	25,430	406	17,188	294

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

In February-June 2017, due to a so-called performance factor that represents a ratio of actual production volumes to target production volumes according to the provisions of the service contract, our per barrel remuneration fee was approximately three times lower. The parties agreed not to apply the performance factor from the third quarter of 2017. In the third quarter of 2018, the Iraqi party reimbursed to the Group the remuneration unpaid due to implementation of the performance factor in February-June 2017 in the amount of $32 million.

Refining, marketing and distribution

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
		(millions of rubles)		
EBITDA	81,486	82,189	282,144	263,385
- in Russia	77,519	59,318	231,831	195,479
- outside Russia	3,967	22,871	50,313	67,906
Refining expenses at the Group refineries	28,996	28,318	104,987	86,508
- in Russia	12,783	12,821	45,659	40,970
- outside Russia	16,213	15,497	59,328	45,538
		(ruble per tonne)		
Refining expenses at the Group refineries	1,705	1,621	1,560	1,287
- in Russia	1,170	1,172	1,057	950
- outside Russia	2,669	2,374	2,459	1,887
		(US dollar per tonne)		
Refining expenses at the Group refineries	25.65	24.74	24.82	22.04
- in Russia	17.60	17.89	16.80	16.28
- outside Russia	40.14	36.23	39.17	32.33

Our refining, marketing and distribution EBITDA was 0.9% lower than in the third quarter of 2018, and 7.1% higher than in 2017.

Compared to the third quarter of 2018, our refining, marketing and distribution EBITDA in Russia increased driven mainly by higher refining margins and seasonally higher results of our power generation and distribution subsidiaries. This was partially offset by negative inventory effect at our refineries and lower profitability of our petrochemical plants due to scheduled maintenance. Outside Russia, strong negative inventory effect at our European refineries, decrease in refining margins and seasonally lower results of retail network were partially offset by better trading results and the effect of the ruble devaluation.

Compared to 2017, our refining, marketing and distribution EBITDA in Russia increased as a result of higher refining margins and decrease in excise tax rates in the second half of 2018. The growth was constrained by the lagging of domestic prices compared to export netbacks. Outside Russia, the year-on-year decrease in refining, marketing and distribution EBITDA was a result of negative inventory effect at our refineries, lower refining margins, and increase in operating expenses primarily due to higher cost of fuel. Among positive factors were better retail results and the effect of ruble devaluation.

Refining and petrochemicals

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(thousands of tonnes)			
Refinery throughput at the Group refineries	17,002	17,467	67,316	67,240
- in Russia	10,927	10,939	43,189	43,107
- outside Russia, including	6,075	6,528	24,127	24,133
- crude oil	5,544	5,837	21,270	21,970
- refined products	531	691	2,857	2,163
Refinery throughput at third party refineries	1,634	1,622	6,547	6,547
Total refinery throughput	**18,636**	**19,089**	**73,863**	**73,787**
Production of the Group refineries in Russia[1]	**10,439**	**10,435**	**40,985**	**40,746**
- diesel fuel	4,146	3,952	16,215	15,757
- motor gasoline	1,895	2,075	8,022	8,143
- fuel oil	1,226	1,218	4,814	5,312
- jet fuel	684	722	2,760	2,744
- lubricants and components	269	223	961	1,163
- straight-run gasoline	598	418	2,143	2,192
- vacuum gas oil	270	377	844	586
- bitumen	158	273	793	888
- coke	285	245	1,106	982
- other products	908	932	3,327	2,979
Production of the Group refineries outside Russia	**5,850**	**6,155**	**22,789**	**22,745**
- diesel fuel	2,578	2,678	9,619	9,871
- motor gasoline	1,176	1,316	4,545	5,140
- fuel oil	635	626	2,710	2,973
- jet fuel	260	317	1,191	1,049
- straight-run gasoline	490	592	2,073	1,897
- coke	53	49	206	190
- other products	658	577	2,445	1,625
Refined products produced by the Group	**16,289**	**16,590**	**63,774**	**63,491**
Refined products produced at third party refineries	1,593	1,581	6,414	6,417
Total refined products produced	**17,882**	**18,171**	**70,188**	**69,908**
Reference: Net of cross-supplies of refined products between the Group refineries	322	311	1,589	1,702
Products produced at petrochemical plants and facilities	**258**	**351**	**1,246**	**1,171**
- in Russia	205	254	934	798
- outside Russia	53	97	312	373

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

Compared to the third quarter of 2018, the total volume of refined products produced by the Group decreased by 1.8%. Production at our refineries domestically didn't change, while production at our refineries outside Russia decreased by 5.0%, mainly due to the maintenance works at our refinery in Italy in the fourth quarter of 2018.

Compared to 2017, production at our refineries domestically and outside Russia didn't change significantly. We continued enhancing the output structure. Fuel oil production volumes decreased by 0.8 million tonnes, or by 9.2%, year-on-year.

In the periods considered, we processed our crude oil at third party refineries in Belarus, Kazakhstan and Canada. In 2016, a Group company entered into a tolling agreement valid through 2019 with a Canadian refinery. In the fourth quarter and the twelve months of 2018, attributable refined products output amounted to 1.5 million tonnes and 6.2 million tonnes, respectively (1.5 million tonnes in the third quarter of 2018 and 6.2 million tonnes in 2017).

Marketing and trading

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

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

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

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(thousands of tonnes)			
Crude oil purchases				
in Russia	239	231	874	962
for trading internationally	11,287	12,758	46,345	36,137
for refining internationally	5,745	6,091	22,527	22,527
Shipment of the West Qurna-2 compensation crude oil	440	432	1,879	1,733
Total crude oil purchased	**17,711**	**19,512**	**71,625**	**61,359**

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(thousands of tonnes)			
Refined products retail sales	3,905	4,068	15,144	14,238
Refined products wholesale sales	26,808	27,916	108,397	114,283
Total refined products sales	**30,713**	**31,984**	**123,541**	**128,521**
Refined products purchased in Russia	344	318	1,242	1,645
Refined products purchased internationally	13,493	13,685	54,728	58,367
Total refined products purchased	**13,837**	**14,003**	**55,970**	**60,012**
Petrochemical products purchased in Russia	10	8	34	38
Petrochemical products purchased internationally	195	109	583	507
Total petrochemical products purchased	**205**	**117**	**617**	**545**

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(thousands of tonnes)			
Exports of crude oil to Customs Union	701	674	2,745	2,807
Exports of crude oil beyond Customs Union	8,750	8,919	33,956	33,779
Total crude oil exports	**9,451**	**9,593**	**36,701**	**36,586**
Exports of crude oil through Transneft and other third party infrastructure including:	7,176	7,287	27,946	27,329
- ESPO pipeline	340	300	1,240	1,140
- CPC pipeline	1,344	1,240	4,783	3,467
Exports of crude oil through the Group's transportation infrastructure	2,275	2,306	8,755	9,257
Total crude oil exports	**9,451**	**9,593**	**36,701**	**36,586**
	(millions of rubles)			
Exports of crude oil to Customs Union	15,865	17,437	64,015	48,017
Exports of crude oil beyond Customs Union	260,230	305,638	1,040,747	730,049
Total crude oil exports	**276,095**	**323,075**	**1,104,762**	**778,066**

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
		(thousands of tonnes)		
Refined products exports				
- diesel fuel	2,192	2,382	9,773	10,060
- gasoline	6	3	232	331
- fuel oil	446	255	1,517	2,762
- jet fuel	3	10	49	84
- lubricants and components	142	153	600	623
- gas refinery products	448	256	1,249	1,304
- other products	917	728	2,824	2,360
Total refined products exports	**4,154**	**3,787**	**16,244**	**17,524**
Total petrochemical products exports	**82**	**84**	**338**	**291**
		(millions of rubles)		
Total refined products and petrochemicals exports	**153,856**	**155,686**	**594,868**	**464,141**

The volume of our crude oil exports from Russia decreased by 1.5% compared to the third quarter of 2018, and didn't change compared to 2017. In the fourth quarter and the twelve months of 2018, we exported 45.5% and 45.1% of our domestic crude oil production (46.3% in the third quarter of 2018 and 45.2% in 2017) and 43 thousand tonnes and 185 thousand tonnes of crude oil purchased from our affiliates and third parties (51 thousand tonnes in the third quarter of 2018 and 366 thousand tonnes in 2017), respectively.

The volume of our refined products exports increased by 9.7% compared to the third quarter of 2018 and decreased by 7.3% compared to 2017 driven by domestic demand for our products.

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

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

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

In the fourth quarter and the twelve months of 2018, we sold 2.8 million tonnes and 10.9 million tonnes of motor fuels via our domestic retail network, respectively, which was 4.3% less compared to the third quarter of 2018 due to seasonality factor and 8.4% more compared to 2017. Outside Russia, retail sales decreased by 3.3% compared to the third quarter of 2018 due to seasonality factor, and increased by 1.5% compared to 2017.

We also supply jet fuel to airports and bunker fuel to sea and river ports in and outside Russia.

Power generation. We established a vertically integrated chain from generation to transportation and sale of power and heat for third party customers (commercial generation) and own consumption. We own commercial generation facilities in the Southern regions of European Russia, Romania and Italy. We also own renewable energy capacity in Russia and abroad. In 2018, our total output of commercial electrical energy was 19.9 billion kWh (20.1 billion kWh in 2017), and our total output of commercial heat energy was approximately 11.0 million Gcal (10.7 million Gcal in 2017).

Financial results

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(millions of rubles)			
Revenues				
Sales (including excise and export tariffs)	2,043,217	2,305,886	8,035,889	5,936,705
Costs and other deductions				
Operating expenses	(119,769)	(123,837)	(464,467)	(456,765)
Cost of purchased crude oil, gas and products	(1,131,428)	(1,323,504)	(4,534,244)	(3,129,864)
Transportation expenses	(65,267)	(70,624)	(270,153)	(272,792)
Selling, general and administrative expenses	(50,504)	(64,766)	(192,433)	(165,331)
Depreciation, depletion and amortization	(51,902)	(105,900)	(343,085)	(325,054)
Taxes other than income taxes	(250,207)	(248,539)	(899,383)	(606,510)
Excise and export tariffs	(146,469)	(151,765)	(556,827)	(461,525)
Exploration expenses	(1,258)	(1,041)	(3,582)	(12,348)
Profit from operating activities	**226,413**	**215,910**	**771,715**	**506,516**
Finance income	6,236	5,132	19,530	15,151
Finance costs	(12,742)	(9,955)	(38,298)	(27,331)
Equity share in income of affiliates	7,062	6,828	25,243	16,864
Foreign exchange gain (loss)	1,586	11,215	33,763	(19,948)
Other (expenses) income	(28,291)	(780)	(38,934)	32,932
Profit before income taxes	**200,264**	**228,350**	**773,019**	**524,184**
Current income taxes	(32,809)	(46,064)	(137,062)	(99,976)
Deferred income taxes	(8,235)	2,176	(14,855)	(3,786)
Total income tax expense	**(41,044)**	**(43,888)**	**(151,917)**	**(103,762)**
Profit for the period	**159,220**	**184,462**	**621,102**	**420,422**
Profit for the period attributable to non-controlling interests	(193)	(695)	(1,928)	(1,617)
Profit for the period attributable to PJSC LUKOIL shareholders	**159,027**	**183,767**	**619,174**	**418,805**
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):				
Basic	226.03	259.02	874.47	589.14
Diluted	221.70	255.54	865.19	589.14

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

Sales revenues

Sales breakdown	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
		(millions of rubles)		
Crude oil				
Export and sales on international markets other than Customs Union	633,414	769,427	2,559,578	1,556,811
Export and sales to Customs Union	16,006	17,233	64,228	46,798
Domestic sales	8,841	14,423	47,508	37,525
	658,261	**801,083**	**2,671,314**	**1,641,134**
Cost compensation and remuneration at the West Qurna-2 project	8,660	13,646	42,350	37,629
	666,921	**814,729**	**2,713,664**	**1,678,763**
Refined products[1]				
Export and sales on international markets				
Wholesale	915,651	1,015,461	3,612,291	2,863,379
Retail	93,437	97,256	349,493	280,847
Domestic sales				
Wholesale	118,416	124,784	439,327	360,182
Retail	134,109	139,765	498,765	415,820
	1,261,613	**1,377,266**	**4,899,876**	**3,920,228**
Petrochemicals				
Export and sales on international markets	21,329	15,731	67,682	48,187
Domestic sales	12,092	12,224	46,085	34,451
	33,421	**27,955**	**113,767**	**82,638**
Gas				
Sales on international markets	30,477	36,267	112,990	54,611
Domestic sales	8,480	8,122	33,352	31,109
	38,957	**44,389**	**146,342**	**85,720**
Sales of energy and related services				
Sales on international markets	3,822	5,743	15,600	12,884
Domestic sales	15,618	10,432	54,353	61,028
	19,440	**16,175**	**69,953**	**73,912**
Other				
Export and sales on international markets	11,248	13,125	46,160	49,717
Domestic sales	11,617	12,247	46,127	45,727
	22,865	**25,372**	**92,287**	**95,444**
Total sales	**2,043,217**	**2,305,886**	**8,035,889**	**5,936,705**

[1] Including revenue from gas refined products sales.

Sales volumes	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(thousands of tonnes)			
Crude oil				
Export and sales on international markets other than Customs Union	19,288	21,651	78,914	67,935
Export and sales to Customs Union	692	680	2,754	2,741
Domestic sales	354	551	2,061	2,294
	20,334	**22,882**	**83,729**	**72,970**
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project	276	469	1,514	1,822
	20,610	**23,351**	**85,243**	**74,792**
Refined products[1]				
Export and sales on international markets				
Wholesale	23,123	23,937	93,676	99,544
Retail	1,077	1,114	4,217	4,155
Domestic sales				
Wholesale	3,685	3,979	14,721	14,739
Retail	2,828	2,954	10,927	10,083
	30,713	**31,984**	**123,541**	**128,521**
Petrochemicals				
Export and sales on international markets	292	217	1,004	949
Domestic sales	174	192	754	699
	466	**409**	**1,758**	**1,648**
	(millions of cubic meters)			
Gas				
Sales on international markets	4,052	3,674	14,173	9,086
Domestic sales	3,387	3,344	13,723	13,751
	7,439	**7,018**	**27,896**	**22,837**

[1] Including volumes of gas refined products sales.

Realized average sales prices

		Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
Average realized price on international markets					
Crude oil (beyond Customs Union) [1]	(RUB/barrel)	4,480	4,848	4,425	3,126
Crude oil (Customs Union)	(RUB/barrel)	3,156	3,458	3,182	2,329
Refined products					
Wholesale	(RUB/tonne)	39,599	42,422	38,562	28,765
Retail	(RUB/tonne)	86,757	87,303	82,877	67,593
Petrochemicals	(RUB/tonne)	73,045	72,493	67,412	50,777
Gas (excluding royalty)	(RUB/1,000 m^3)	7,521	9,871	7,972	6,010
Crude oil (beyond Customs Union)[1]	($/barrel)	67.39	73.98	70.56	53.58
Crude oil (Customs Union)	($/barrel)	47.46	52.77	50.74	39.92
Refined products					
Wholesale	($/tonne)	596	647	615	493
Retail	($/tonne)	1,305	1,332	1,322	1,158
Petrochemicals	($/tonne)	1,099	1,106	1,075	870
Gas (excluding royalty)	($/1,000 m^3)	113	151	127	103
Average realized price within Russia					
Crude oil	(RUB/barrel)	3,407	3,571	3,145	2,232
Refined products					
Wholesale	(RUB/tonne)	32,135	31,361	29,844	24,437
Retail	(RUB/tonne)	47,422	47,314	45,645	41,240
Petrochemicals	(RUB/tonne)	69,494	63,667	61,121	49,286
Gas[2]	(RUB/1,000 m^3)	2,504	2,429	2,430	2,262

[1] Excluding cost compensation and remuneration at the West Qurna-2 project.
[2] As most of our gas production in Russia is sold ex-field, the price does not include cost of transportation by Unified Gas Supply System of Gazprom.

In the fourth quarter of 2018, our revenues decreased by 263 billion RUB, or by 11.4%, compared to the third quarter of 2018. Our revenues from crude oil sales decreased by 148 billion RUB, or by 18.1%, our revenues from sales of refined products decreased by 116 billion RUB, or by 8.4%, and our revenues from gas sales decreased by 5 billion RUB, or by 12.2%. This was mainly driven by a decrease in hydrocarbon prices, as well as crude oil trading volumes, and partially offset by the effect of the ruble devaluation on our revenues denominated in the US dollars and euro.

Compared to 2017, our revenues increased by 2,099 billion RUB, or by 35.4%. Our revenues from crude oil sales increased by 1,035 billion RUB, or by 61.6%, our revenues from sales of refined products increased by 980 billion RUB, or by 25%, and our gas sales increased by 61 billion RUB, or by 70.7%, largely, as a result of an increase in hydrocarbon prices, gas production volumes, crude oil trading volumes and the effect of the ruble devaluation on our revenues denominated in the US dollars and euro.

Sales of crude oil

Compared to the third quarter of 2018, our international crude oil sales revenue decreased by 17.7%, or by 136 billion RUB. Our international sales volumes (beyond the Customs Union) decreased by 2,363 thousand tonnes, or by 10.9%, and our average international ruble realized prices decreased by 7.6%. In the fourth quarter of 2018, our sales volumes in Russia decreased by 197 thousand tonnes, or by 35.8%, and our realized domestic crude oil sales price decreased by 4.6%. As a consequence, our domestic sales revenue decreased by 38.7%, or by 6 billion RUB.

Compared to 2017, our international crude oil sales revenue increased by 64.4%, or by 1,003 billion RUB. In 2018, our international sales volumes (beyond the Customs Union) increased by 10,979 thousand tonnes, or by 16.2%, as a result of an increase in trading volumes. Our average international ruble realized prices increased by 41.5%. At the same time, our domestic sales volumes decreased by 233 thousand tonnes, or by 10.2%, while our realized sales price increased by 40.9%. As a consequence, in 2018, our domestic sales revenue increased by 26.6%, or by 10 billion RUB.

Sales of refined products

Compared to the third quarter of 2018, our revenue from the wholesale of refined products outside Russia decreased by 100 billion RUB, or by 9.8%, as a result of a decrease in our realized ruble prices by 6.7% and sales volumes by 3.4% due to a decrease in production volumes and trading operations.

In the fourth quarter of 2018, our international retail revenue decreased by 4 billion RUB, or by 3.9%. Our sales volumes decreased by 37 thousand tonnes, or by 3.3%, due to a seasonality factor, while our international retail realized ruble prices didn't change.

Compared to the third quarter of 2018, our revenue from the wholesale of refined products on the domestic market decreased by 6 billion RUB, or by 5.1%, as a result of a decrease in sales volumes by 7.4%, while our realized ruble prices increased by 2.5%.

In the fourth quarter of 2018, our revenue from refined products retail sales in Russia decreased by 6 billion RUB, or by 4.0%, compared to the third quarter of 2018. Our sales volumes decreased by 4.3% due to a seasonality factor, while our average domestic retail prices didn't change.

Compared to 2017, our revenue from the wholesale of refined products outside Russia increased by 749 billion RUB, or by 26.2%, that was mainly price driven. Our dollar and ruble realized prices increased by 24.7% and by 34.1%, respectively. Our sales volumes decreased by 5.9% as a result of a decrease in trading volumes.

Compared to 2017, our dollar and ruble realized retail prices outside Russia increased by 14.1% and by 22.6%, respectively. Our sales volumes increased by 1.5%. As a result, our international retail revenue increased by 69 billion RUB, or by 24.4%.

In 2018, our revenue from the wholesale of refined products on the domestic market increased by 79 billion RUB, or by 22.0%, compared to 2017. Our realized prices increased by 22.1%, while sales volumes didn't change significantly.

Our revenue from refined products retail sales in Russia increased by 83 billion RUB, or by 19.9%, compared to 2017. Our average domestic retail prices and volumes increased by 10.7% and by 8.4%, respectively. An increase in retail sales volumes was a result of higher domestic demand.

Sales of petrochemical products

Compared to the third quarter of 2018 and the twelve months of 2017, our revenue from sales of petrochemical products increased by 5 billion RUB, or by 19.6%, and by 31 billion RUB, or by 37.7%, respectively, largely as a result of growth in realized prices and increase in trading volumes outside Russia.

Sales of gas

Sales of gas decreased by 5 billion RUB, or by 12.2%, compared to the third quarter of 2018, as a result of one-off adjustments related to the Group's PSA projects in Uzbekistan.

Our sales of gas increased by 61 billion RUB, or by 70.7%, compared to 2017. This increase mostly related to our operations outside Russia and was a result of production growth within Gissar and Kandym projects in Uzbekistan. Higher gas prices also contributed to the increase in our gas sales revenue.

Sales of energy and related services

Compared to the third quarter of 2018, our revenue from sales of energy and related services increased by 3 billion RUB, or by 20.2%, due to a seasonality factor in our domestic sales. Outside Russia, decrease in sales of energy was due to high demand in Italy in the third quarter of 2018.

Compared to 2017, our revenue from sales of energy and related services decreased by 4 billion RUB, or by 5.4%, mainly due to a sale of energy distribution subsidiary in Russia in the fourth quarter of 2017.

Other sales

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

In the fourth quarter of 2018, revenue from other sales decreased by 3 billion RUB, or by 9.9%, compared to the third quarter of 2018, largely as a result of a seasonal decrease in non-petrol revenue of our retail network and decrease in revenue of transportation services.

Compared to 2017, revenue from other sales decreased by 3 billion RUB, or by 3.3%, largely due to the sale of our diamond business in June 2017 that was partially compensated by the effect of the ruble devaluation.

Operating expenses

Operating expenses include the following:

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(millions of rubles)			
Hydrocarbon extraction expenses[1]	51,355	48,947	196,227	192,781
Extraction expenses at the West Qurna-2 field	5,009	4,743	17,588	16,178
Own refining expenses	28,996	28,318	104,987	86,508
Refining expenses at third-party refineries	(722)	4,712	8,020	15,403
Expenses for crude oil transportation to refineries	12,375	13,324	50,264	48,754
Power generation and distribution expenses	8,721	6,826	30,045	32,123
Petrochemical expenses	3,442	2,987	12,075	12,081
Other operating expenses	10,593	13,980	45,261	52,937
Total operating expenses	**119,769**	**123,837**	**464,467**	**456,765**

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

The method of allocation of operating expenses above differs from the approach used in preparing data for Note 31 "Segment information" to our consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs and do not include adjustments related to elimination of intra-group service margin. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

Our operating expenses decreased by 4 billion RUB, or by 3.3%, compared to the third quarter of 2018 and increased by 8 billion RUB, or by 1.7%, compared to 2017.

Hydrocarbon extraction expenses

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

	Q4 2018	Q3 2018	12 months of 2018	2017
		(millions of rubles)		
Hydrocarbon extraction expenses[1]	51,355	48,947	196,227	192,781
- in Russia	44,949	43,608	175,131	177,554
- outside Russia[1]	6,406	5,339	21,096	15,227
		(ruble per BOE)		
Hydrocarbon extraction expenses[1]	242	234	238	244
- in Russia	246	240	244	248
- outside Russia[1]	214	196	199	204

[1] Excluding expenses at the West Qurna-2 field.

Compared to the third quarter of 2018, our extraction expenses increased by 2.4 billion RUB, or by 4.9%.

In the fourth quarter of 2018, extraction expenses in Russia increased by 3.1%, partially as a result of the hydrocarbon production growth. Our per BOE hydrocarbon extraction expenses increased by 2.5% compared to the previous quarter as a result of seasonally higher maintenance and electricity costs.

Outside Russia, extraction expenses increased by 20.0%, compared to the third quarter of 2018, largely as a result of an increase in gas production volumes and the ruble devaluation. Our per BOE hydrocarbon extraction expenses increased by 9.2% due to launch of new facilities, maintenance works and seasonality factor.

In 2018, our extraction expenses increased by 3 billion RUB, or by 1.8%, compared to 2017.

In Russia, our extraction expenses decreased by 1.4%, due to a decrease in consumption of energy, completion of commissioning of the first stage of the V. Filanovsky field in 2017, as well as cost efficiency measures implemented by our production entities. Our average extraction expenses decreased by 1.6%.

Outside Russia, our hydrocarbon extraction expenses increased by 38.5% as a result of an increase in expenses on gas production due to substantial production volumes growth within Gissar and Kandym projects in Uzbekistan, as well as the ruble devaluation. At the same time, as a result of higher share of gas in our international hydrocarbon production, our per BOE hydrocarbon extraction expenses outside Russia decreased by 2.5%. This positive dynamics was constrained by a decrease in our share in profit crude oil at the Karachaganak project in Kazakhstan.

Own refining expense

	Q4 2018	Q3 2018	12 months of 2018	2017
		(millions of rubles)		
Refining expenses at the Group refineries	28,996	28,318	104,987	86,508
- in Russia	12,783	12,821	45,659	40,970
- outside Russia	16,213	15,497	59,328	45,538
		(ruble per tonne)		
Refining expenses at the Group refineries	1,705	1,621	1,560	1,287
- in Russia	1,170	1,172	1,057	950
- outside Russia	2,669	2,374	2,459	1,887

Our own refining expenses increased by 0.7 billion RUB, or by 2.4%, compared to the third quarter of 2018, and by 18 billion RUB, or by 21.4%, compared to 2017.

Compared to the third quarter of 2018, refining expenses at our domestic refineries didn't change. Outside Russia, our expenses increased largely as a result of an increase in fuel cost and the ruble devaluation to euro, as well as costs of scheduled maintenance at our refinery in Italy in the fourth quarter of 2018.

Compared to 2017, an increase in expenses at our domestic refineries was primarily driven by an increase in consumption of purchased additives for gasoline production due to major maintenance works at some of our conversion units and growth in share of higher-octane gasoline in overall gasoline output volumes. Outside Russia, our expenses increased largely as a result of an increase in energy cost and the ruble devaluation to euro.

Refining expenses at third-party refineries

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

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

In the third quarter of 2018, this tolling fee amounted to 4.5 billion RUB, while in the fourth quarter of 2018 due to market conditions refining margin was negative that resulted in negative tolling fee in the amount of 0.9 billion RUB.

In 2018, tolling fee amounted to 7.4 billion RUB, compared to 14.7 billion RUB in 2017.

Expenses for crude oil transportation to refineries

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

Compared to the third quarter of 2018, our expenses for crude oil transportation to refineries decreased by 0.9 billion RUB, or by 7.1%, due to changes in structure of crude oil supplies to the Group refineries.

Compared to 2017, our expenses for crude oil transportation to refineries increased by 1.5 billion RUB, or by 3.1%, as a result of an increase in transportation tariffs and changes in delivery terms of crude oil supplies to our refineries outside Russia.

Petrochemical expenses

Our petrochemical expenses increased by 15.2% compared to the third quarter of 2018 due to higher maintenance costs and didn't change compared to 2017.

Other operating expenses

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

Compared to the third quarter of 2018, other operating expenses decreased by 3 billion RUB, or by 24.2%, mainly as a result of the seasonal decrease in costs of non-petrol sales of our retail network. Compared to 2017, other operating expenses decreased by 8 billion RUB, or by 14.5%, mostly as a result of the sale of our diamond business in the middle of 2017.

Cost of purchased crude oil, gas and products

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

	Q4 2018	Q3 2018	12 months of 2018	2017
		(millions of rubles)		
Cost of purchased crude oil in Russia	5,686	6,242	21,458	16,896
Cost of purchased crude oil outside Russia	548,686	669,158	2,213,464	1,314,764
Compensation crude oil related to West Qurna-2 project	10,602	14,180	52,817	33,191
Cost of purchased crude oil	**564,974**	**689,580**	**2,287,739**	**1,364,851**
Cost of purchased refined products in Russia	14,750	13,686	50,176	50,392
Cost of purchased refined products outside Russia	531,645	561,950	2,067,726	1,659,961
Cost of purchased refined products	**546,395**	**575,636**	**2,117,902**	**1,710,353**
Other purchases	21,476	12,437	60,898	41,635
Net (gain) loss from hedging of trading operations	(67,020)	10,021	(21,908)	15,909
Change in crude oil and petroleum products inventory	65,603	35,830	89,613	(2,884)
Total cost of purchased crude oil, gas and products	**1,131,428**	**1,323,504**	**4,534,244**	**3,129,864**

Compared to the third quarter of 2018, the cost of purchased crude oil, gas and products decreased by 192 billion RUB, or by 14.5%, largely as a result of a decrease in hydrocarbon prices and volumes of crude oil trading.

Compared to 2017, the cost of purchased crude oil, gas and products increased by 1,404 billion RUB, or by 44.9%, largely as a result of an increase in hydrocarbon prices, volumes of crude oil trading and the ruble devaluation to the US dollar.

Transportation expenses

	Q4 2018	Q3 2018	12 months of 2018	2017
		(millions of rubles)		
Crude oil transportation expenses	23,701	24,889	95,913	97,247
Refined products transportation expenses	42,540	40,692	160,972	158,196
Other transportation expenses	(974)	5,043	13,268	17,349
Total transportation expenses	**65,267**	**70,624**	**270,153**	**272,792**

Our transportation expenses decreased by 5 billion RUB, or by 7.6%, compared to the third quarter of 2018, and by 3 billion RUB, or by 1%, compared to 2017.

Compared to the third quarter of 2018, our expenses for transportation of crude oil didn't change significantly. Outside Russia, transportation expenses decreased as a result of a decrease in sales volumes, despite an increase in freight rates. In Russia, transportation expenses decreased due to lower volumes of crude oil exports and changes in supplies directions.

Compared to 2017, our expenses for transportation of crude oil decreased by 1 billion RUB, or by 1.4%. Outside Russia, the sales volumes growth and the ruble devaluation to the US dollar were offset by the decline in freight rates and changes in delivery terms. In Russia, an increase in tariffs and the sales volumes growth was partially offset by the changes in supplies directions.

Compared to the third quarter of 2018, our expenses for transportation of refined products increased by 1.8 billion RUB, or by 4.5%. Outside Russia, despite a decrease in sales volumes, our expenses increased due to the changes in delivery terms and the ruble devaluation to the US dollar. In Russia, our expenses increased as a result of the changes in directions and delivery terms.

Compared to 2017, our expenses for transportation of refined products increased by 3 billion RUB, or by 1.8%. Outside Russia, transportation expenses increased due to the ruble devaluation to the US dollar, despite a decrease in sales volume. In Russia, transportation expenses increased due to increase in tariffs.

Negative value of other transportation expenses in the fourth quarter of 2018 was due to one-off adjustments related to the Group's PSA projects in Uzbekistan.

Selling, general and administrative expenses

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
		(millions of rubles)		
Labor costs included in selling, general and administrative expenses	16,204	16,287	62,959	59,120
Other selling, general and administrative expenses	28,588	24,540	99,123	98,937
Share-based compensation	7,841	23,269	31,300	1,135
Allowance for expected credit losses	(2,129)	670	(949)	6,139
Total selling, general and administrative expenses	**50,504**	**64,766**	**192,433**	**165,331**

Compared to the third quarter of 2018 and the twelve months of 2017, our selling, general and administrative expenses decreased by 14 billion RUB, or by 22.0%, and increased by 27 billion RUB, or by 16.4%, respectively.

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

In the fourth quarter of 2018, the Group recognized non-cash expenses of 7.8 billion RUB under this plan, compared to 23.5 billion RUB in the previous quarter, which related to the nine months of 2018. In 2018, the Group's non-cash expenses under this plan amounted to 31.3 billion RUB.

Depreciation, depletion and amortization

Compared to the third quarter of 2018, our depreciation, depletion and amortization expenses decreased by 54 billion RUB, or by 51.0%, due to significant increase in proved developed hydrocarbon reserves at Group's certain fields as of the end of 2018 and consequent recalculation of depletion of respective fixed assets for 2018.

Compared to 2017, depreciation, depletion and amortization expenses increased by 18 billion RUB, or by 5.5%, due to the completion of commissioning of the first stage of the V. Filanovsky field in 2017, and commencement of related assets depletion, and an increase in gas production volumes as a result of launching new production facilities as part of the Gissar and Kandym project in Uzbekistan.

Equity share in income of affiliates

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

Our share in income of affiliates increased by 0.2 billion RUB, or by 3.4%, compared to the third quarter of 2018, and increased by 8 billion RUB, or by 49.7%, compared to 2017, largely as a result of an increase in income of Tengizchevroil.

	Q4 2018	Q3 2018	12 months of 2018	2017
		(millions of rubles)		
In Russia				
Mineral extraction taxes	235,169	232,845	836,820	544,586
Social security taxes and contributions	5,949	6,711	26,506	29,178
Property tax	5,558	6,269	24,273	20,308
Other taxes	917	264	2,063	2,998
Total in Russia	**247,593**	**246,089**	**889,662**	**597,070**
International				
Social security taxes and contributions	1,594	1,468	6,025	6,210
Property tax	254	229	904	910
Other taxes	766	753	2,792	2,320
Total internationally	**2,614**	**2,450**	**9,721**	**9,440**
Total taxes other than income taxes	**250,207**	**248,539**	**899,383**	**606,510**

Our taxes other than income taxes increased by 2 billion RUB, or by 0.7%, compared to the third quarter of 2018, and increased by 293 billion RUB, or by 48.3%, compared to 2017, that was largely driven by an increase in the mineral extraction tax rate in Russia resulting from an increase in crude oil prices.

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

	Q4 2018	Q3 2018	12 months of 2018	2017
		(millions of rubles)		
Decrease in extraction taxes from application of reduced and zero rates for crude oil and gas production	37,444	37,235	133,300	75,714
		(thousands of tonnes)		
Volume of crude oil production subject to:				
zero rates (ultra-high viscosity)	448	420	1,630	1,082
reduced rates (tax holidays for specific regions and high viscosity oil)	1,503	1,432	5,672	5,465
reduced rates (low permeability deposits)	153	129	517	343
reduced rates (Tyumen deposits)	255	211	835	811
reduced rates (depleted fields)	3,896	3,971	15,631	14,420
reduced rates (other)	601	592	2,310	2,173
Total volume of production subject to reduced or zero rates	**6,856**	**6,755**	**26,595**	**24,294**

Besides, the Group applies special tax regimes for crude oil production at certain fields and deposits. In the fourth quarter and the twelve months of 2018, volumes of production subject to such regimes amounted to 1,641 thousand tonnes and 6,074 thousand tonnes (compared to 1,573 thousand tonnes in the third quarter of 2018 and 4,584 thousand tonnes in 2017), respectively.

Excise and export tariffs

	Q4 2018	Q3 2018	12 months of 2018	2017
		(millions of rubles)		
In Russia				
Excise tax on refined products	22,450	28,358	113,479	119,152
Crude oil export tariffs	58,893	59,525	203,310	137,379
Refined products export tariffs	17,482	14,619	55,453	41,367
Total in Russia	**98,825**	**102,502**	**372,242**	**297,898**
International				
Excise tax and sales taxes on refined products	47,545	49,158	184,249	163,162
Crude oil export tariffs	13	22	35	134
Refined products export tariffs	86	83	301	331
Total internationally	**47,644**	**49,263**	**184,585**	**163,627**
Total excise and export tariffs	**146,469**	**151,765**	**556,827**	**461,525**

Compared to the third quarter of 2018, export tariffs increased by 2 billion RUB, or by 3.0%, as a result of higher volumes of refined products export and higher export duty rates. The volumes of crude oil export beyond the Customs Union decreased by 1.9% and the volumes of refined products exports increased by 9.7%. In Russia, a decrease of excise tax expenses was largely a result of a recalculation in relation to a decrease in excise tax rates from 1 June 2018 booked in the fourth quarter of 2018. Outside Russia, excise tax expenses were negatively impacted by a decrease in sales volumes.

Compared to 2017, export tariffs increased by 80 billion RUB, or by 44.6%, mainly as a result of an increase in export duty rates. A decrease in excise tax expenses in Russia was driven by a decrease in excise tax rates from 1 June 2018, while outside Russia, the excise tax expenses increased as a result of ruble devaluation to euro, an increase in sales volumes subject to excise taxes, and growth of excise tax rates in certain countries.

Foreign exchange gain (loss)

Foreign exchange gains or losses are mostly related to revaluation of US dollar and euro net monetary position of Russian entities that largely consists of accounts receivables, loans to our foreign subsidiaries and loans received in other currencies, and it's structure resulted in exchange gains when the ruble devaluates and losses when it appreciates to those currencies. In late 2017, as a result of a change in the structure of intra-group financing, the Company's net monetary position in foreign currencies significantly decreased, and in late 2018, it changed from a net-positive to a net-negative amount.

As a result of the ruble devaluation in 2018, foreign exchange gains amounted to 2 billion RUB in the fourth quarter of 2018 and to 34 billion RUB in 2018, compared to a foreign exchange gain of 11 billion RUB in the third quarter of 2018 and a foreign exchange loss of 20 billion RUB in 2017.

Other (expenses) income

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

In the fourth quarter of 2018, the Group recognized an impairment loss for its exploration and production assets in Russia and abroad in the amount of 6.1 billion RUB, and impairment loss for its refining, marketing and distribution assets in Russia and abroad in the amount of 0.6 billion RUB. Moreover, in the second quarter of 2018, the Group recognized an impairment loss for its exploration and production assets in Russia in the amount of 5.0 billion RUB following the decision to stop exploration works at the East Taimyr block.

In 2017, the Group recognized an impairment loss for its exploration and production assets in Russia in the amount of 20.9 billion RUB and for its refining, marketing and distribution assets in Russia in the amount of 2.2 billion RUB.

In 2017, the Group recognized an impairment reversal in the amount of 22.2 billion RUB, which was a result of improvement of economic parameters of some of our production projects in Western Siberia and European Russia.

In 2017, we recognized a profit before income tax from sale of our diamond business in the amount of 48 billion RUB (38 billion RUB after income tax). Moreover, in 2017, we received $74 million (approximately 4.3 billion RUB) as a repayment of previously impaired receivable related to our international upstream project.

Income taxes

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

Compared to the third quarter of 2018, our total income tax expense decreased by 3 billion RUB, or by 6.5%. At the same time, our profit before income tax decreased by 28 billion RUB, or by 12.3%. In the fourth quarter of 2018, our effective income tax rate was 20.5%, compared to 19.2% in the third quarter of 2018.

Compared to 2017, our total income tax expense increased by 48 billion RUB, or by 46.4%. Our profit before income tax increased by 249 billion RUB, or by 47.5%. In 2018, our effective income tax rate was 19.7%, compared to 19.8% in 2017.

Non-GAAP items reconciliation

Reconciliation of profit for the period to EBITDA

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

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(millions of rubles)			
Profit for the period	**159,220**	**184,462**	**621,102**	**420,422**
Add back				
Income tax expense	41,044	43,888	151,917	103,762
Financial income	(6,236)	(5,132)	(19,530)	(15,151)
Financial costs	12,742	9,955	38,298	27,331
Foreign exchange (gain) loss	(1,586)	(11,215)	(33,763)	19,948
Equity share in income of affiliates	(7,062)	(6,828)	(25,243)	(16,864)
Other expenses (income)	28,291	780	38,934	(32,932)
Depreciation, depletion and amortization	51,902	105,900	343,085	325,054
EBITDA	**278,315**	**321,810**	**1,114,800**	**831,570**
EBITDA by operating segments				
Exploration and production	190,039	268,631	870,287	569,417
- in Russia	148,749	220,313	717,244	491,191
- outside Russia and Iraq	37,036	39,174	127,613	61,038
- in Iraq	4,254	9,144	25,430	17,188
Refining, marketing and distribution segment	81,486	82,189	282,144	263,385
- in Russia	77,519	59,318	231,831	195,479
- outside Russia	3,967	22,871	50,313	67,906
Corporate and other	(9,545)	(23,404)	(36,154)	1,028
Elimination	16,335	(5,606)	(1,477)	(2,260)
EBITDA	**278,315**	**321,810**	**1,114,800**	**831,570**

Reconciliation of Cash provided by operating activities to Free cash flow

	Q4 2018	Q3 2018	12 months of 2018	12 months of 2017
	(millions of rubles)			
Net cash provided by operating activities	325,511	271,199	1,006,651	758,490
Capital expenditures	(113,266)	(111,426)	(451,526)	(511,496)
Free cash flow	**212,245**	**159,773**	**555,125**	**246,994**

Non-recurring losses and gains

As a result of impairment tests in 2018 and 2017, the Group recognized losses on assets impairment. At the same time, in 2017, due to an improvement in economic parameters of some of our projects, the Group reversed significant impairment losses recognized in prior periods. Moreover, in 2017, we recognized a profit before income tax from sale of our diamond business in the amount of 48 billion RUB (38 billion RUB after income tax).

Table below sets forth summary of data on these gains and losses in the context of consolidated statement of profit and loss and their impact on the Group's profit for the periods considered.

	12 months of	
	2018	**2017**
	(millions of rubles)	
Impairment losses included in *Other expense*		
Impairment losses in Exploration and Production segment	(11,093)	(20,886)
Impairment losses in Refining, Marketing and Distribution segment	(634)	(2,241)
Other impairments	–	(8,259)
Total impairment losses in *Other expense*	(11,727)	(31,386)
Impairment reversal included in *Other income*		
in Exploration and Production segment	–	22,202
Other reversals		6,246
Total reversals of impairment of assets in *Other income*	–	28,448
Profit from sale of our diamond business in *Other income*	–	47,575
Total non-recurring (losses) gains	**(11,727)**	**44,637**
Income tax effect	1,877	(9,262)
Total after tax non-recurring (losses) gains	**(9,850)**	**35,375**

Liquidity and capital resources

	Q4 2018	Q3 2018	12 months of 2018	2017
	(millions of rubles)			
Net cash provided by operating activities	325,511	271,199	1,006,651	758,490
including decrease (increase) in working capital	74,193	(39,932)	(33,592)	(24,983)
Net cash used in investing activities	(90,933)	(115,147)	(420,392)	(433,286)
Net cash used in financing activities	(130,733)	(130,606)	(468,549)	(247,395)

Changes in operating assets and liabilities:

	Q4 2018	Q3 2018	12 months of 2018	2017
	(millions of rubles)			
Decrease (increase) in trade accounts receivable	164,274	(97,171)	23,877	(84,055)
Decrease (increase) in inventories	83,602	28,789	71,565	(9,350)
(Decrease) increase in accounts payable	(131,972)	25,600	(92,508)	27,720
(Decrease) increase in net taxes other than on income payable	(40,023)	5,655	(8,460)	21,538
Change in other current assets and liabilities	(1,688)	(2,805)	(28,066)	19,164
Total decrease (increase) in working capital	**74,193**	**(39,932)**	**(33,592)**	**(24,983)**

Operating activities

Our primary source of cash flow is funds generated from our operations. Compared to the third quarter of 2018 and the twelve months of 2017, our cash generated from operations increased by 54 billion RUB, or by 20%, and by 248 billion RUB, or by 32.7%, respectively. Compared to the previous quarter, this was a result of change in working capital. Compared to 2017, operating cash flow increased due to an increase in profitability of our core operations.

In the fourth quarter of 2018, a decrease in working capital was mainly driven by a net decrease in trade accounts receivable and inventory in our trading subsidiaries primarily due to a decline in hydrocarbon prices and in trading volumes.

Investing activities

In the fourth quarter of 2018, cash used in investing activities decreased by 24 billion RUB, or by 21%, compared to previous quarter, mostly as a result of dynamics of movement of loans to affiliates. Compared to 2017, cash used in investing activities decreased by 13 billion RUB, or by 3.0%, due to a decrease in capital expenditures. The dynamics of our cash flows from investing activities was also affected by proceeds from sale of our diamond business in the amount of 81 billion RUB in the second quarter of 2017.

Our capital expenditures increased by 2 billion RUB, or by 1.7%, compared to the third quarter of 2018 and decreased by 60 billion RUB, or by 11.7%, compared to 2017.

	Q4 2018	Q3 2018	12 months of 2018	2017
		(millions of rubles)		
Capital expenditures				
Exploration and production				
West Siberia	30,306	27,831	129,050	132,170
Timan-Pechora	14,739	15,605	69,770	77,079
Ural region	8,392	8,825	35,374	31,449
Volga region	16,304	16,445	53,481	60,832
Other in Russia	4,813	2,390	11,429	13,944
Total in Russia	74,554	71,096	299,104	315,474
Iraq	3,521	6,017	18,849	15,978
Other outside Russia	9,182	9,137	45,903	112,182
Total outside Russia	12,703	15,154	64,752	128,160
Total exploration and production	**87,257**	**86,250**	**363,856**	**443,634**
Refining, marketing and distribution				
Russia	19,540	21,267	65,326	50,293
- refining	12,975	16,282	44,621	25,220
- retail	2,206	2,061	7,433	10,677
- other	4,359	2,924	13,272	14,396
International	4,913	3,457	18,616	16,134
- refining	2,722	2,007	12,381	9,840
- retail	1,690	670	4,222	5,490
- other	501	780	2,013	804
Total refining, marketing and distribution	**24,453**	**24,724**	**83,942**	**66,427**
Corporate and other	**1,556**	**452**	**3,728**	**1,435**
Total capital expenditures	**113,266**	**111,426**	**451,526**	**511,496**

Compared to the previous quarter, our upstream capital expenditures increased by 1.0 billion RUB, or by 1.2%. An increase in expenditures in West Siberia was due to a seasonality factor. A decrease in capital expenditures in Timan-Pechora was largely due to payments in the third quarter of 2018 related to previously accrued expenditure. In the third quarter and the fourth quarter of 2018, we continued developments of the second stages at the Yu. Korchagin and V. Filanovsky fields in the Caspian Sea.

A decrease in capital expenditures in refining in Russia compared to the previous quarter was primarily due to prepayments in the third quarter of 2018 related to the commencement of construction of a delayed coker complex at Nizhny Novgorod refinery.

Compared to 2017, our capital expenditures in the exploration and production segment decreased by 80 billion RUB, or by 18.0%, mainly due to lower spending in Uzbekistan after completion of main construction works as part of the Gissar and Kandym projects.

An increase in capital expenditures in our refining, marketing and distribution segment compared to 2017 was primarily due to commencement of construction works at Nizhny Novgorod refinery.

The dynamics of our international capital expenditures was also affected by the ruble devaluation.

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

	Q4 2018	Q3 2018	12 months of 2018	2017
		(millions of rubles)		
West Siberia (Yamal)	4,721	4,398	22,007	15,723
Caspian region (Projects in Russia)	14,087	15,244	47,913	55,932
Timan-Pechora (Yaregskoye field)	2,883	1,687	10,304	14,764
Iraq (West Qurna-2 project)	2,348	5,200	16,366	14,184
Iraq (Block-10)	1,173	817	2,483	1,794
Uzbekistan	2,021	2,928	20,932	84,025
Total	**27,233**	**30,274**	**120,005**	**186,422**

Financing activities

In the fourth quarter of 2018, net movements of short-term and long-term debt generated an outflow of 60 billion RUB, compared to an outflow of 22 billion RUB in the third quarter of 2018. In 2018, net movements of short-term and long-term debt generated an outflow of 208 billion RUB, compared to an outflow of 58 billion RUB in 2017.

In August 2018, we announced the start of an open market buyback program. The purpose of the program is to reduce the capital of the Company and its duration is from 3 September 2018 to 30 December 2022.

In the second half of 2018, a Group company bought 12,740 thousands of common shares of the Company for 62,916 million RUB.

Credit rating

Standard & Poor's Ratings Services set the Company's long-term corporate credit rating and all debt ratings to BBB.

Moody's set the Company's long-term corporate family rating and long-term issuer rating to Baa2.

Fitch Ratings set the Company's long-term issuer default rating to BBB+.

Debt maturity

The following table displays the breakdown of our total debt obligation by maturity dates.

	Total	2019	2020	2021	2022	2023	After
			(millions of rubles)				
Short term debt	28,728	28,728	–	–	–	–	–
Long-term bank loans and borrowings	161,314	24,858	28,270	25,825	18,937	14,739	48,685
7.250% Non-convertible US dollar bonds, maturing 2019	41,584	41,584	–	–	–	–	–
6.125% Non-convertible US dollar bonds, maturing 2020	69,385	–	69,385	–	–	–	–
6.656% Non-convertible US dollar bonds, maturing 2022	34,663	–	–	–	34,663	–	–
4.563% Non-convertible US dollar bonds, maturing 2023	104,079	–	–	–	–	104,079	–
4.750% Non-convertible US dollar bonds, maturing 2026	69,321	–	–	–	–	–	69,321
Capital lease obligation	25,973	4,455	4,690	4,512	4,214	4,356	3,746
Total	**535,047**	**99,625**	**102,345**	**30,337**	**57,814**	**123,174**	**121,752**

Litigation and claims

The Group is involved in various claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition. See Note 28 "Commitments and contingencies" to our consolidated financial statements for detailed information on claims and legal proceedings involving the Group.

Critical accounting policies

The preparation of financial statements in conformity with IFRS requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. See Note 3 "Summary of significant accounting policies" to our consolidated financial statements for descriptions of the Company's major accounting policies. Certain of these accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used.

Other information

Sectoral sanctions against the Russian companies

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

In August-October 2017, the US expanded abovementioned sanctions to include international oil projects initiated on or after 29 January 2018 that have the potential to produce oil in any location, and in which companies placed on the Sectoral Sanctions Identifications List (subject to Directive 4) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

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

Operations in Iraq

The Group is exposed to various risks due to its operations in Iraq. The management monitors these risks and believes that there is no adverse effect on the Group's financial position that can be reasonably estimated at present.

Forward-looking statements

Certain statements in this document are not historical facts and are "forward-looking." We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to products or services
- statements of future economic performance
- statements of assumptions underlying such statements.

Forward looking statements that may be made by us from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios. Words such as "believes," "anticipates," "expects," "estimates," "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include:

- inflation, interest rate and exchange rate fluctuations
- the price of oil
- the effects of, and changes in, Russian government policy
- the effects of competition in the geographic and business areas in which we conduct operations
- the effects of changes in laws, regulations, taxation or accounting standards or practices
- our ability to increase market share for our products and control expenses
- acquisitions or divestitures
- technological changes
- our success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made, and, subject to any continuing obligations under the Listing Rules of the U.K. Listing Authority, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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