



LUKOIL



ANNUAL REPORT

# EFFICIENT ENERGY



**LUKOIL IS ONE OF THE LARGEST PUBLICLY TRADED, VERTICALLY INTEGRATED OIL AND GAS COMPANIES IN THE WORLD. WE EMPLOY OVER 100,000 PEOPLE WHO JOIN THEIR EFFORTS AND EXPERTISE TO PROVIDE ENERGY FOR THE GROWING NEEDS OF THE POPULATION OF OUR PLANET. 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.**

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## BY IMPROVING EFFICIENCY

### IN PRODUCTION

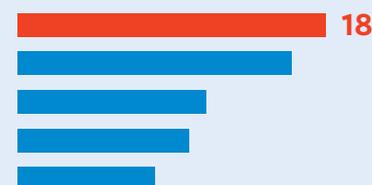
Decrease in per barrel lifting costs and per meter drilling costs in Russia vs. 2018

by **3%**



## STRONG COMPETITIVE ADVANTAGES

Hydrocarbon reserves life, years



# EFFICIENT ENERGY

IN 2019, WE DELIVERED OUTSTANDING RESULTS ON THE PATH OF IMPLEMENTING OUR LONG-TERM STRATEGY THROUGH SUCCESSFUL DEVELOPMENT OF OUR PRIORITY PROJECTS, QUALITATIVE IMPROVEMENT OF OUR BUSINESS AND STRONG CAPITAL DISCIPLINE. A KEY TOOL OF DELIVERING OUR STRATEGIC PLANS IS CONTINUOUS EFFICIENCY IMPROVEMENT ACROSS ALL AREAS.



WE ACHIEVE RECORD-BREAKING FINANCIAL PERFORMANCE

**IN REFINING**  
Lower fuel oil output vs. 2018

by **10%**

**IN DISTRIBUTION**  
Higher gross profit from sales of non-fuel goods and services vs. 2018

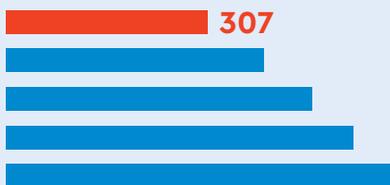
by **8%**

Free cash flow  
+26% vs. 2018

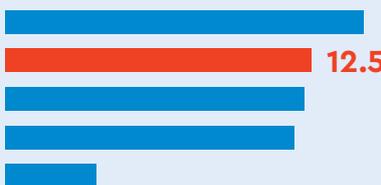
**702**  
RUB billion



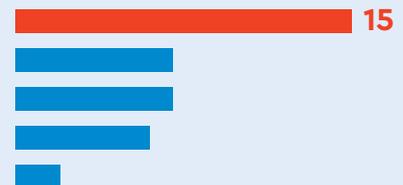
Scope 1 greenhouse gas emissions to revenue in 2019, tonnes of CO<sub>2</sub> equivalent/USD



Free cash flow per barrel of production in 2019 USD/boe



ROACE in 2019 %



■ LUKOIL ■ The world's largest private oil and gas companies



For more details on LUKOIL, see the Reference Information section on page 148

# KEY EVENTS IN 2019 AND DEVELOPMENT OF OUR CAPITALS

## Capitals



### FINANCIAL

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

For more details see page 46.



### OPERATIONAL

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

For more details see page 47.



### INTELLECTUAL

State-of-the-art development technologies, patents, business process automation and digitalization constitute our competitive advantages

For more details see page 58.



### NATURAL

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

For more details see page 78.



### HUMAN

We invest in developing the skills and talent of over 100,000 of our professional employees to ensure efficient business growth and asset management

For more details see page 84.



### SOCIAL

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

For more details see page 89.

Key Events of 2019

Free cash flow up by 26% year-on-year to RUB 702 billion, driven by higher efficiency and cost reduction

CAPEX  
**450**  
RUB billion

Approved the new dividend policy whereby at least 100% of adjusted free cash flow will be paid out as dividends

Dividend per share<sup>1</sup>  
**542**  
RUB

Made significant progress in the development of our priority production projects in the Caspian and Baltic seas, Timan-Pechora and West Siberia

Continued working on selective projects at Nizhny Novgorod and Volgograd refineries

Launched production of low-sulfur bunker fuel compliant with the international MARPOL requirements

Launched the lubricants plant in Kazakhstan

LUKOIL's integrated production model for the Yuzhno-Yagunskoye and Vostochno-Ikilorskoye fields and adjacent areas of other fields (largest in Russia) recognized as the best IT project in the industry

LUKOIL's innovative oil spill response technology for the Arctic approved by the Russian State Expert Review Board

Opened an innovation research center for the development of bituminous materials in the Nizhny Novgorod Region

Continued with digital pilot projects at our refineries

Expanded our license portfolio through the acquisition of license areas in the Republic of Bashkortostan, the Orenburg Region and the Saratov Region

Acquired interest in hydrocarbon production projects in the Republic of the Congo and the UAE

Implemented environmental projects in refining and distribution entities

Reduced contaminated land area and air pollutant emissions

LUKOIL's Qualification Assessment Center recognized as the best one in Russia

Launched corporate training projects using mobile training technology and augmented reality (AR)

Delivered training to 78 thousand employees

LUKOIL has cooperative agreements with 60 higher education and vocational training institutions

Launched an interactive training center on the history of Russian oil and development of national science and technology, located in the Oil Pavillion at VDNH park in Moscow

Launched construction of the Kogalym branch of the Perm Polytechnic University, a leading engineering university in Russia

Organized a site visit for social activists to our fields in the Republic of Komi, held 60 public consultations and community meetings with the local people of Komi

Supported 785 social and cultural projects in our regions of operation

<sup>1</sup> Total dividend per share recommended by the Board of Directors for 2019.

# DEVELOPMENT OF PRIORITY PROJECTS

>30  
COUNTRIES

>60  
RUSSIAN REGIONS



## 1 West Siberia

Extensive development of low-permeability reservoirs. Launched implementation of new development plans for license areas covered by the tax on additional income (TAI)



## 2 Timan-Pechora

Launched new steam-generation facilities at the Yaregskoye and Usinskoye high-viscosity oil fields



## 3 The Baltic Sea

Put on stream the D41 field



## 4 Bashkortostan, Orenburg and Saratov Regions

Extended the geographical footprint of the Company's license portfolio with the acquisition of license areas in the Republic of Bashkortostan, the Orenburg Region and the Saratov Region



## 5 The Republic of the Congo

Acquisition of a 25% interest in the Marine XII hydrocarbon production project in the continental shelf of the country



## 6 UAE

Acquisition of a 5% interest in the Ghasha project to develop shallow-water fields in the Persian Gulf



## 7 Iraq

Second development stage of the West Qurna-2 field under way. Drilled appraisal wells at the Eridu field (Block 10 project)



## 8 Nizhny Novgorod

Construction of a delayed coker complex and an isomerization unit at the Nizhny Novgorod Refinery



## 9 Volgograd

Launched production of low-sulfur bunker fuel compliant with the new MARPOL requirements

## THE CASPIAN SEA

LUKOIL has pioneered the development of the Russian sector of the Caspian Sea bed: its efforts resulted in the discovery of nine fields in the region with combined initial recoverable reserves of one billion tonnes of oil equivalent (seven billion barrels of oil equivalent). Two of these (the Yu. Korchagin and V. Filanovsky fields) are already in production, while the remaining seven will support our future development potential. We are bringing forward the development of the V.I. Grayfer field, aiming to begin production there already in 2022.

We also participate in a number of international projects in the Caspian Sea. In 2019, we expanded our presence in the region through the signing of a contract for hydrocarbon exploration and development and Heads of Agreement for blocks in Kazakhstan's sector of the Caspian Sea.



### 9 V. Filanovsky field

Launch of Phase 3

### 12 Shah Deniz (Azerbaijan)

Phase 2 development



### 10 V.I. Grayfer field

Facilities construction

### 13 Zhenis (Kazakhstan)

Signed a contract for exploration and production



### 11 Yu. Korchagin field

Phase 2 development

### 14 I-P-2 block (Kazakhstan)

Signed Heads of Agreement



# CLIMATE CHANGE

TODAY, THE OIL AND GAS INDUSTRY IS FACED WITH NEW CHALLENGES AS THE WORLD TRANSITIONS TO A LOW-CARBON ECONOMY. HUMANKIND NEEDS TO REDUCE GREENHOUSE GAS (GHG) EMISSIONS AND PREVENT CLIMATE CHANGE, WHILE STILL CONTINUING SUSTAINABLE ECONOMIC GROWTH – WHICH INEVITABLY REQUIRES HIGHER ENERGY CONSUMPTION.



LUKOIL makes a significant contribution to meeting the mounting global demand for hydrocarbons and electricity, leveraging its exposure to a high-quality resource base and well-developed refineries to offer cleaner products to its clients. Our continued strategic focus on cost reduction and ever more energy efficient operations also contributes to a continuous reduction in our per unit GHG emissions. >>

**VAGIT ALEKPEROV**

President, Chairman of the Management Committee of PJSC LUKOIL

## MANAGEMENT

The climate change agenda is addressed on the strategic level (by the Board of Directors, the Strategy, Investment and Sustainability Committee, the Management Committee), and on the operational level (by the Health, Safety and Environmental Committee, heads of business units, heads of subsidiaries).

In 2019, the Strategy and Investment Committee of the Board of Directors was renamed the Strategy, Investment and Sustainability Committee and its functions were expanded accordingly to include climate change as well as other ESG matters.

A much larger number of climate-related items were reviewed by the Board of Directors and the Strategy, Investment and Sustainability Committee.



For more details, see Sustainability Management System section on page 132

## RISKS AND OPPORTUNITIES

We place special focus on risk management to provide reasonable assurance of achieving our strategic objectives despite uncertainties and negative impacts. Climate-related risks (both carbon transition and physical) are key among sustainable development risks. The Company takes action to mitigate those risks.

To leverage climate-related opportunities the Company established a Competence Center on renewables, which evaluates the feasibility of renewable energy projects and generates proposals for further developing this business. To promote renewable energy development in Russia, the Company also engages in training industry experts: LUKOIL supported the establishment of Russia's first Specialized Department of Renewable Energy Sources at the Gubkin Russian State University of Oil and Gas.



For more details, see Appendix 2: Risks

## DISCLOSURE

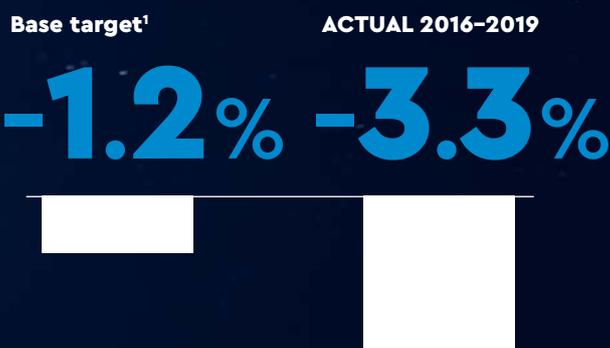
We have been publicly disclosing emissions of methane, a potent greenhouse gas, since 2004. We have been a participant of the Carbon Disclosure Project (CDP) since 2014, making disclosures about Scope 1 greenhouse gas emissions and key risks and opportunities in that area. We keep working to make our disclosures more comprehensive. In 2018, we disclosed for the first time data on the emissions of our international assets and some modules pursuant to TCFD recommendations as part of our CDP carbon disclosure.

Our disclosures follow the consistency and comparability principle. For example, we have reported on our progress on an annual basis since 2016 when our first Scope 1 GHG reduction target was set.

## TARGETS AND PROGRESS

In 2016, we set our first target to reduce Scope 1 greenhouse gas emissions by 1.2% by 2020 from a 2016 baseline. In 2019, actual reduction was 3.3% compared to 2016. A decision was then made in the same year to start setting further targets to reduce greenhouse gas emissions and more fully integrate adaptation to climate change into our strategy.

## SCOPE 1 GREENHOUSE GAS EMISSIONS REDUCTION IN RUSSIA, %



<sup>1</sup> Scope 1 greenhouse gas emissions reduction in Russia, 2016-2020

### EFFICIENT APG USE

Consistent implementation of efficient APG use programs helped us make significant progress since 2013, and our 2019 efficient APG use was 97.6% (compared to 88.0% in 2013), made possible by construction and repair of preliminary gas treatment, transportation and processing facilities. This means that total flaring has been reduced of one billion cubic meters of gas. We joined the "Zero Routine Flaring by 2030" initiative of the World Bank in 2017. In 2019, we approved the efficient APG use program for 2019-2021 to further reduce flaring.



For more details, see the Environmental Protection section on page 82

### ENERGY EFFICIENCY

Increasing energy efficiency is our strategic priority. Each business segment has its operational excellence program where reducing power consumption is a key element of cost reduction. In Exploration and Production, key energy efficiency initiatives are replacement of asynchronous motors with PMSMs and improving formation pressure maintenance system performance. In Refining, Marketing and Distribution, our energy efficiency program includes heat integration of facilities that produce and consume heat, as well as furnace efficiency upgrades and maximizing efficient industrial gas use.



For more details, see the Energy Efficiency section on page 83

### RENEWABLE POWER GENERATION

We have been developing renewable power generation for over a decade.

LUKOIL has a large portfolio of renewable power generation assets (four hydroelectric power plants in Russia and solar and wind power generation facilities in Russia, Romania and Bulgaria), accounting for 6% of total commercial power generated by the Group in 2019. The Company estimates that power generation from renewable sources prevents emission of over 500 thousand tonnes of CO<sub>2</sub> equivalent per year.

Following the successful pilot of a 10 MW solar power plant on an unutilized site at the Volgograd refinery in 2018, we made a decision to launch construction of a second and larger 20 MW solar power plant at that refinery.



For more details, see the Power Generation section on page 68



# LETTER FROM THE PRESIDENT (CHAIRMAN OF THE MANAGEMENT COMMITTEE)

## Dear Shareholders,

In 2019, we achieved outstanding results in implementing our long-term strategy. Despite the highly volatile macroeconomic environment and production limitations, we delivered on all our objectives and even achieved record highs in some areas, further cementing LUKOIL's competitive position.

Today, the oil and gas industry is faced with new challenges as the world transitions to a low-carbon economy. Humankind needs to reduce greenhouse gas (GHG) emissions and prevent climate change, while still continuing sustainable economic growth – which inevitably requires higher energy consumption. Therefore,

we should strive for maximum efficiency of consumed energy, so that energy is affordable and at the same time produced with minimum environmental footprint.

LUKOIL makes a significant contribution to meeting the mounting global demand for hydrocarbons and electricity, leveraging its exposure to a high-quality resource base and advanced refineries to offer environmentally efficient products to its clients. Furthermore, our continued strategic focus on cost reduction and increasing energy efficiency of operations contributes to a continuous reduction in our per unit GHG emissions.

Already back in 2003, LUKOIL launched a series of initiatives to cut emissions under its programs for efficient use of associated petroleum gas. Since 2008, the Company has been developing renewable power generation, partially reinvesting profits from its core hydrocarbon business into this segment. In 2019, renewables already accounted for as much as 6% of the total commercial power generation of LUKOIL.

In 2016, LUKOIL set its first medium-term target to reduce Scope 1 GHG emissions in absolute terms. We have already exceeded the 2020 target in 2019, while ramping up hydrocarbon production and refinery throughput.



**ROACE IN 2019**

in line with strategic target

15%

Recently, we began working on setting further emission-reduction targets, and preparing a detailed inventory of GHG sources, which will allow us improve our planning and information disclosure.

We made good progress on further efficiency improvements during the year, reducing a number of cost items and strengthening our capital reinvestment discipline. The development and roll out of new technologies made a significant contribution to our improved efficiency.

**EBITDA IN 2019**

+11%

1.2 RUB trillion

In particular, we have reduced our per unit lifting and drilling costs in Russia both by 3%, owing to a considerable increase in the number of wells with a simplified design, upstream digitalization technologies, the further rollout of advanced, energy efficient pumps, and other cost-optimization measures. Along with improving our business efficiency, cost reduction helps us enhance our production potential.

Despite external limitations, we managed to exceed our hydrocarbon

production plans in 2019, primarily due to the development of our international gas projects. The external production constraints, however, helped us to sharpen our focus on further high-grading of our production structure. The share of high-margin projects in our total hydrocarbon output has exceeded 30%, going significantly beyond our plans. I would like to particularly highlight our achievements in managing production at mature fields, enabled by our efficiency gains: the production decline rates at such fields in West Siberia were reduced to 2.5%.



In 2019, we started implementing new development plans for license areas covered by the tax on additional income (TAI) regime, with their aggregate production totaling 6% of our total oil and gas condensate production in Russia. The major effect of the TAI on the production profile is mainly expected at our mature fields in West Siberia included into Group 3 of TAI. We already ramped up production at such fields by more than 7% year-on-year by increasing drilling volumes and the number of well workover operations.

We have also continued the successful development of our large-scale Caspian projects. We have launched Phase 3 of the V. Filanovsky field, completing the field's infrastructure development program, with its production up by 5% to 6.4 million tonnes in 2019.

At the Yu. Korchagin field, another Caspian Sea project of LUKOIL, we continued with the drilling program as part of Phase 2 of field development launched in 2018. As a result, oil production at the field grew by more than 20% in 2019.

We have also accelerated the development of our third Caspian Sea project, the V. Grayfer field (formerly Rakushechnoye), representing another huge achievement that will help us put the field on stream already in 2022. Furthermore, we have expanded our footprint in the region by joining two exploration projects in the Kazakh sector of the Caspian Sea.

By leveraging our high-tech capabilities, we have reached impressive growth rates in both high-viscosity oil production in Timan Pechora and production at low permeability fields in West Siberia. Specifically, high-viscosity crude production at the Yaregskoye field and Permian reservoir of the Usinskoye field went up by 15% year-on-year, while production at the V. Vinogradov and Imilorskoye fields with low permeability reservoirs was ramped up by almost 40%.

We have made solid progress in the expansion of our resource base: the proved reserves replacement ratio for liquids, excluding the effect of changes in macroeconomic factors, totaled 107% in 2019. We have broadened our geographical footprint by acquiring blocks in new Russian regions and interests in international projects in the Republic of the Congo and the United Arab Emirates with well-explored resource base and significant production potential.

In the Refining, Marketing and Distribution segment, we have not only increased our refineries' throughput, but also significantly improved our petroleum products slate. Moreover, we have made good progress on our roadmaps for improving efficiency at our refineries.

The major upgrade program completed back in 2016 has put our refineries in a strong position ahead of the introduction of the global sulfur content limit for bunker fuel under MARPOL global requirements. Owing to a carefully crafted set of measures, we managed to reduce high-sulfur fuel oil output to a record low of 8% at end-2019, compared to 14% in 2018, which helped us mitigate the negative effect from weaker fuel oil spreads. We also launched the production of bunker fuel with 0.5% sulfur content at our Volgograd Refinery, incrementally capitalizing on the market situation.

We proceeded with implementation of selective projects to further improve our petroleum products slate, with the construction of a delayed coker complex at Nizhny Novgorod Refinery being the largest. As at the end of 2019,

the project was 60% completed, which is fully in line with the schedule.

In retail, we maintained our focus on increasing the efficiency of our filling stations network and maximizing our free cash flow. Profit from the sales of non-fuel goods and services at our filling stations increased considerably, becoming a very important driver of this segment's financial performance improvement.

Focusing on boosting our sales to end consumers, we have increased our bitumen sales to road construction companies by 50%, and ramped up high-margin into-plane refueling volumes.

Despite a weaker macroeconomic environment compared to 2018, we have delivered record-high financial results, solely due to a number of business factors, including quantitative and qualitative improvements, high vertical integration and strict cost control. Our 2019 EBITDA exceeded RUB 1.2 trillion, up by 11% year-on-year, and free cash flow reached RUB 702 billion.

In 2019, the new dividend policy was approved, whereby the total amount of dividends equals at least 100% of the Company's adjusted free cash flow. The new policy has already been applied to determine the amount of the interim dividend for 2019. In line with the policy, the Board of Directors recommended that the Annual General Shareholders Meeting approve the final dividend for 2019 in the amount of RUB 350 per share. If the recommended final dividend is approved by the shareholders, the total dividend for

2019 will be RUB 542 per share, which is more than a two-fold increase year-on-year.

In conclusion, I would like to touch on 2020, which hit the oil industry hard through the crash in demand for hydrocarbons triggered by the COVID-19 pandemic. This crisis has sent oil prices spiraling and undermined production both for economic reasons, and as a result of international agreements. In this context, I would like to reiterate again that our business model is highly resilient to such shocks. LUKOIL has high operational and financial flexibility, low production costs, strong vertical integration and an extremely robust financial condition. Natural hedging mechanisms in Russia provide us with an extra competitive edge. This combination has repeatedly proven itself highly effective. Moreover, we have significantly improved our production structure and petroleum products slate over the past years.

Therefore, I am convinced that we will successfully pass through this price cycle, and continue with the implementation of our long-term strategy and the sustainable development of our business. Creating shareholder value invariably remains our key focus in any macroeconomic environment.



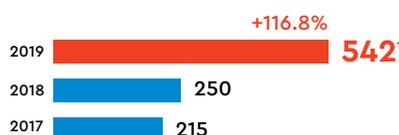
**Vagit Alekperov**

President, Chairman  
of the Management Committee  
of PJSC LUKOIL

**Hydrocarbon production,**  
thousand boe per day



**Dividend per share,**  
RUB



<sup>1</sup> Total dividend per share recommended by the Board of Directors for 2019.

# 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

## 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 SALES

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

### LUBRICANTS PRODUCTION AND MARKETING

- 35 production facilities, a priority sales channel, wide product range, access to end consumers

### MARINE AND RIVER BUNKERING

- A priority premium sales channel, access to end consumers in 25 ports both in Russia and outside Russia

### AIRCRAFT REFUELING

- A priority premium sales channel, into-plane refueling in 33 airports in Russia, Bulgaria and Turkey

## 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 generated from sunlight, wind and water

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

### Exploration and Production

14 countries  
83% of total production – in Russia

Crude oil  
**85**  
million tonnes  
+ Purchases  
**76** million tonnes

Gas  
**34**  
billion cubic meters



Feedstock

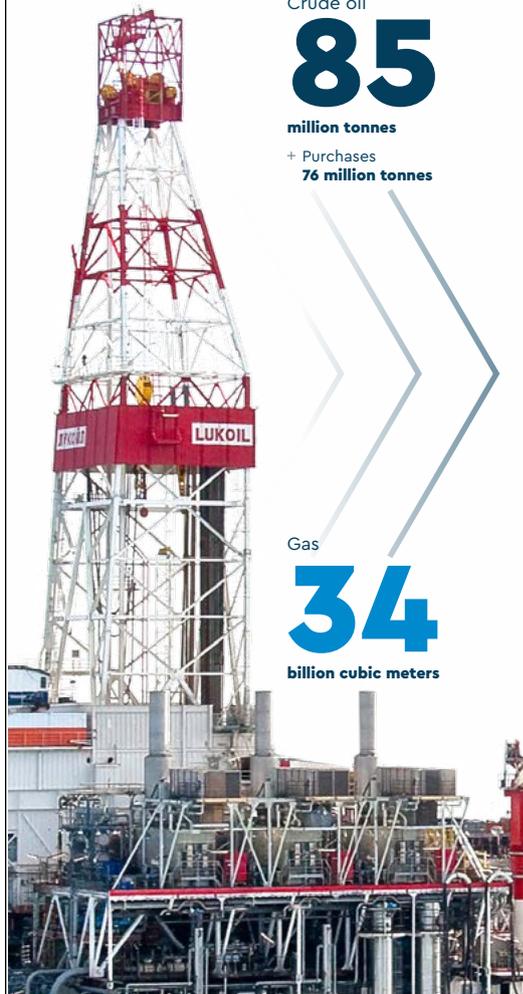


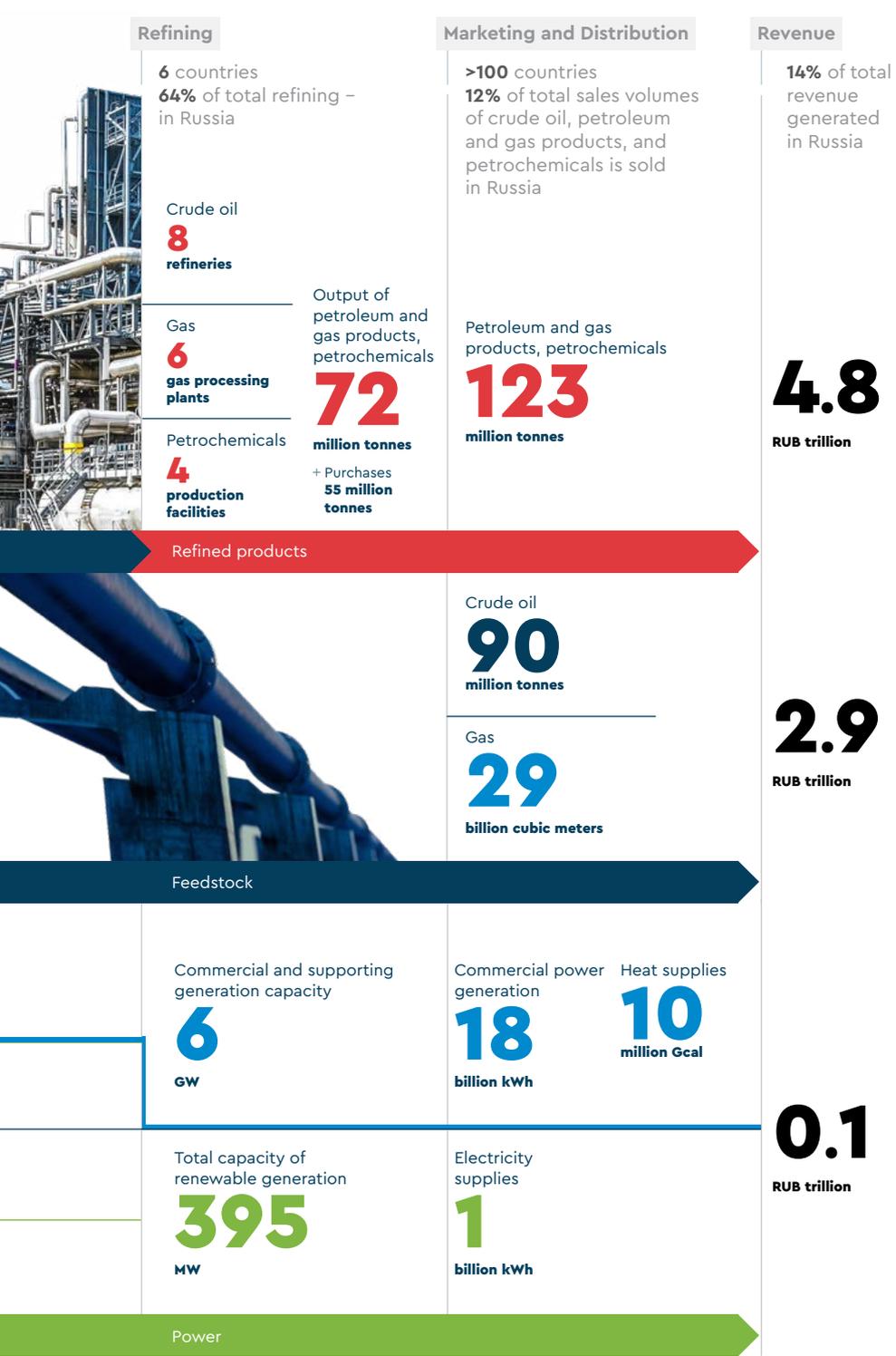
Electricity and heat generation  
**8** facilities

Water energy  
**4** hydroelectric power plants

Solar energy  
**3** solar power plants

Wind energy  
**1** wind power plant





**SHAREHOLDERS**

**542 RUB** dividend per share<sup>1</sup>  
**244 RUB billion** share buyback

**EMPLOYEES**

**259 thousand person-courses** employee training per year  
**17 RUB billion** social programs for employees<sup>2</sup>

**STATE**

**1.5 RUB trillion** taxes and duties<sup>3</sup>

**SOCIETY**

**9 RUB billion** charity expenses<sup>4</sup>

**ENVIRONMENT**

**35.9 RUB billion** environmental spending

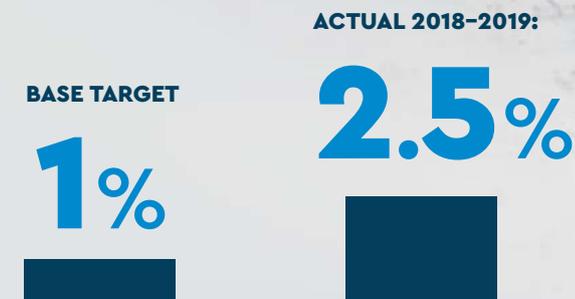
**CUSTOMERS**

- **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, premium fuels
- **Lubricants and bitumen**  
Over 800 lubricants types with various performance properties, bitumen
- **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
- **Power**  
Electricity and heat, renewable energy

<sup>1</sup> Total dividend per share recommended by the Board of Directors for 2019.  
<sup>2</sup> Including employees' families and non-working retirees.  
<sup>3</sup> Excluding VAT.  
<sup>4</sup> Including expenses on agreements with Russian regions and municipal entities.

# EXPLORATION AND PRODUCTION STRATEGY

SUSTAINABLE ORGANIC HYDROCARBON PRODUCTION GROWTH WITH A FOCUS ON CREATING VALUE AND UNLOCKING THE POTENTIAL OF OUR EXISTING RESOURCE BASE



<sup>1</sup> Base target for annual average hydrocarbon production growth excluding the West Qurna-2 project based on the existing resource base with an oil price of \$50 per barrel, in line with LUKOIL's Strategic Development Program for 2018-2027.

## FUNDAMENTAL FACTORS

- Growth in global demand for energy due to increasing world population and growth in GDP per capita
- Deteriorating quality of the resource base and depletion of conventional reserves
- Evolution of electric vehicles and renewable power generation
- Transition to a low-carbon economy
- Advancements in exploration and production technologies

## COMPETITIVE ADVANTAGES

- Vast resource base of liquid hydrocarbons and natural gas
- Low production costs
- Extensive expertise in implementing large projects
- Strong technological expertise
- Low per barrel and per USD greenhouse gas emissions

## STRATEGY 2018-2027

### Unlocking potential

<b>MATURE FIELDS</b>	<p>Efficiency improvement, cost reduction</p> <p>Slowing down production decline rates at West Siberia's mature fields to 2-3%</p>	»»»
<b>GREENFIELDS</b>	<p>Efficient delivery of new projects</p>	»»»
<b>HARD-TO-RECOVER RESERVES</b>	<p>Accelerated involvement of hard-to-recover reserves into production</p>	»»»



Performance in 2018–2019

Per barrel lifting costs and per meter drilling costs in Russia down **by 4% and 8% from 2017**

Production decline at West Siberia's mature fields slowed down **to 2.5% in 2019**

Scaling up technologies

Rapid production growth at new projects by 44% from 2017, **fast-tracking** of construction

**Rapid growth of high-viscosity oil and tight oil production** at key projects, **by 50% from 2017**



For the list of key performance indicators of the Group, which define the level of achievement of strategic targets, **see page 38**



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

# EXPLORATION AND PRODUCTION

## » 2019 RESULTS

Despite external limitations, LUKOIL's hydrocarbon production excluding the West Qurna-2 project increased in 2019 by 1.4% year-on-year to 2.4 million barrels of oil equivalent per day.

At the V. Filanovsky field in the Caspian Sea, the launch of Phase 3 enabled LUKOIL to increase 2019 oil production by 5.2% to 6.4 million tonnes. At the Yu. Korchagin field, the launch of Phase 2 drove 2019 production increase by 21.2% to 1.0 million tonnes.

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 14.5% year-on-year growth in high-viscosity oil production, to 4.9 million tonnes.

The D41 field was launched in the Baltic Sea, while development of design documentation continued for the D33 field.

### Expanding our asset portfolio

Extended the geographical footprint of the Company's license portfolio with the acquisition of license areas in the Republic of Bashkortostan, the Orenburg Region and the Saratov Region.

Acquired interest in hydrocarbon production projects in the Republic of the Congo and the United Arab Emirates with a well-explored resource base and significant production potential.

### Improving efficiency and managing production in core regions

As a result of efficiency improvements made across all operations, the production decline at West Siberia's mature fields slowed down to 2.5%.

We continued with implementation of targeted operational excellence programs that include a broad range of measures in cost reduction and scaling up technologies. Per barrel hydrocarbon lifting costs and per meter drilling costs in Russia were down by 3% from 2018.

### 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 2019 grew by 4 percentage points to 36%.

Driven by the use of innovative technologies, oil production at the Imilorskoye field increased by 44% to 1.1 million tonnes. The final stage of pilot testing was conducted at the V. Vinogradov field, with its production up by 29% to 0.5 million tonnes.

We continued leveraging digital technologies in production. For example, we further rolled out the intelligent field concept based on integrated models.

Pilots in mature fields confirmed excellent performance of neural networks for production and waterflood management, with plans to scale up the technology.

Substantially increased the number of small-diameter wells and simplified-design horizontal wells drilled.

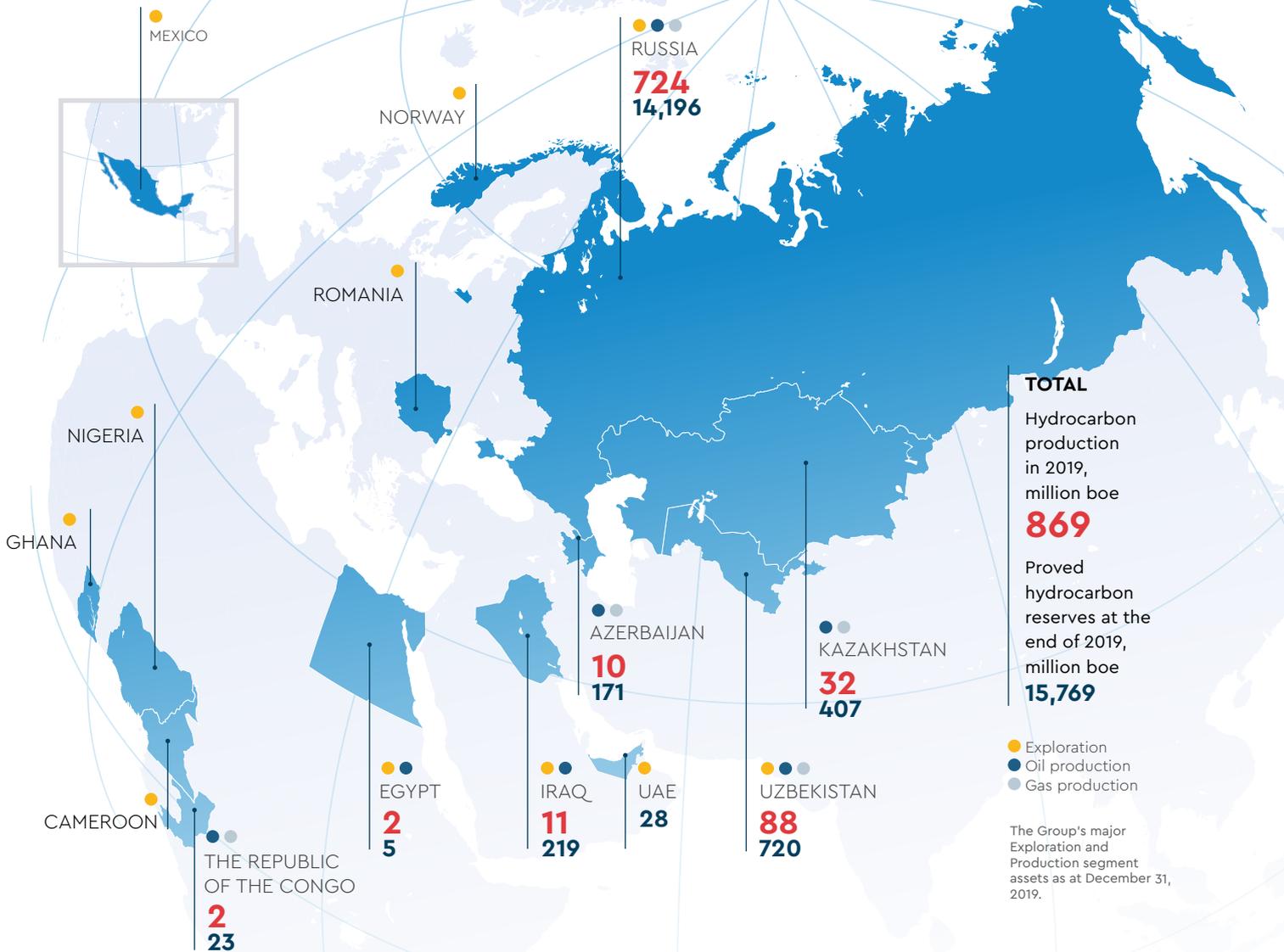
## » 2020 AND MID-TERM PRIORITIES

- 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 TAI; maintaining production at plateau at previously commissioned large fields. Slowing down production decline rates at mature fields
- Implementation of efficiency improvement programs and building up technological expertise in complex reserves development
- Scaling and rolling out of successfully piloted technologies, digitalization

### NUMBER OF INTEGRATED FIELD MODELS AS AT DECEMBER 31, 2019

+55%

# 45



**EXPLORATION AND PRODUCTION EBITDA IN 2019**

+2.7%

**894**  
RUB billion

**HYDROCARBON PRODUCTION GROWTH VS 2018**

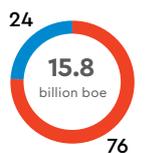
**1.4%**

**SHARE OF HIGH-MARGIN PROJECTS IN TOTAL PRODUCTION IN 2019**

+6 p.p.

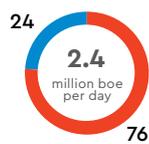
**32%**

Proved hydrocarbon reserves as at December 31, 2019  
%



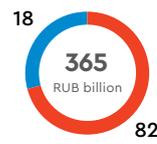
■ Liquid hydrocarbons  
■ Gas

Hydrocarbon production in 2019  
%



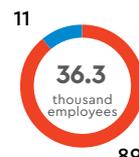
■ Liquid hydrocarbons  
■ Gas

Exploration and Production CAPEX in 2019  
%



■ Russia  
■ International projects

Average headcount in Exploration and Production in 2019  
%



■ Russia  
■ International projects

# IMPROVING PRODUCTION EFFICIENCY

## WHILE REDUCING PER BARREL COSTS

IMPROVING EFFICIENCY IS A KEY TOOL IN ACHIEVING OUR STRATEGIC GOALS IN THE EXPLORATION AND PRODUCTION SEGMENT. IN 2019, WE WERE ABLE TO ACHIEVE NOTABLE SUCCESS ON THIS FRONT, INCLUDING THROUGH DEVELOPING AND SCALING UP TECHNOLOGIES.

### INTELLIGENT FIELD

As part of developing digital technologies in production we have successfully applied the intelligent field concept supported by integrated models. This technology already covers 45 models of fields that account for about one third of our production.

**CUMULATIVE INCREMENTAL HYDROCARBON PRODUCTION**

**>7**  
million boe

### NEURAL NETWORKS

Pilots in mature fields confirmed excellent performance of neural networks for production and waterflood management.

In 2019, we developed mature field waterflood management algorithms, built a choke model and carried out well intervention performance evaluation for pilot areas in West Siberia.

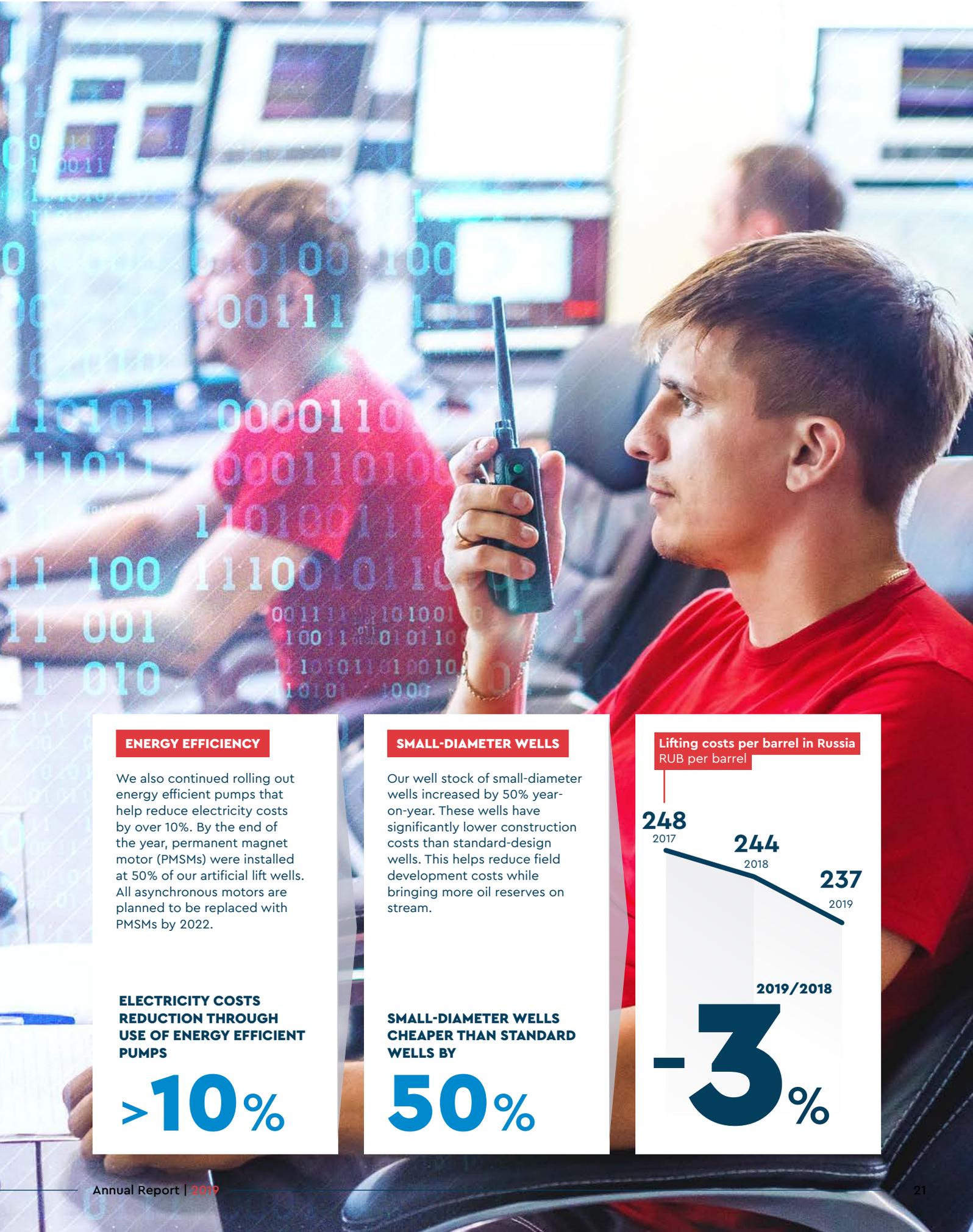
There are plans to scale up this technology.

### THREE-STRING WELLS

The number of simplified-design horizontal wells almost doubled in 2019. This technology accelerates construction by 35% on average (by 50% in some cases) and reduces costs by approximately 20% as compared to the standard four-string design of horizontal wells.

**THREE-STRING WELLS CHEAPER THAN STANDARD WELLS BY**

**20%**



**ENERGY EFFICIENCY**

We also continued rolling out energy efficient pumps that help reduce electricity costs by over 10%. By the end of the year, permanent magnet motor (PMSMs) were installed at 50% of our artificial lift wells. All asynchronous motors are planned to be replaced with PMSMs by 2022.

**ELECTRICITY COSTS REDUCTION THROUGH USE OF ENERGY EFFICIENT PUMPS**

**>10%**

**SMALL-DIAMETER WELLS**

Our well stock of small-diameter wells increased by 50% year-on-year. These wells have significantly lower construction costs than standard-design wells. This helps reduce field development costs while bringing more oil reserves on stream.

**SMALL-DIAMETER WELLS CHEAPER THAN STANDARD WELLS BY**

**50%**

**Lifting costs per barrel in Russia RUB per barrel**



2019/2018

**-3%**

# EXPANDING OUR PRESENCE IN THE CASPIAN

## WE CONTINUE SUCCESSFUL RAMP-UP OF LARGE-SCALE PROJECTS IN THE CASPIAN SEA AND WORK TO EXPAND OUR ASSET PORTFOLIO IN THE REGION.

In the Russian sector of the North Caspian region we launched Phase 3 of the V. Filanovsky field in 2019, while Phase 2 drilling program continued at the Yu. Korchagin field. As a result, our production in the Caspian was up by 7% year-on-year.

We achieved significant progress in field construction work at the V.I. Grayfer field, where construction of an ice-resistant platform, a living quarters platform and a foot bridge were

under way. Through fast-tracking field construction we should be able to launch commercial production there already in 2022.

In our international business, we expanded our assets project portfolio in Kazakhstan's sector of the Caspian Sea by signing a contract for hydrocarbon exploration and production at the the Zhenis block and Heads of Agreement for the I-P-2 block.





**RUSSIA**

**V. Filanovsky field**

Maintaining production at design capacity

**2019 OIL PRODUCTION**

+5%

**6.4**

million tonnes

**Yu. Korchagin field**

Phase 2 drilling program under way

**2019 OIL PRODUCTION**

+21%

**1.0**

million tonnes

**V.I. Grayfer field**

Field construction work ongoing

**ICE-RESISTANT FIXED PLATFORM CONSTRUCTION PROGRESS**

**30%**

**KAZAKHSTAN**

**Zhenis block**

(LUKOIL's share – 50%)

Signed a contract for exploration and production

**I-P-2 block**

Signed Heads of Agreement

**AZERBAIJAN**

**Shah Deniz**

(LUKOIL'S share – 10%)

Phase 2 development

# ACCELERATING INVOLVEMENT

## OF HARD-TO-RECOVER RESERVES INTO PRODUCTION

**WE ACHIEVED SIGNIFICANT PROGRESS IN HARD-TO-RECOVER RESERVES DEVELOPMENT THROUGH THE APPLICATION OF HIGH-PERFORMANCE STATE-OF-THE-ART TECHNOLOGY SOLUTIONS. IN 2019, PRODUCTION AT KEY HIGH-VISCOSITY OIL AND TIGHT OIL FIELDS WAS UP BY 20%.**

We continued to expand infrastructure and production facilities in Timan-Pechora, driving high-viscosity oil production to 4.9 million tonnes, up by 14.5% year-on-year. Through rolling out unique technologies and a customized approach to each well we were

able to achieve significant progress in tight oil production in West Siberia. Tight oil production at the V. Vinogradov and Imilorskoye fields was up by almost 40%.



High-viscosity oil

**Yaregskoye field**

Steam-generating capacities expansion

**2019 OIL PRODUCTION**

+32%

**2.2**  
million tonnes

**Permian reservoir at the Usinskoye field**

Commissioning new wells, building better understanding of geology

**2019 OIL PRODUCTION**

+4%

**2.7**  
million tonnes

Low-permeability reservoirs

**Imilorskoye field**

Using multi-zone hydraulic fracturing (MZHf)

**2019 OIL PRODUCTION**

+44%

**1.1**  
million tonnes

**V. Vinogradov field**

Successful pilot testing of a development system that is unique for Russia

**OIL PRODUCTION IN 2019**

+29%

**0.5**  
million tonnes

# REFINING, MARKETING, AND DISTRIBUTION STRATEGY

CONTINUOUS UPGRADE OF REFINERIES AND EFFICIENCY IMPROVEMENT IN RETAIL NETWORK,  
DEVELOPMENT OF PREMIUM SALES CHANNELS WITH MAXIMIZING FREE CASH FLOW

## FUNDAMENTAL FACTORS

- New global limits on the sulfur content in bunker fuels (MARPOL)<sup>1</sup>
- Growing demand for lubricants and petrochemicals
- Growing competition in retail
- Transition to a low-carbon economy

<sup>1</sup> IMO's new global sulfur cap for bunker fuels, in place from 2020.

## COMPETITIVE ADVANTAGES

- High complexity of refineries, high-quality petroleum products slate
- Favorable location of refineries and proximity to key markets
- Extensive retail network and premium sales channels
- Renewable energy sector business

STRATEGY 2018-2027

Improving efficiency

### EXISTING REFINERIES POST A LARGE-SCALE UPGRADE PROGRAM

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



### ORGANIC GROWTH PROJECTS

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



### FILLING STATION NETWORK AIRCRAFT REFUELING AND MARINE BUNKERING

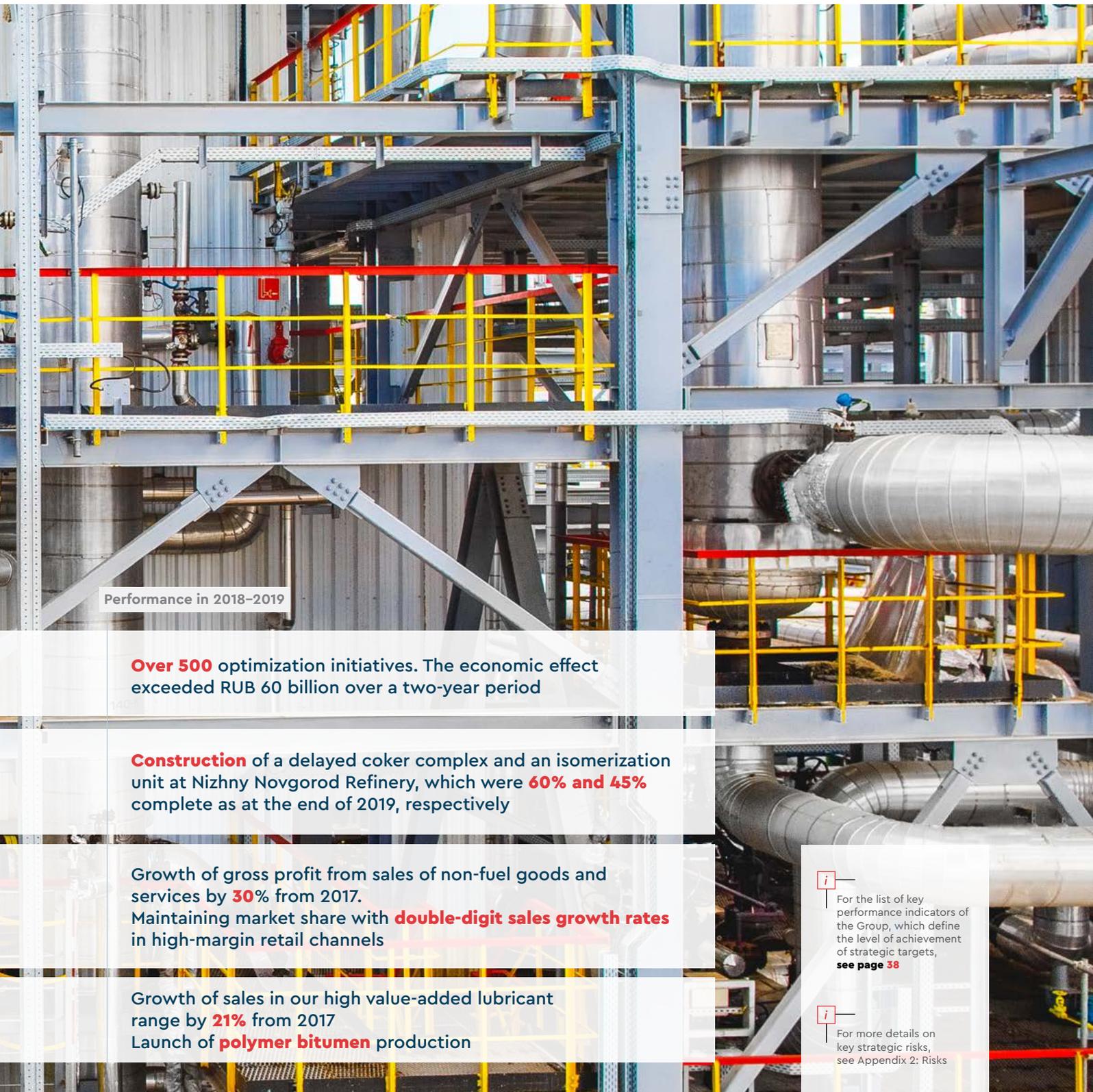
Efficiency improvement and sales growth  
Maintaining a high market share while increasing sales to end users and driving efficiency



### ORGANIC GROWTH PROJECTS: LUBRICANTS, BITUMENS

Growth in high-margin segments





Performance in 2018–2019

**Over 500** optimization initiatives. The economic effect exceeded RUB 60 billion over a two-year period

**Construction** of a delayed coker complex and an isomerization unit at Nizhny Novgorod Refinery, which were **60% and 45%** complete as at the end of 2019, respectively

Growth of gross profit from sales of non-fuel goods and services by **30%** from 2017. Maintaining market share with **double-digit sales growth rates** in high-margin retail channels

Growth of sales in our high value-added lubricant range by **21%** from 2017  
Launch of **polymer bitumen** production

i

For the list of key performance indicators of the Group, which define the level of achievement of strategic targets, see page 38

i

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

# REFINING, MARKETING AND DISTRIBUTION

## » 2019 RESULTS

### Improved petroleum product slate

In 2019, LUKOIL achieved a step change in its petroleum product slate structure, with fuel oil output down by 9.9% or by 0.7 million tonnes year-on-year while total petroleum products output was up by 2.1%. The fuel oil yield in the total petroleum product slate went down to 10%. As a result, 2019 refining depth increased to 89%.

We continued to work on selective projects in Russia to improve the product slate. In particular, construction of a delayed coker complex continued at the 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 continued at the 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

Lower cost pipeline transportation of petroleum products further increased by 8% year-on-year.

### Improving sales efficiency and developing premium sales channels

The share of ECTO fuels in total domestic retail sales grew to 79%, or 3 percentage points year-on-year.

We continued to grow our non-fuel sales. The gross profit from non-fuel sales grew by 8% year-on-year to RUB 15 billion. The coverage of our Russian filling stations' costs by gross profit from non-fuel sales increased by 3 percentage points year-on-year to 42%.

The geography of high-margin into-plane fuel sales was expanded as we launched operations in Kaliningrad, Rostov-on-Don and Krasnodar airports.

Sales of our high-margin lubricants rose by 8% to 64 thousand tonnes as a result of expanding the product range.

Bitumen sales increased by 15% to 911 thousand tonnes. Sales of polymer bitumens were launched in 2019.

## » 2020 AND MID-TERM PRIORITIES

- Improving the product slate through streamlined processes utilization, stronger inter-plant integration and construction of a delayed coker complex and an isomerization unit at the 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
- Continue with the digitalization program implementation

### HIGH-MARGIN BUNKER FUEL RETAIL SALES IN 2019

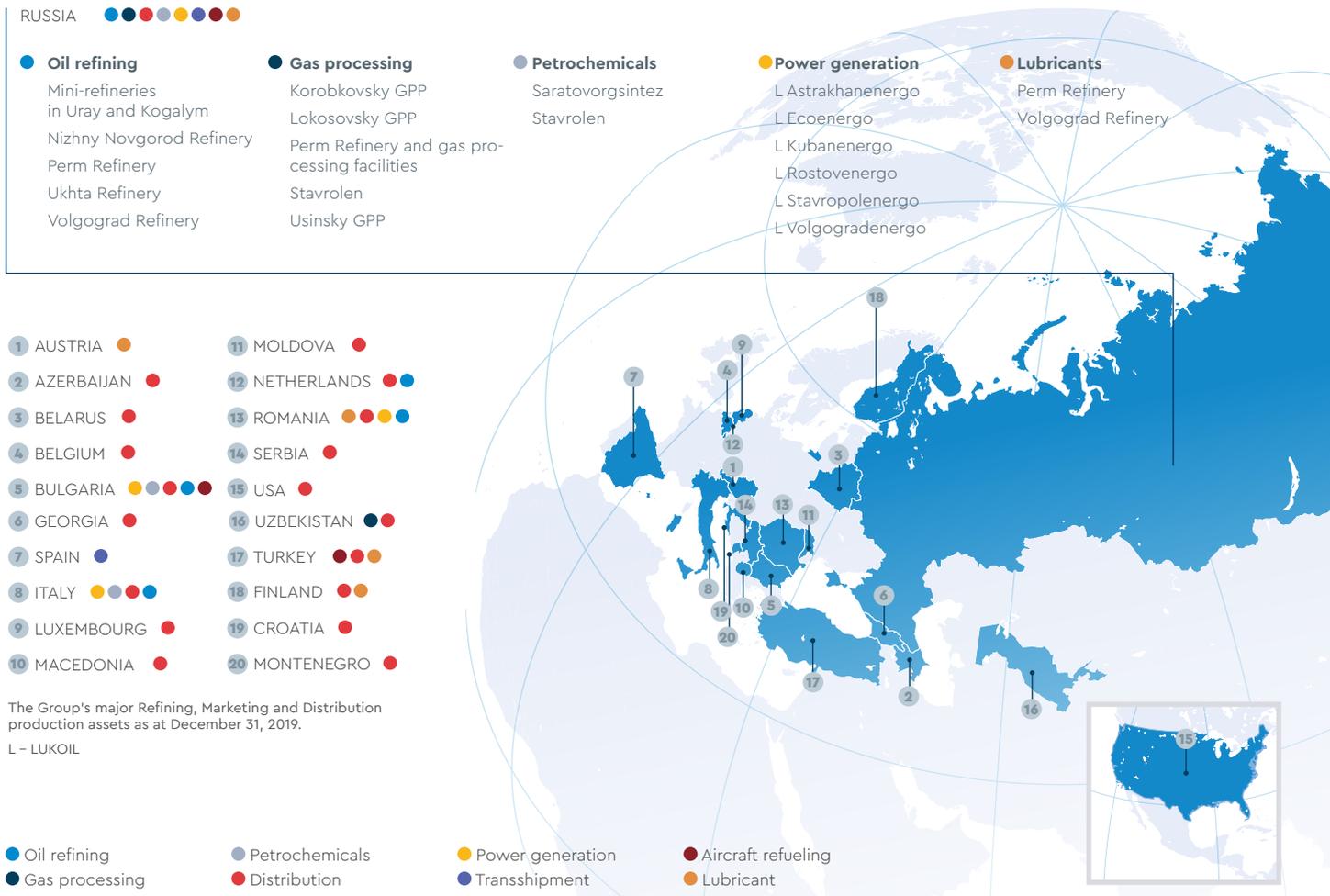
+3%

1.5  
million tonnes

### SALES IN OUR HIGH VALUE-ADDED LUBRICANT RANGE IN 2019

+8%

64  
thousand tonnes



**REFINING, MARKETING AND DISTRIBUTION EBITDA IN 2019**

+32%

**372**

RUB billion

**REFINING THROUGHPUT IN 2019**

+2.1%

**68.7**

million tonnes

**REDUCTION OF FUEL OIL OUTPUT IN 2019**

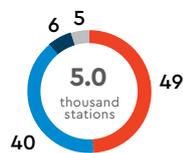
-9.9%

**746**

thousand tonnes

**Retail network<sup>1</sup> as at December 31, 2019**

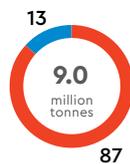
%



■ Russia  
■ Europe  
■ FSU  
■ USA

**Sales of premium ECTO-branded fuels in 2019**

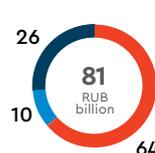
%



■ Russia  
■ International projects

**Refining, Marketing and Distribution CAPEX in 2019**

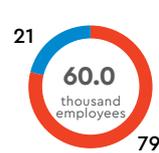
%



■ Oil refining  
■ Retail network  
■ Other

**Average headcount in Refining, Marketing and Distribution in 2019**

%



■ Russia  
■ International projects

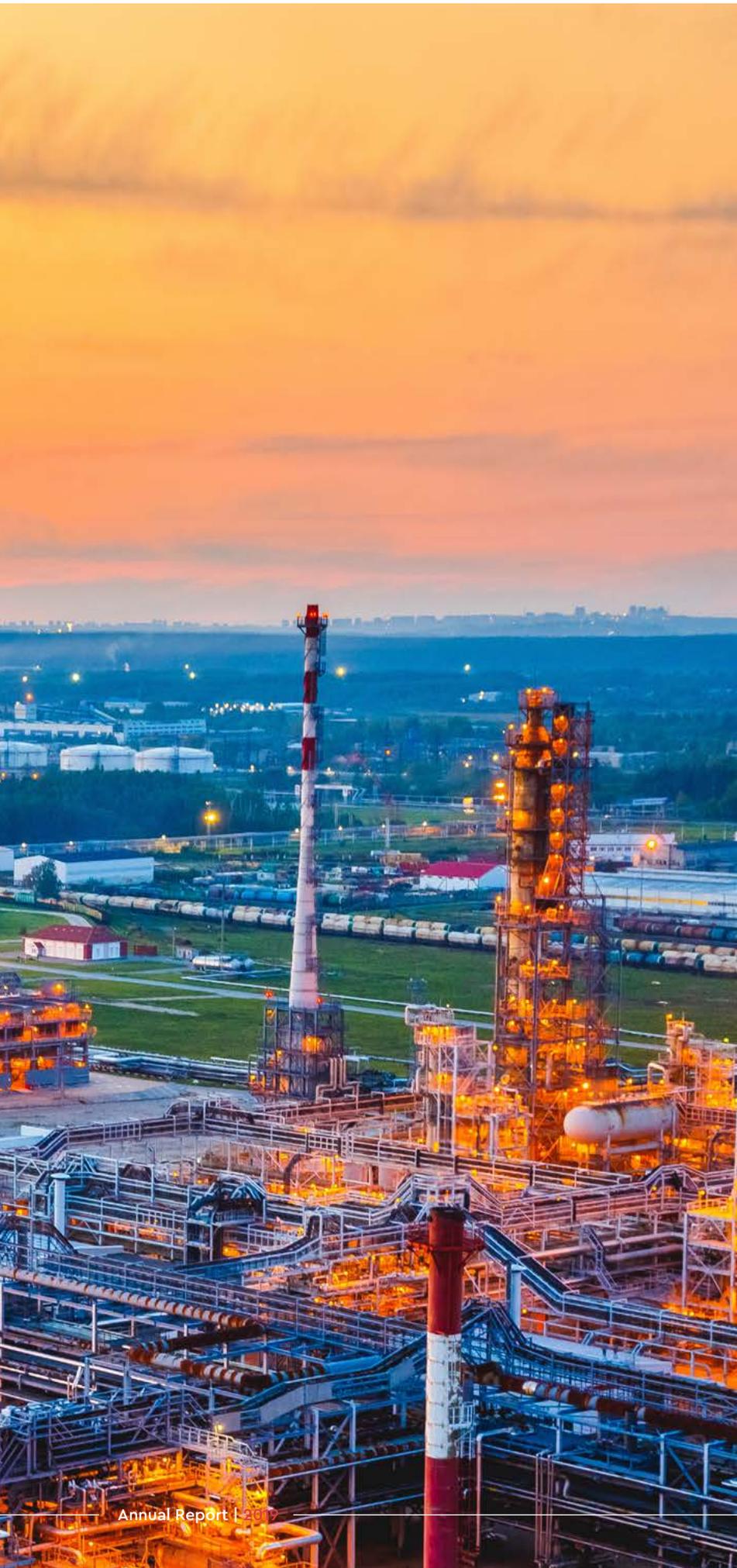
<sup>1</sup> Including owned, leased and franchised stations.

# » HIGHLY READY FOR MARPOL

**THE MAJOR UPGRADE PROGRAM COMPLETED IN 2016 AND PRODUCT SLATE OPTIMIZATION MEASURES MADE OUR REFINERIES WELL-PREPARED FOR THE INTRODUCTION OF THE GLOBAL SULFUR LIMIT FOR BUNKER FUEL UNDER MARPOL 2020 REQUIREMENTS.**

We continued with selective projects at our refineries and refining depth improvement initiatives, developed new low-sulfur products.





**SELECTIVE PROJECTS AT REFINERIES**

In 2019, we continued with several selective projects aimed at improving our product slate. The largest of these is the construction of a delayed coker complex at our Nizhny Novgorod Refinery, which we plan to launch in 2021. It will help further reduce LUKOIL Group's total output of fuel oil by 2.7 million tonnes.

**Delayed coker complex at Nizhny Novgorod Refinery**

**CONSTRUCTION  
PROGRESS AS OF  
THE END OF 2019**

**60%**

**FEEDSTOCK  
THROUGHPUT  
CAPACITY**

**2.1**  
million tonnes

**NEW PRODUCT DEVELOPMENT**

Major efforts were made during the year to develop and launch new types of products at our refineries in Russia. In October 2019, Volgograd Refinery launched production of low-sulfur bunker fuel (fuel oil) compliant with the new MARPOL 2020 requirements, with a planned output of up to 1 million tonnes per year.

**REFINING DEPTH IMPROVEMENT**

Our refining depth reached 88.7% in 2019. The increase was driven by changes in feedstock mix and higher utilization of secondary processes, including strengthening inter-plant integration. Specifically, cross-supplies between the Group's refineries amounted to 1.6 million tonnes in 2019.

**High-sulfur fuel oil output**



# DRIVING MARGINS IN RETAIL

WE CONTINUED UPGRADING AND OPTIMIZING OUR RETAIL NETWORK WITH A FOCUS ON LOCATION AND FORMAT OF OUR FILLING STATIONS, AS WELL AS INCREASING NON-FUEL SALES.





**NON-FUEL GOODS AND SERVICES**

In 2019 we significantly increased the share of filling stations with retail area situated in highly attractive locations.

We continued with our drive for product range optimizations, continuous marketing efforts, developing value-added services, rolling out best retail practices, and focusing on customer service excellence.

**GROWTH IN GROSS PROFIT FROM SALES OF NON-FUEL GOODS AND SERVICES**

vs. 2018

**8%**

**BRANDED FUEL**

We achieved excellent results in developing our ECTO-branded fuels that have improved performance and are environmentally friendlier.

Maximum combustion efficiency of ECTO fuels means higher engine power, less fuel consumption and less emissions per unit of net engine power.

ECTO fuels have no aromatics and sulfur content, which means less harmful emissions and less environmental footprint, while low saturated vapor pressure of alkylates is better for the fuel system of the vehicle and helps extend its service life.

**SHARE OF ECTO FUEL SALES IN TOTAL DOMESTIC RETAIL SALES IN 2019**

+3 p.p.

**79%**

**SALES OF PREMIUM ECTO 100 MOTOR GASOLINE IN 2019**

+16%

**129**

thousand tonnes

# DEVELOPING BITUMENS AND LUBRICANTS SEGMENTS

WE ALSO CONTINUE TO DEVELOP OUR HIGH VALUE-ADDED POLYMER BITUMEN BUSINESS, WHERE WE ARE BUILDING AN END-TO-END VALUE CHAIN FROM THE PLANT TO THE END CUSTOMER.

WE DEMONSTRATE HIGH GROWTH RATES IN OUR HIGH VALUE-ADDED LUBRICANT RANGE.





## BITUMENS

We were able to achieve impressive results in the bitumen segment development in 2019. To develop and produce modern bituminous materials suited to the climatic conditions of Russian regions, in 2019, we opened an innovation research center for the development of bituminous materials and launched a revamp of the bitumen production at the Nizhny Novgorod Refinery.

This innovation center has the capabilities to model traffic loads and very complex climatic conditions for testing bitumen and bitumen concrete performance in road surfacing. The center has laboratories and equipment that are unmatched in Russia in terms of the range of bitumen and bitumen concrete tests.

The revamp of the bitumen production at the Nizhny Novgorod Refinery will increase the quality and output of bitumen, including the output of polymer bitumen products.

### GROWTH OF BITUMEN SALES TO ROAD CONSTRUCTION COMPANIES

vs. 2018

# 50%

### BITUMEN SALES IN 2019

+15%

# 911

thousand tonnes

## LUBRICANTS

In our lubricant business we focused on the development of high value-added lubricant range. An important step towards sales geography expansion to Asian markets was the launch of our new lubricants plant in Kazakhstan with an annual capacity of 100 thousand tonnes. Upgrades to our production sites in Perm, Volgograd and Tyumen were under way in 2019. In Perm, we launched a project to promote the mobility and flexibility of the process flow to enable fast-tracking of orders and boost the volume and quality of output.

### GROWTH OF SALES IN OUR HIGH VALUE-ADDED LUBRICANT RANGE

vs. 2018

# 8.5%

# HIGH RESPONSIBILITY

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

## » PRINCIPLES

We support 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.

### LUKOIL'S AVERAGE HEADCOUNT IN 2019

**101**  
thousand employees



## 2019 RESULTS

### Sustainable development system management

In 2019, the Strategy and Investment Committee of the Board of Directors was renamed the Strategy, Investment and Sustainability Committee and its functions were expanded accordingly. The number of items related to sustainable development that were reviewed by the Committee increased substantially.

### Reducing our environmental impact

Air pollutant emissions across the Group's Russian entities were reduced by 7% year-on-year to 402 thousand tonnes.

Direct greenhouse gas emissions across the Group's Russian entities were reduced by 3.3%, while the target had been a 1.2% reduction by 2020 from a 2016 baseline. The Company thus outperformed its targeted direct greenhouse gas emissions reductions, while ramping up hydrocarbon production and refining volumes across the Group's Russian entities from a 2016 baseline by 1% and 6%, respectively, even after accounting for emission sources previously not included.

Oil-contaminated land area was down by 28% across the Group's Russian entities.

We met the waste management KPI whereby 2019 waste disposal was equal to waste generation.

### Ensuring industrial safety

In 2019, work-related injury rates remained low across the LUKOIL Group, with the lost-time accident frequency rate (LTAFR) at 0.19. The Company conducted 200 drills and over 10.7 thousand on-site trainings, approximately 12 thousand inspections as part of corporate supervision, and held the annual Safety Day involving LUKOIL's top management, trade union representatives and key contractors.

### Digitalization in corporate training

We implemented corporate training projects using mobile training technology. A number of Russian entities implemented the Safety Culture 4.0 project that will be subsequently rolled out across all Group entities.

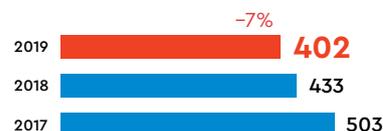
## 2020 AND MID-TERM PRIORITIES

- Reducing our environmental footprint
- Supporting social and economic development in the regions of operation
- Improving working conditions, hands on training and employee skills assessments
- Improving efficiency of leveraging our HR potential
- Development of long-term goals for carbon emissions reduction

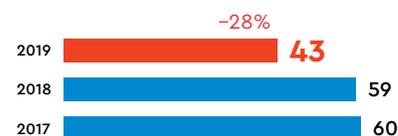
### Lost-time accident frequency rate (LTAFR)



### Air pollution emissions by the Group's Russian entities thousand tonnes



### Oil-contaminated land across the Group's Russian entities as at year-end hectares



### Efficient APG use across the Group %

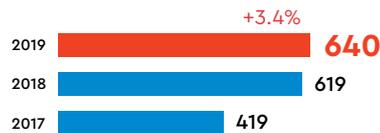


# KEY PERFORMANCE INDICATORS

## Financial performance

### Profit

RUB billion

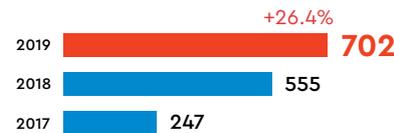


Key financial result

The net income increase was driven by better operating performance and cost reduction, offsetting the effect of lower hydrocarbon prices.

### Free cash flow

RUB billion



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

The Company posted higher free cash flow on the back of higher operating profit while capital expenditures remained almost flat.

### ROACE

%



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

ROACE remained at 15%, in line with the Company's strategic target.

## OPTIMAL BALANCE

### Capital expenditures

RUB billion

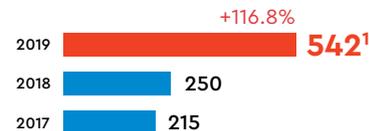


Investment into maintenance and growth of the Company's business operations

Capital expenditures remained broadly flat year-on-year despite higher drilling volumes.

### Dividend per share

RUB



Cash distributions to shareholders in line with the Dividend Policy

The size of the dividend reflects LUKOIL's 2019 performance. The two-fold increase in the dividend amount was driven by the change in the dividend policy, whereby total dividends should equal at least 100% of the Company's adjusted free cash flow.

## FINANCIAL STABILITY

### Net debt / EBITDA

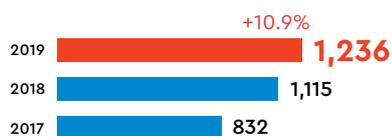


Reflects the level of debt burden

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

<sup>1</sup> Dividend amount recommended by the Board of Directors.

### EBITDA RUB billion



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

2019 EBITDA was at an all-time high, largely due to higher refining throughput and better refinery product mix, as well as higher production volumes and changes in its structure. Other positive factors included better performance of the retail and trading businesses, lower lifting costs per barrel, and the adoption of an excess profit tax (EPT) regime for several license areas.

### Operational performance

Exploration and Production segment

#### Hydrocarbon production<sup>1</sup> million boe per day



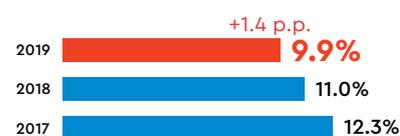
Key operational indicator

<sup>1</sup> Excluding the West Qurna-2 project.

Despite the external production limitations in Russia driven by the OPEC+ agreement, hydrocarbon production increased by 1.4% due to developing gas projects in Uzbekistan. The share of high-margin projects in total production increased substantially.

Refining, Marketing and Distribution segment

#### Fuel oil output % of refining throughput



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

The higher refining depth results from optimizations made to refinery unit operating modes, including through cross-supplies between refineries.

### High corporate responsibility

#### Efficient APG use %



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 2019, efficient APG use was higher in the Company's key operating regions – West Siberia, Timan-Pechora and Volga.

#### Lost-time accident frequency rate (LTAFR)



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

In 2019, the LTAFR went down to 0.19, while the number of accidents declined from 21 to 19.

**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.

# 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. An Extraordinary Shareholders Meeting was also held in 2019, 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.

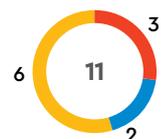
## CHANGES IN THE BOARD OF DIRECTORS

- Igor Ivanov, Richard Matzke and Ivan Pictet **resigned**
- Pavel Teplukhin, Sergey Shatalov and Wolfgang Schüssel **were elected**

## BOARD OF DIRECTORS COMPOSITION

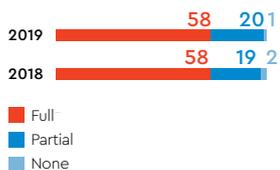
 <b>0.01%</b> <b>VALERY GRAYFER</b> 1929–2020 <ul style="list-style-type: none"> <li>• Chairman of the Board of Directors</li> <li>• Non-Executive Director</li> </ul>	 <b>0.46%</b> <b>RAVIL MAGANOV</b> Born in 1954 <ul style="list-style-type: none"> <li>• Vice Chairman of the Board of Directors</li> <li>• Executive Director</li> <li>• First Executive Vice President (Exploration and Production)</li> <li>• Member of the Strategy, Investment and Sustainability Committee</li> </ul>	 <b>2.99%</b> (27.39%) <b>VAGIT ALEKPEROV</b> Born in 1950 <ul style="list-style-type: none"> <li>• President of PJSC LUKOIL</li> <li>• Executive Director</li> <li>• Chairman of the Management Committee</li> </ul>	 <b>0%</b> <b>VICTOR BLAZHEEV</b> Born in 1961 <ul style="list-style-type: none"> <li>• Independent Director</li> <li>• Chairman of the Audit Committee</li> <li>• Member of the HR and Compensation Committee</li> </ul>	 <b>0%</b> <b>TOBY TRISTER GATI</b> Born in 1946 <ul style="list-style-type: none"> <li>• Independent Director</li> <li>• Member of the Strategy, Investment and Sustainability Committee</li> </ul>	 <b>0%</b> <b>PAVEL TEPLUKHIN</b> Born in 1964 <ul style="list-style-type: none"> <li>• Independent Director</li> <li>• Member of the Audit Committee</li> </ul>
 <b>0%</b> <b>ROGER MUNNINGS</b> Born in 1950 <ul style="list-style-type: none"> <li>• Independent Director</li> <li>• Chairman of the HR and Compensation Committee</li> </ul>	 <b>0%</b> <b>SERGEY SHATALOV</b> Born in 1950 <ul style="list-style-type: none"> <li>• Independent Director</li> <li>• Chairman of the Strategy, Investment and Sustainability Committee</li> <li>• Member of the Audit Committee</li> </ul>	 <b>0.43%</b> <b>LYUBOV KHOBA</b> Born in 1957 <ul style="list-style-type: none"> <li>• Non-Executive Director</li> </ul>	 <b>0%</b> <b>WOLFGANG SCHÜSSEL</b> Born in 1945 <ul style="list-style-type: none"> <li>• Independent Director</li> <li>• Member of the HR and Compensation Committee</li> </ul>	 <b>1.40%</b> (9.07%) <b>LEONID FEDUN</b> Born in 1956 <ul style="list-style-type: none"> <li>• Executive Director</li> <li>• Vice President for Strategic Development</li> <li>• Member of the Strategy, Investment and Sustainability Committee</li> </ul>	<ul style="list-style-type: none"> <li><b>%</b> Executive directors</li> <li><b>%</b> Non-executive directors</li> <li><b>%</b> Independent directors</li> </ul> <p>Share in the Company's charter capital as at December 31, 2019.</p> <p>The composition of the Board of Directors as at December 31, 2019.</p> <p><sup>1</sup> As at December 31, 2019, the aggregate percentage of shares in PJSC LUKOIL which Mr. Alekperov directly owns, or is a beneficiary of (including through family trusts and mutual funds), was 27.39%. Mr. Alekperov directly owned 2.99%, and was a beneficiary (including through family trusts and mutual funds) of 24.40%, of the shares in PJSC LUKOIL.</p> <p><sup>2</sup> As at December 31, 2019, the aggregate percentage of shares in PJSC LUKOIL which Mr. Fedun directly and/or indirectly owns, and/or is a beneficiary of, was 9.07%</p>

### Director status



- Executive directors<sup>2</sup>
- Non-executive directors
- Independent directors<sup>3</sup>

### Compliance with the Corporate Governance Code (the "Code")<sup>1</sup>



<sup>1</sup> For more details on the Board of Directors, see page 97.

### Composition of the Board of Directors' Committees



### INDEPENDENT DIRECTORS

55%

### SHARE OF WOMEN ON THE BOARD OF DIRECTORS

18%

### FULL COMPLIANCE WITH THE CODE

73.4%

## GOVERNANCE STRUCTURE



- External Auditor

- Corporate Secretary
- Head of Internal Audit Service

#### BOARD COMMITTEES:

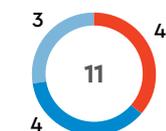
- Audit Committee
- Strategy, Investment and Sustainability Committee
- HR and Compensation Committee

#### SPECIFIC COMMITTEES:

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

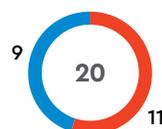
<sup>1</sup> For more details on the corporate governance structure, see page 92

### Length of service on the Board of Directors



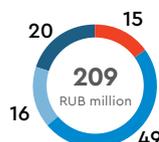
- Over 7 years
- 1 to 7 years
- Less than 1 year

### Board meetings in 2019



- In absentia
- In person

### Directors' remuneration<sup>4</sup> in 2019



- Bonuses
- Remunerations
- Salaries
- Other payments

<sup>1</sup> 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.

<sup>2</sup> Members of the Company's executive bodies and persons employed by the Company.

<sup>3</sup> 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 was determined to be independent by the Resolution of the Board of Directors of PJSC LUKOIL (Minutes No. 11 dated June 20, 2019).

<sup>4</sup> For Directors who concurrently sit on the Management Committee, remuneration includes only payments related to performing their duties as Directors.

# EXECUTIVE BODIES

## PRESIDENT

The President is the Company's sole executive body and also serves as the Chairman of the Management Committee. The President is responsible

for operational management of the Company as prescribed by the Charter of PJSC LUKOIL.

## MANAGEMENT COMMITTEE

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

## MANAGEMENT COMMITTEE COMPOSITION



**2.99%**  
(27.39%<sup>1</sup>)

### VAGIT ALEKPEROV

Born in 1950

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



**0.46%**

### RAVIL MAGANOV

Born in 1954

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



**0.37%**

### ALEXANDER MATYTSYN

Born in 1961

- First Vice President (Economics and Finance)

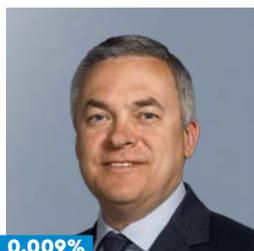


**0.03%**

### VADIM VOROBYEV

Born in 1961

- First Vice President (Refining, Marketing and Distribution)



**0.009%**

### OLEG PASHAEV

Born in 1967

- Senior Vice President for Sales and Supplies

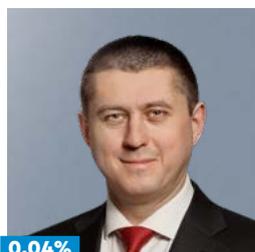


**0.01%**

### AZAT SHAMSUAROV

Born in 1963

- Senior Vice President for Oil and Gas Production

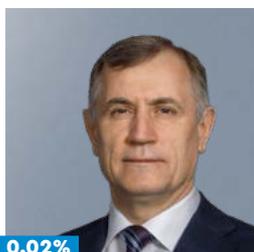


**0.04%**

### DENIS DOLGOV

Born in 1974

- Vice President for Power Generation



**0.02%**

### ILYA MANDRIK

Born in 1960

- Vice President for Exploration and Development



**0.04%**

### IVAN MASLYAEV

Born in 1958

- Vice President – General Counsel



**0.02%**

### ANATOLY MOSKALENKO

Born in 1959

- Vice President for Human Resources Management and Social Policy

**%** 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, 2019.

<sup>1</sup> As at December 31, 2019, the aggregate percentage of shares in PJSC LUKOIL which Mr. Alekperov directly owns, or is a beneficiary of (including through family trusts and mutual funds), was 27.39%. Mr. Alekperov directly owned 2.99%, and was a beneficiary (including through family trusts and mutual funds) of 24.40%, of the shares in PJSC LUKOIL.

Following the President's proposals, the Board of Directors appoints members of the Management Committee each year. In 2019, the Management Committee consisted of 14 persons.



0.001%

**VYACHESLAV  
VERKHOV**

Born in 1972

- Chief Accountant of PJSC LUKOIL



0.006%

**DENIS  
ROGACHEV**

Born in 1977

- Vice President for Procurement



0.02%

**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

The composition of the Management Committee as at December 31, 2019.

**MEETINGS IN 2019**

28

**MATTERS DISCUSSED IN 2019**

149

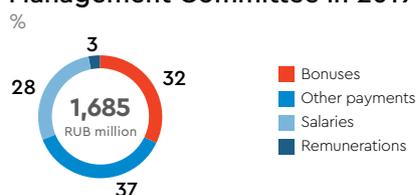
**Length of service on the Management Committee**



**Matters discussed by the Management Committee in 2019**



**Payments<sup>1</sup> to the members of the Management Committee in 2019**



<sup>1</sup> Including the remuneration of the President of PJSC LUKOIL.

**CHANGES TO THE MANAGEMENT COMMITTEE:**

- **Early termination of tenure** of Stanislav Nikitin
- Vyacheslav Verkhov **was elected**



For more details on the Management Committee, see page 113



# LETTER FROM THE VICE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Shareholders,

I am happy to note that, despite a volatile environment, LUKOIL continued its development in 2019 in a sustainable way fully in line with its stated strategy. This evidences the high level of effectiveness and flexibility of the Company's corporate governance system.

One of the priorities for the Board is the development and continuous improvement of the corporate governance system. This enables the Company to constantly increase the efficiency of the business processes and successfully achieve the Company's targets.

Recognizing the growing importance of sustainable development factors, in 2019, the Board of Directors resolved to improve the Company's sustainability management system by expanding the roles of the Strategy and Investment

Committee. The Committee itself was renamed the Strategy, Investment and Sustainability Committee. Last year, the Board of Directors reviewed over ten matters on various aspects of sustainability, including three matters related to climate change.

Given the high importance of the climate agenda, in 2019, the Board developed a better understanding of this topic by reviewing the trends in the global liquid hydrocarbon market and the Company's adaption to the ongoing global transition to a low-carbon economy.

The Board also reviewed the feedback from investors, including on the climate agenda. To further increase the Board's awareness, the Independent Directors Sergey Shatalov and Pavel Teplukhin met with representatives from an ESG-focused

investment fund. The participation of Independent Director Toby Gati in the meetings of the Working Group on Sustainability made an important contribution to further improvement of the sustainability management system.

In 2019, the composition of the Board was refreshed by more than a quarter, which resulted in a significant qualitative change. As a result, the number of independent directors serving on the Board exceeded the number of executive and non-executive directors. In this context, I would like to highlight the additions in the membership of the HR and Compensation Committee, which is now entirely composed of independent directors, fully in line with the Corporate Governance Code recommendations and best practice.

In 2019, the Board of Directors conducted another self-assessment of its performance, the results of which confirmed the strong and active performance of all Board members and a high level of control over all key matters. In order to improve the Board performance assessment procedure the Board resolved to amend the Regulations on Performance Assessment of the Board of Directors. The HR and Compensation Committee was briefed on a preview of matters concerning the external assessment of Board performance.

An important highlight of the year was the decision to change the Company's approaches to capital distribution and improve the Dividend Policy based on best market practices.

In 2019, we maintained a strong focus on controlling the implementation of the Strategic Development Program, the integral part of which is the Functional Development Program for IT. This Functional Program contributes to increasing efficiency, reducing costs and improving corporate information security. The Board of Directors notes that the Program has been successfully executed across all business segments.

The effective development of the corporate governance system requires compliance with the highest ethical standards. In 2019, we made an

important decision to develop an anti-corruption policy which defines uniform anti-corruption principles, goals and objectives.

Furthermore, we continued making improvements to the internal audit, risk management and internal control systems. The Extraordinary General Shareholders Meeting resolved to dissolve the Audit Commission, in order to eliminate the duplication of functions and improve the system's performance.

I am happy to confirm that adherence to the strategy, including the commitment to sustainable development principles and continuous improvement of the corporate governance system, contribute to the efficient development and stability of the Company's business, as well as to the creation of shareholder value in a rapidly changing and highly competitive environment.

It is with great sadness that we acknowledge the death of Valery Grayfer in April 2020. Mr. Grayfer had been the Chairman of the Board of Directors of PJSC LUKOIL since 2000 and made inestimable contribution to the development of the Company and the Russian oil industry as a whole.

On behalf of the Board of Directors, I would like to thank all our shareholders for placing their trust in LUKOIL and its management, and I am pleased to present the Board of Directors Report on the Results of the Priority Business Directions Development of PJSC LUKOIL in 2019.



**Ravil Maganov**

Vice Chairman of the Board of Directors



In 2019, we focused on matters related to implementing the Strategic Development Program, improving efficiency and optimizing costs, while placing a special emphasis on improving the sustainability management system. In particular, the Committee's roles were expanded to reflect this increased focus and the Committee was renamed the Strategy, Investment and Sustainability Committee. Over the course of the year, we reviewed matters on the climate agenda, which became especially relevant after Russia ratified the Paris Agreement in 2019.

An important highlight of the year was the decision to change the Company's approaches to capital distribution and approve changes to its Dividend Policy, based on a comprehensive review of internal and external factors. »

**SERGEY SHATALOV**

Chairman of the Strategy, Investment and Sustainability Committee



In 2019, we continued to enhance the internal audit system, and improve the effectiveness of the internal control and risk management systems. The Committee has reviewed the results of an external assessment of internal audit at the Company, according to which LUKOIL's internal audit broadly complies with the International Professional Practices Framework (IPPF), and meets the expectations of the Company's management.

Our recommendations to the Board of Directors regarding the need to develop an anti-corruption policy which defines uniform anti-corruption principles, goals and objectives represent an important milestone in our efforts to improve the Company's sustainable development practices. »

**VICTOR BLAZHEEV**

Chairman of the Audit Committee



In 2019, the composition of the Company's Board of Directors was refreshed by more than one quarter, with the share of independent directors on the Board increasing to 55%. Prior to the Annual General Shareholders Meeting that elected the Board of Directors, the Committee assessed the professional qualifications, experience and independence of the candidates to the Board of Directors.

A particular focus was placed on sustainable development practices, specifically on ethics and observance of employee rights. The Committee has reviewed the progress in the implementation of the new version of the Code of Business Conduct and Ethics of PJSC LUKOIL, approved in 2018. The Committee has also reviewed matters related to safeguarding employee rights and interests, as well as surveys of employee morale and motivation across the LUKOIL Group. »

**ROGER MUNNINGS**

Chairman of the HR and Compensation Committee

# BOARD OF DIRECTORS REPORT ON THE RESULTS OF THE PRIORITY BUSINESS DIRECTIONS DEVELOPMENT

## FINANCIAL PERFORMANCE

In 2019, LUKOIL Group delivered strong financial performance despite a highly volatile external environment.

Our **sales** for 2019 were RUB 7,841.2 billion, down by 2.4% year-on-year. The decline was driven by lower crude oil and petroleum products prices, and lower petroleum products trading volumes. The impact of these factors was partially offset by a weaker ruble, an increase in crude oil sales volumes due to higher production and trading volumes and an increase in petrochemicals trading volumes, as well as higher gas prices and gas production volumes outside Russia.

Despite lower sales, our **EBITDA** for 2019 increased by 10.9% year-on-year to RUB 1,236.2 billion. The growth was mainly supported by the Refining, Marketing and Distribution segment, with its EBITDA up by 31.7%. In Exploration and Production segment, EBITDA was up by 2.7%.

In 2019, **profit for the year** attributable to PJSC LUKOIL shareholders was RUB 640 billion, up by 3.4% year-on-year. The increase in the profit for the year driven by the EBITDA growth was constrained by higher depreciation, depletion and amortization and lower non-cash foreign exchange gain.

**Capital expenditures** (CAPEX) were RUB 450 billion, almost unchanged year-on-year. The lower CAPEX in Uzbekistan and the Caspian region following the completion of main construction works there was offset by higher investment in West Siberia driven by the enactment

### IFRS consolidated financial results, RUB billion

	2017	2018	2019	Change 2019/2018, %
Revenue	5,937	8,036	<b>7,841</b>	-2.4
EBITDA	832	1,115	<b>1,236</b>	10.9
Profit attributable to PJSC LUKOIL shareholders	419	619	<b>640</b>	3.4
Capital expenditures	511	452	<b>450</b>	-0.3
Free cash flow	247	555	<b>702</b>	26.4
Total debt	616	535	<b>553</b>	3.4
Net debt	286	42	<b>37</b>	-12.3

### EBITDA structure in 2019, RUB billion

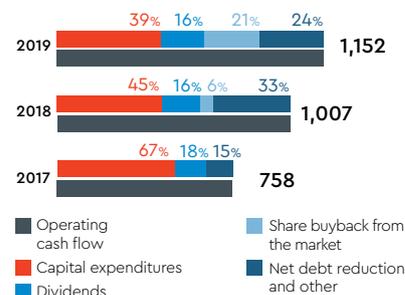
EBITDA	1,236
Exploration and Production in Russia	729
Exploration and Production outside Russia	165
Refining, Marketing and Distribution in Russia	301
Refining, Marketing and Distribution outside Russia	71
Corporate and other	-30

of the tax on additional income (TAI) regime and higher drilling volumes at mature fields. Refining, Marketing and Distribution segment CAPEX was almost flat year-on-year.

Our 2019 **free cash flow** was RUB 702 billion, up by 26.4% year-on-year. The increase was due to higher operating cash flow and almost flat capital expenditures.

**Total debt** as at the end of 2019 was RUB 553 billion, up by 3.4% from the end of 2018, mostly as a result of the adoption of IFRS 16 Leases. Net of this effect, total debt was down by 22.2% to RUB 416 billion. Net debt as at the end of 2019 was RUB 37 billion.

### Cash sources and uses, RUB billion



**i** 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

# EXPLORATION AND PRODUCTION

## MACROECONOMIC OVERVIEW

Oil prices were moderately volatile in 2019, in the range of USD 53–75 per barrel. The price growth in the first six months of the year from USD 53 per barrel to an annual high of USD 75 per barrel was driven by supply cuts on the back of successful implementation of the OPEC+ agreement, and mounting geopolitical risks.

The average price of Urals crude in 2019 was down by 8.4% year-on-year to USD 63.9 per barrel. However, the net price of Urals (net of the mineral extraction tax (MET) and export duty) was down by only 5.8% due to the positive time lag effect of MET and export duty and the progressive formula used to calculate them.

The ruble depreciated against the US dollar by 3.2% on average to RUB/USD 64.7, having a positive impact on ruble-denominated Urals price, which was down by 5.4% year-on-year. The ruble-denominated net price was down by 2.8%.

## Russian oil exporter's revenue breakdown

	2017	2018	2019	Change 2019/2018, %
	\$ per barrel			
Urals crude price	53.1	69.7	<b>63.9</b>	-8.4
Mineral extraction tax	19.1	27.2	<b>27.6</b>	1.3
Export duty	11.9	17.6	<b>12.9</b>	-27.0
<b>Net oil price</b>	<b>22.1</b>	<b>24.9</b>	<b>23.4</b>	<b>-5.8</b>
	RUB per barrel			
Urals crude price	3,098	4,374	<b>4,136</b>	-5.4
Mineral extraction tax	1,114	1,708	<b>1,786</b>	4.6
Export duty	693	1,104	<b>832</b>	-24.6
<b>Net oil price</b>	<b>1,291</b>	<b>1,562</b>	<b>1,518</b>	<b>-2.8</b>

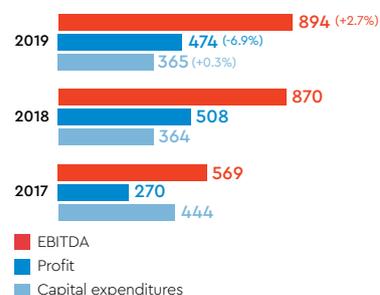
## EXPLORATION AND PRODUCTION SEGMENT FINANCIAL HIGHLIGHTS

Despite lower crude oil price and the introduction of an addition to the mineral extraction tax, Exploration and Production segment EBITDA was up by 2.7%, mainly driven by higher oil and gas production, better oil production structure in Russia, lower lifting costs per barrel, and the adoption of TAI regime for several license areas.

The hydrocarbon lifting costs per barrel, excluding the West Qurna-2 project, were down by 2.5% year-on-year.

Exploration and Production segment capital expenditures remained almost flat year-on-year at RUB 365 billion.

## Exploration and Production segment performance, RUB billion



## RESERVES

LUKOIL Group has proved hydrocarbon reserves in eight 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 2019, the Group's SEC proved hydrocarbon reserves amounted to 15.8 billion barrels of oil equivalent, 76% of which were liquid hydrocarbons. The proved reserves replacement ratio for liquids, excluding the effect of changes in macroeconomic factors on evaluation, totaled 107% in 2019. The Company's proved hydrocarbon reserves life is 18 years.

Concentrated mainly in West Siberia, 90% of the Group's proved hydrocarbon reserves are located in Russia. Of these, 13% are offshore fields and high-viscosity oil. Forty six percent of LUKOIL's proved hydrocarbon reserves outside Russia is located in Uzbekistan, where the Company develops major gas projects.

The Company has 60% of its proved hydrocarbon reserves classified as developed, in that they can be extracted from existing wells using currently available technologies and equipment.

In 2019, LUKOIL added 642 million barrels of oil equivalent to its proved reserves through geological exploration

and production drilling, which is 11% more than 2018 additions. The largest contribution was from the assets in West Siberia, Timan-Pechora and the Russian sector of the Caspian Sea bed.

Optimization of development systems and wellwork programs at existing fields, as well as conversion of contingent resources to reserves, added 108 million barrels of oil equivalent to proved reserves. Acquisition of assets in Russia and outside Russia in 2019 added another 70 million barrels of oil equivalent to proved reserves. The reserves dynamics was negatively affected by an 11% decrease in oil price and the US dollar to the ruble exchange rate used for reserves evaluation.

### Hydrocarbon reserves as at December 31<sup>1</sup>,

million boe

	2017	2018	2019	Change 2019/2018, %
<b>Total proved reserves</b>	<b>16,018</b>	<b>15,931</b>	<b>15,769</b>	<b>-1.0</b>
Liquid hydrocarbons	12,077	12,082	<b>12,015</b>	-0.6
Gas	3,941	3,849	<b>3,754</b>	-2.5
Developed	9,560	9,768	<b>9,531</b>	-2.4
Undeveloped	6,458	6,163	<b>6,238</b>	1.2
Russia	14,158	14,330	<b>14,195</b>	-0.9
International projects	1,860	1,601	<b>1,574</b>	-1.7
<b>Probable reserves</b>	<b>6,409</b>	<b>6,424</b>	<b>6,217</b>	<b>-3.2</b>
<b>Possible reserves</b>	<b>3,087</b>	<b>3,242</b>	<b>3,000</b>	<b>-7.5</b>

<sup>1</sup> An independent audit of proved reserves was performed by Miller and Lents based on the commercial life-of-field approach.

## LICENSES

Pursuant to the Russian legislation, hydrocarbon exploration and production operations require a subsoil license. LUKOIL continuously works to build its resource potential and drive its oil and gas assets portfolio performance by participating in auctions, acquiring equity in third party companies, optimizing its license portfolio, obtaining new licenses, and securing license renewals in reorganizations of its subsidiaries.

At the end of 2019, the Group held 539 licenses in Russia, with 90% of them granting hydrocarbon exploration and production rights. The average remaining validity of these licenses was 30 years.

Some of the licenses are entirely unique in their terms of use. For example,

the license for the Imilorsky license area of federal significance in West Siberia is valid until 2127, and the license for the Pyakyakhinsky license area in the Bolshekhetskaya Depression is valid until 2170.

The remaining 10% 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 year, 21 licenses were added to LUKOIL's portfolio. The new license areas are located mostly in our core producing regions of West Siberia, Timan-Pechora and Volga. New licenses in regions with a well-developed infrastructure enable maximum synergies with the existing assets,

reduce exploration and development costs and speed up production launch. An important achievement of the reporting year was extending the geographical footprint of the Company's license portfolio with the acquisition of license areas in the Republic of Bashkortostan, the Orenburg Region and the Saratov Region.

In the reporting period, the Group's license portfolio evolved as follows: 127 licenses were renewed, 21 license amendments were registered to extend the underlying licenses, 10 licenses were returned upon their expiry. Additionally, 31 license amendments were secured to modify the time and volumes of committed activities, adjust license fees and include some open acreage reserves into our license areas.

### Number of LUKOIL Group's licenses in Russia as at December 31, licenses

	2017	2018	2019
<b>Total</b>	<b>523</b>	<b>528</b>	<b>539</b>
Exploration and Production	365	366	<b>367</b>
Prospecting and appraisal	46	49	<b>53</b>
Geological survey, exploration and production	112	113	<b>119</b>

## EXPLORATION

### 2019 RESULTS

- Eight fields and 28 deposits discovered
- Mexico: Block 10 – first exploration well drilled, resulting in an oil field discovery
- Iraq: Block 10 – appraisal of the previously discovered Eridu field continued with two appraisal wells drilled
- Ghana, West Africa – appraisal wells drilled, resulting in oil deposit discoveries

### 2020 PRIORITIES

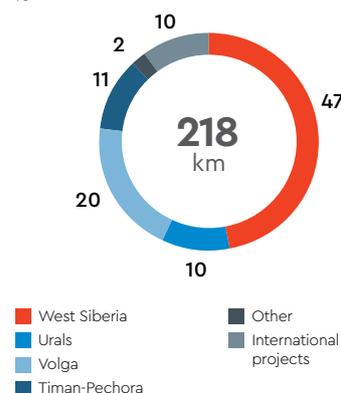
- Further exploration at existing fields

LUKOIL Group is carrying out exploration in 10 countries, focusing mostly on Russia. Outside Russia, we participate in exploration projects in Mexico, Iraq, Egypt, the Gulf of Guinea, the Black Sea and the Norwegian shelf in the Barents Sea.

Our exploration activities have consistently delivered good results. In 2019, LUKOIL completed 63 prospecting wells with a 78% overall success rate, making it a top performer on this metric among Russian oil and gas companies. In the Bolshekhetskaya Depression and the Urals we were able to achieve a 100% success rate. Eight new fields and 28 deposits were discovered. Our high efficiency is driven by advanced exploration techniques and selection of the most promising areas based on research results.

LUKOIL conducts 3D and 2D seismic surveys to prepare an inventory of prospects in its exploration areas and to better understand the geology of previously discovered deposits. In 2019, 3D and 2D seismic volumes were down by 12% and 39%, respectively, mainly as a result of fast-tracking planned seismic surveys at the contract area in Iraq (Block 10) in 2018.

### Exploration drilling in 2019, %



Exploration drilling was 218 thousand meters in 2019, up by 2%, reflecting higher activity in our international projects and more drilling in the Volga region, the Urals and Timan-Pechora.

### EXPLORATION COSTS IN 2019

# 30.5

RUB BILLION

## Exploration

	2017	2018	2019	Change 2019/2018, %
2D seismic surveys, km	3,245	2,050	<b>1,247</b>	-39.2
3D seismic surveys, square km	6,522	8,632	<b>7,601</b>	-11.9
Exploration drilling, km	225	214	<b>218</b>	1.9
Exploration costs <sup>1</sup> , RUB million	33,506	29,355	<b>30,453</b>	3.7

<sup>1</sup> Across subsidiaries, including non-cash items.

## Key exploration projects in 2019

### West Siberia

West Siberia historically accounts for approximately a half of LUKOIL's exploration activities. In 2019, 3D seismic surveys were conducted to update our geological models of field boundaries, and further hydrocarbon exploration was carried out to prepare sites for production drilling. Exploration well tests were conducted in the Bolshekhetskaya Depression.

Low permeability reservoirs were also explored in 2019. Exploration drilling at the Sredne-Nazymkoye field confirmed the presence of oil in pre-Jurassic and Tyumen formations.

### Volga region (onshore)

Six oil fields were discovered in the Volga region in 2019; two of those (the Yuzhno-Krasinskoye and the Zapadno-Klenovskoye) following the drilling of two prospecting wells within the Zhuravsky license area in the north of the Volgograd Region, and the other four – in the Samara Region.

### Caspian Sea

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

In 2019, field 3D seismic surveys of 644 square km were completed in the Severny license area, Zhemchuzhnaya structure, to explore for prospects and prepare them for deep drilling.

Based on 2018 3D seismic surveys results, the location of exploration well No. 2 at Khazri was adjusted for better positioning. The well was spudded in January 2020.

### International projects

Most of our international exploration activities were concentrated at Block 10 in Iraq (LUKOIL holding 60% as project operator and INPEX CORPORATION holding 40%). Appraisal of the previously discovered Eridu field continued under the approved exploration program. Two new appraisal

wells were drilled, confirming the field's resource base. All 2D and 3D seismic surveys were completed within the contract area.

Significant exploration drilling was carried out offshore Ghana in West Africa (Tano DWT/CTP project, participants: LUKOIL – 38%; Aker Energy A.S. – 50%, project operator; GNPC – 10%; Fueltrade Limited – 2%). At the Pecan field and adjacent targets three appraisal wells and a sidetrack were drilled, resulting in new oil deposits discoveries and updated resource base estimate.

On the Gulf of Mexico shelf, Block 10 (LUKOIL – 20%; ENI – 80%, project operator), a well was drilled at the water depth of 340 meters, finding saturated light oil formations. Following well tests, the discovery of a field was confirmed in early 2020. Further field appraisal will be done in 2020.

## DEVELOPMENT AND PRODUCTION

### 2019 RESULTS

- Launched production at 13 new fields in the Russian Federation, including the launch of production at the D41 field in the Baltic sea and launching pilot production at the Yuzhno-Messoyakhskiye field in the Bolshekhetskaya Depression
- Commissioned Phase 3 of the V. Filanovsky field in the Caspian Sea and Phase 2 of the booster compressor station at the Nakhodkinskoye field in the Bolshekhetskaya Depression
- Increased high-viscosity oil production in Timan-Pechora by 14.5%
- Significantly slowed production decline rates in West Siberia
- Implemented the efficiency improvement program
- Expanded the international asset portfolio

### 2020 PRIORITIES

- Caspian Sea, the V.I. Grayfer field – field construction work
- Timan-Pechora – drive further growth in high-viscosity oil production
- Iraq, West Qurna-2 – continue activities within the second development stage
- Continue with the efficiency improvement program

LUKOIL Group produces oil and gas in seven countries. Our core operations are concentrated in four 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 in the Southern Federal District (the Volgograd Region, the Astrakhan Region and the Republic of Kalmykia).

Hydrocarbon production in 2019 totaled 2.4 million barrels of oil equivalent per day, with liquid hydrocarbons accounting for 76.3% of the total, and natural and associated gas accounting for 23.7%. Despite external limitations, the Group's hydrocarbon production excluding the West Qurna-2 project increased by 1.4% year-on-year, mostly driven by development of gas projects in Uzbekistan.

Capital expenditures for oil and gas development and production, including non-cash items, were RUB 363.3 billion in 2019, up by 7.3% year-on-year.

### Hydrocarbon production, thousand boe per day

	2017	2018	2019	Change 2019/2018, %
<b>Total hydrocarbons</b>	<b>2,269</b>	<b>2,347</b>	<b>2,380</b>	<b>1.4</b>
Liquid hydrocarbons	1,804	1,806	<b>1,815</b>	0.5
Gas	465	541	<b>565</b>	4.4
<b>Total hydrocarbons, excluding the West Qurna-2 project</b>	<b>2,235</b>	<b>2,319</b>	<b>2,350</b>	<b>1.4</b>

### Crude oil

Excluding the West Qurna-2 project, our 2019 oil production totaled 85.9 million tonnes, up by 0.3% year-on-year.

In 2017–2019, 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, which has changed twice during this period: in mid-2018 and at the beginning of 2019.

In 2019, LUKOIL produced 82.1 million tonnes of crude oil in Russia, in line with the 2018 levels. This accounted for 14.6% of Russia's total production, as reported by the Central Dispatching Department of the Fuel and Energy Complex of Russia.

Given the limited total volume of oil production, we continued to ramp up our production at large, highly productive fields as planned, while making production cuts at our mature fields in West Siberia and Timan-Pechora. In particular, we continued to ramp up production at the V. Filanovsky, Yu. Korchagin,

and Pyakyakhinskoye fields. High-viscosity oil production at the Yaregskoye and Usinskoye fields in Timan-Pechora also increased. As a result, the share of these fields in the total production of LUKOIL Group, excluding the West Qurna-2 project, totaled 16% in 2019, up by one percentage point year-on-year. Oil production was launched at 12 new fields in West Siberia, the Volga region, the Urals and the Baltics.

Our international oil production, excluding the West Qurna-2 project, was up by 6.7% year-on-year, to 3.8 million tonnes. The main production growth drivers were our entry in a project in the Republic of the Congo,

development of projects in Azerbaijan and Kazakhstan, and higher volumes of compensation oil from projects under production sharing agreements due to the lower average annual oil price.

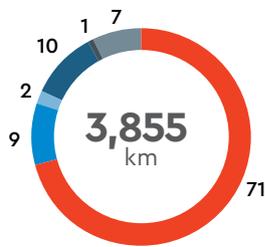
In 2019, the Group completed 3,855 thousand meters of production drilling, up by 22.4% after a slight decline in 2018. In Russia, our drilling was up by 20%, mainly through increased exploration activities in West Siberia. We commissioned 1,050 new production wells, including 978 in Russia (where 36% were horizontal wells). A total of 30 thousand oil production wells were in operation at the end of the reporting year.

### Gas

In 2019, gas production increased by 4.5% year-on-year to 35.0 billion cubic meters, driven by the development of our projects in Uzbekistan.

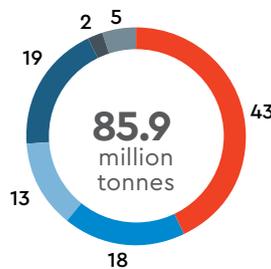
Overall 2019 gas production in Russia remained flat year-on-year at 17.8 billion cubic meters. Gas production from our international projects increased by 9.6% to 17.2 billion cubic meters and provided 49.2% of LUKOIL's total gas production, up by 2.3 percentage points year-on-year.

**Production drilling in 2019,**  
%



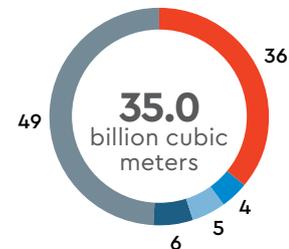
■ West Siberia  
■ Urals

**Oil production structure in 2019, excluding the West Qurna-2 project,**  
%



■ Volga  
■ Timan-Pechora

**Gas production structure in 2019,**  
%



■ 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 greenfield developments 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, with its efforts resulting in the discovery of nine fields in the region with combined initial recoverable reserves of 1 billion tonnes of reference fuel (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. The field has a unique geology, with highly permeable collectors yielding record-high initial flow rates.

Since 2018, production at the field has been at the design plateau level of 6 million tonnes of crude oil per year. The field's development comprises three phases.

Phase 1 infrastructure, commissioned in 2016, includes an ice-resistant fixed platform, a living quarters platform, a riser block, and a central processing platform.

Phase 2, commissioned in 2017, comprises an ice-resistant fixed platform and a living quarters platform.

Phase 3, commissioned in 2019, comprises a wellhead platform (mini-platform). In 2019, as part of Phase 3 construction, two producing wells were drilled and commissioned, one of them bilateral. The average well depth exceeds 3 thousand meters, while the length of horizontal sections is over 1 thousand meters. The average initial flow rate of the bilateral well was 1.9 thousand tonnes per day, which is 56 times higher than the average initial flow rates of new LUKOIL wells.

The field produced 6.4 million tonnes of oil in 2019, up by 5.2% year-on-year. A total of 21 wells (18 production and 3 injection wells) have been drilled at the field since the start of its development.

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

The field implements an integrated model based on the intelligent field concept, enabling field development to be managed in the most efficient way.

#### 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 commenced in 2010. The field is developed in two phases. 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 continued with the additional drilling program within Phase 1 field development in 2019, which included drilling and bringing online three sidetracks.

Phase 2 construction comprises a wellhead platform, commissioned in 2018. Within Phase 2, four production wells were drilled and brought on stream from the wellhead platform in 2019.

Drilling within Phase 2 of the field development and the additional drilling program under Phase 1 drove an increase in 2019 average daily liquids production by 21.2% year-on-year, to 1.0 million tonnes.

The field implements an integrated model based on the intelligent field concept, enabling field development to be managed in the most efficient way.

#### V.I. Grayfer field (formerly Rakushechnoye)

The V.I. Grayfer field, discovered in 2001, became LUKOIL's third field under development in the Caspian region. Commercial oil production is scheduled for 2022 with a projected plateau rate of 1.2 million tonnes per year.

Construction of an ice-resistant platform and a living quarters platform was under way during the reporting period. The project will use the existing infrastructure of the V. Filanovsky field for hydrocarbons treatment, thereby driving considerable CAPEX savings. In 2019, a tender documentation package was put together, and contracts were signed for subsea pipeline construction, supply of steel tubulars and offshore operations. Construction of an ice-resistant platform, a living quarters platform and a foot bridge was under way. The high degree of construction completion (at the end of 2019 the ice resistant platform was 35% complete, the living quarters platform and the foot bridge were each 61% complete) made it possible to bring forward the start of commercial production by one year, from 2023 to 2022.

### The Baltic Sea

LUKOIL has unparalleled expertise in Baltic Sea operations. Our first offshore field, the 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 2019, production was launched at the D41 field situated near the coastline. Two wells were drilled and commissioned that broke records for the Baltic Sea area: one with a total length of 7,947 meters, including a 616-meter horizontal section, the other

with a total length of 7,517 meters, including a 439-meter horizontal section. Both wells were drilled from onshore, which made it possible to bring the field to production in the shortest possible time and achieve considerable CAPEX savings compared to the standard approach of developing offshore fields from a platform. The field implements an integrated model based on the intelligent field concept.

### D33 field

The D33 field was discovered on the Baltic Sea shelf in 2015, with the exploration and production license received in 2016.

In 2019, development of design documentation for the field development continued, contracts were signed for well drilling design, and probabilistic methods of geotechnical and integrated modeling were successfully piloted.

### Bolshekhetskaya Depression (northern part of West Siberia)

The Bolshekhetskaya Depression fields are LUKOIL's key gas producing assets in Russia.

Our largest gas field, the Nakhodkinskoye, put on stream in 2005, produced 4.8 billion cubic meters of gas in 2019. In December 2019, Phase 2 of the booster compressor station was commissioned, driving up average daily output. The field implements an integrated model based on the intelligent field concept.

The Pyakyakhinskoye field, put on stream in 2016, produced in 2019 1.6 million tonnes of oil and gas condensate and 3.8 billion cubic meters of gas.

Pilot production started at the Yuzhno-Messoyakhskoye field in 2019 as planned. One multi-hole well with a daily flow rate of 330 thousand cubic meters of natural gas and 30 tonnes of condensate was put on stream. Gathering, treatment and transportation were enabled by a marketable gas preparation unit with a design capacity of 600 thousand cubic meters per day for gas and 90 tonnes per day

for condensate, a gas engine power plant, a connection to the gas transport system, and other process and residential infrastructure, all of which have been constructed and commissioned.

### 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.

At the end 2019, the field had 198 operating wells, including 102 oil producing wells, 49 injection wells, and 41 gas condensate producing wells. The average daily flow rate of a single gas well at the Pyakyakhinskoye field is approximately 280 thousand cubic meters, while that of an oil well is over 44 tonnes.

In 2019, in a positive development for its production potential, the TAI regime was extended to the field. The field also implements integrated models (separately for the oil and gas parts of the field) based on the intelligent field concept.

### Timan-Pechora

The Timan-Pechora oil and gas province has strong potential for high-viscosity oil production growth. High-viscosity crude oil accounts for 6.3% 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 steam-assisted gravity drainage (SAGD) technology. In 2019, the field's output grew by 32.4% to 2,157 thousand tonnes.

At the Yaregskoye structure, 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 2019, the Company approved a roadmap for further development of the Yaregskoye structure using modular mine shafts, with four development phases, and 204 underground boreholes were commissioned at the field.

Also, in the reporting period, 13 SAGD production wells were commissioned at the Lyael structure.

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 2019, LUKOIL continued to expand its steam-generating facilities by commissioning two steam generators with a combined capacity of 100 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 2019, the reservoir produced 2,743 thousand tonnes of crude oil, up by 3.6% year-on-year, due to the commissioning of 30 production wells, the learning curve in optimized design well drilling, the optimization of cyclic steam injection technology, and efficient tapping of the reserves on the margins of the deposit.

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 the Denisovskaya Depression fields. In 2019, two steam generators with a combined capacity of 40 tonnes of steam per hour were commissioned at the field.

In line with the roadmap for developing the Permian reservoir of the Usinskoye field, in 2019 Phase 1 of switching electric loads to Usa power generating center was completed, a modular cluster pumping station was commissioned, a revamp of two booster pumping stations and one modular cluster pumping station was under way, and construction of high-pressure water pipelines was ongoing.

### West Siberia (excluding the Bolshekhetskaya Depression)

West Siberia is LUKOIL's core oil producing region, accounting for 40.4% of LUKOIL Group's 2019 crude oil output, and its core resource base, constituting 48.2% of LUKOIL Group's proved crude oil reserves as at the end of 2019.

#### Imilorskoye field

The Imilorskoye field has considerable geological potential, and its close 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 in-place 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.

In 2018, we were able to increase the field's design capacity to 2.5 million tonnes of oil per year through cost optimization initiatives and the use of modern approaches to developing hard-to-recover reserves efficiently. Production grew by 43.7% to 1,126 thousand tonnes in 2019 as 112 production wells and 31 injection wells were commissioned.

#### 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 2019, crude oil production grew by 29.2% to 454 thousand tonnes while 33 production wells were commissioned.

Also during the year, pilot testing of a system that is unique for Russia continued at the field. The system is designed to drill horizontal wells using multi-zone hydraulic fracturing (MZHf) for both oil production and reservoir pressure maintenance. The pilot aims to prepare the field for commercial production.

#### License areas covered by the tax on additional income (TAI) regime

Since 2019, some subsoil areas developed by the Group are covered by the TAI regime.

The regime covers four groups of license areas.

The TAI rate is set at 50% and applies to estimated sales revenue less actual and estimated expenditures, where actual expenditures include both OPEX and CAPEX. Losses incurred in prior tax periods and attributable to an eligible license area are deductible for TAI purposes. For subsoil areas in groups 1, 2, and 4, the TAI tax base is also adjusted for losses incurred in the retrospective period before the TAI was adopted.

The crude oil subject to the TAI also has a special MET formula: 50% of the difference between the Urals price and USD 15, multiplied by a coefficient (Kg) representing the time since commercial production launch at that subsoil area, less the applicable crude oil export duty (calculated in USD per barrel).

The crude oil produced at Group 1 and 2 subsoil areas is export duty exempt when Kg is less than 1.

The Group has 19 license areas in greenfield regions that fall in Group 1, including the Pyakyakhinskoye field and a number of fields in Timan-Pechora, with a total 2019 oil and gas condensate production of 2,011 thousand tonnes. Eight of our licenses are in Group 3; these are mature fields in West Siberia with a total oil production of 2,896 thousand tonnes in the same year. We also have two license areas that are Group 4; these are new fields in West

Siberia with a total 2019 oil production of 41 thousand tonnes.

Overall, we expect 145 billion barrels of incremental oil and gas condensate production in 2019–2027 resulting from the implementation of the TAI regime. The TAI has the biggest effect on production in Group 3 subsoil areas.

## International projects

### Uzbekistan

In 2019, Uzbekistan accounted for 40.3% of the gas produced by LUKOIL Group and 81.9% of the Group's overall gas production outside Russia. The Group's production in Uzbekistan increased by 6.5% year-on-year to 14.1 billion cubic meters of gas (LUKOIL share). We are developing two gas projects in Uzbekistan: Kandym and Gissar. In 2019, LUKOIL share in gas production from Gissar was 3.7 billion cubic meters, and from Kandym – 10.4 billion cubic meters.

At Kandym, a state commission acceptance procedure was carried out in 2019 for the newly constructed Kandym gas processing complex (GPC) with a capacity of 8 billion cubic meters, one of the largest in Central Asia. Its early launch helped us ramp up the average daily gas production in Uzbekistan in 2018 to its design capacity. 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.

In 2019, at the Kandym and Adamtash fields integrated models were implemented based on the intelligent field concept.

### Expanding our international portfolio of hydrocarbon producing assets

In 2019, our international portfolio of hydrocarbon producing assets was expanded with projects in the Republic of the Congo and the United Arab Emirates. The entry into these projects is fully in line with LUKOIL's strategy. The projects have a well-explored resource base, significant production potential, and match LUKOIL Group's technological capabilities.

### The Republic of the Congo

In September 2019, LUKOIL acquired a 25% interest in the Marine XII hydrocarbon production project offshore the Republic of the Congo (ENI – 65%, operator; Société Nationale des Pétroles du Congo – 10%) for USD 768 million. The project is implemented under a Production Sharing Agreement until 2039.

The license area of 571 square km is located 20 km off the coast, with a sea depth ranging from 20 to 90 meters. Five fields have been discovered within the license area, two of which are in production (the Nene oil field and the Litchendjili gas condensate field). The produced crude oil is mostly low in sulfur. In 2019, Phase 2 of the Nene field development was under way, and preparation was in progress for Phase 3 aiming to ramp up production.

### The United Arab Emirates

In October 2019, LUKOIL acquired a 5% interest in the Ghasha concession in Abu Dhabi, United Arab Emirates (ADNOC – 55%, operator; ENI – 25%; Wintershall – 10%; OMV – 5%) for USD 214 million. The Ghasha concession was awarded in November 2018 for 40 years to develop previously untapped deposits in nine offshore oil and gas fields in the Persian Gulf in Abu Dhabi.

The fields are in an area with a sea depth of up to 24 meters, some 40 km off the coast. The project envisages construction of artificial islands, and onshore and offshore infrastructure facilities. Plans for 2020 include taking a final investment decision on the Hail and Ghasha oil and gas fields, assessment of the development plan for the Sarb and Nasr gas fields, and appointment of an operating company.

## 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

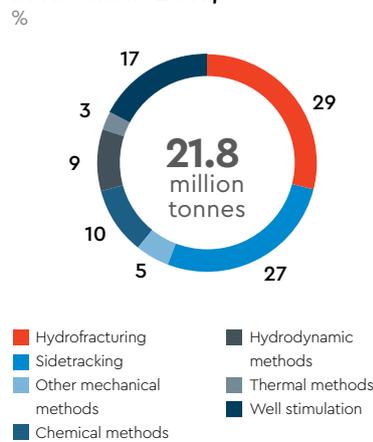
In 2019, across the Group's fields in Russia we commissioned 356 horizontal wells with an average daily flow rate of 46 tonnes, 146 of which are MZHF wells. Horizontal wells accounted for 36% of total wells put into operation across the Group's Russian assets in 2019, up by 4 percentage points year-on-year. More than 70% of completed horizontal wells were in West Siberia.

### Enhanced oil recovery

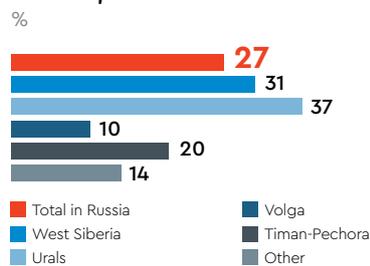
In 2019, 27% of LUKOIL's oil in Russia was produced through enhanced oil recovery (EOR) projects implemented during the reporting year or in previous years. LUKOIL uses physical, chemical, hydrodynamic, and thermal techniques to stimulate productive formations. EOR methods were used at 9.1 thousand wells in 2019. Physical 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 2019. LUKOIL drilled a total of 278 sidetracks in Russia in 2019, up by 32.4% year-on-year, which brought incremental 2019 production to 5.8 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 structure where sidetracks are drilled.

### Incremental production from EOR technologies<sup>1</sup> in Russia in 2019,



### Share of incremental production from EOR technologies in each region's total production<sup>1</sup> in Russia in 2019,



<sup>1</sup> Including carry-overs.

### Small-diameter wells

The small-diameter well construction technique, first successfully applied in the Urals, was also tested in West Siberia, the Volga region and the Republic of Komi. Small-diameter wells reduce construction costs, enabling more oil reserves to be brought on stream. Average savings compared to standard well costs amount to almost 50%. Another advantage of small-diameter wells is the reduced well pad costs.

In 2019, the Company commissioned 77 such wells, some 50% more than before. Small-diameter wells proved useful in tapping low-productivity formations, margins of deposits, and low reserve density areas. Based on these initial findings the technology is now being rolled out for wider use.

The technology has a huge potential, and we plan to considerably increase the number of small-diameter wells in the next few years.

### Lighter three-string wells

We have been successfully applying lighter three-string horizontal well construction technology in West Siberia. Using this technology, accelerates construction time by 35% on average (or by 50% in some cases) and reduces costs by approximately 20% as compared to the standard four-string design of horizontal wells.

In 2019, 73 three-string horizontal wells were drilled, up by 69.8% year-on-year, with the total number of such wells in LUKOIL's well stock reaching 119.

Also in 2019, MZHF began to be applied in the three-string wells using modern MZHF technology that enables putting the wells on stream faster and at lower cost.

Overall, 20 three-string multi-hole wells were drilled in 2019 compared to only one such well drilled in 2018. Efforts continued to eliminate technical limitations for wider application of this technology going forward.

### Hard-to-recover reserves

In 2019, we continued our efforts to identify and deploy the best technologies for developing hard-to-recover reserves, primarily in West Siberia.

One successful example is drilling complex design wells that can efficiently tap challenging deposits. The share of such wells in West Siberia grew to 44%. Continuous technology development drives down well drilling and completion costs. For example, the cost of drilling multi-hole wells went down by 4% year-on-year in 2019 on the back of 13% faster drilling speed.

At the Imilorskoye field, massive use of multi-hole wells helped boost production by 43.7% in 2019.

At the V. Vinogradov field, using batch drilling for horizontal wells in 2019 drove commercial drilling speed up by 8% year-on-year. 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. Crude oil output from the field grew by 29.2% in 2019.

### 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 the Group develops the Yaregskoye field and the Permian reservoir of the Usinskoye field. In 2019, we produced 4.9 million tonnes of high-viscosity oil, up by 14.5% year-on-year. Thermal EOR techniques are used in production.

In the Permian reservoir of the Usinskoye field, in 2019 we continued building our learning curve in drilling optimized-design wells (similar in design to small-diameter wells) without sacrificing process efficiency. The progress made in studying reservoir heat exchange processes and the geological model review helped optimize the steam injection technology and efficiently tap the margins of the deposit, contributing to continued organic growth in oil production.

### Research and development

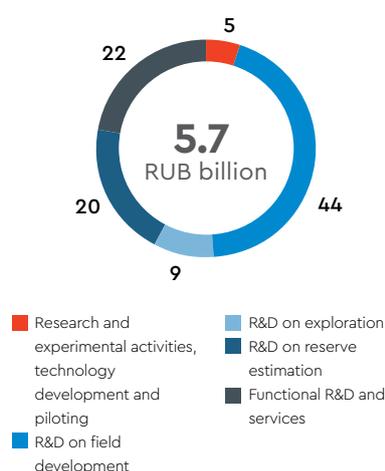
LUKOIL's Research and Development (R&D) Program is focused on methodological support and the Company's innovative development through deploying cutting-edge technologies and solutions, as well as adopting international best practices and lessons learned in developing hard-to-recover reserves.

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

The Group has major segment-specific R&D centers:

- VolgogradNIPImorneft is 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 is 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 the Refining, Marketing and Distribution business segment

R&D cost breakdown in 2019, %



Projects implemented in 2019 under the R&D program for the Exploration and Production business segment focused on drilling enhancement, field development, enhanced oil recovery, and hard-to-recover reserves, while the R&D projects in the Refining, Marketing and Distribution business segment focused on developing advanced lubricants, motor oils and additives, and optimizing the operating modes of hydrocarbon treatment units and reducing pollutant concentrations in flue gases to mitigate their environmental impact.

## DIGITALIZATION

Technological advances and business process automation are increasingly driven by digital data 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.

As part of its IT Strategy, LUKOIL focused on building digital programs across its business segments in 2019.

### Digitalization in the Exploration and Production business segment

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

The outcomes for 2019 include the establishment of two integrated operations centers, deployment of two automated real-time dispatch and control systems, design of new integrated models for fields in development and implementation of mobile reporting on the business segment's priority projects.

Pilots in mature fields confirmed excellent performance of neural networks for production and waterflood management, with plans to scale up the technology.

A surface facilities model was pioneered based on the template of the Vatyeganskoye to build a long-term asset development plan.

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 2019, 45 integrated models had been built for fields accounting for over a quarter of the Group's total hydrocarbon output. Since the project launch, incremental hydrocarbon production of more than 7 million barrels of oil equivalent has been achieved through this comprehensive approach driving faster and better decisions.

The intelligent field concept can also be highly effective when applied at an early stage of field development. The V. Filanovsky field is an example where an integrated model was used 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 design 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, since 2018 we have applied a state-of-the-art electric system 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.

### Digitalization in the Refining, Marketing and Distribution business segment

Digital programs in the 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 the Refining, Marketing and Distribution business segment in 2019. For example, a predictive analytics system for rotating equipment was implemented at the Perm Refinery. At the Burgas Refinery an equipment condition monitoring and prediction system to forecast the timing and need for repairs, reduce maintenance costs, and reduce the number of equipment failures was put into operation. A video analytics system integrated with the automated process management system was launched at the Volgograd Refinery.

### Digitalization in the 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.

# REFINING, MARKETING AND DISTRIBUTION

## MACROECONOMIC OVERVIEW

The benchmark refinery margin of an average refinery in the European part of Russia declined by a third year-on-year to slightly above USD 2 per barrel in 2019. The decline was driven by lower refining margins in Europe, as well as a smaller difference between

export duties for crude oil and petroleum products due to lower oil prices.

Average refining margin across LUKOIL's Russian refineries was considerably higher than the benchmark margin due to a higher light product yield

in the product slate alongside a low fuel oil and vacuum gas oil yield.

In 2019, the benchmark refinery margin in Europe was 22% lower year-on-year, primarily due to reduced crack spreads for gasolines and fuel oil.

### Excise tax rates on petroleum products in Russia,

RUB per tonne

	2017	2018	2019	Change 2019/2018, %
Motor gasoline				
Below Euro-5	13,100	13,100	<b>13,100</b>	-
Euro-5	10,130	9,454	<b>12,314</b>	30.3
Diesel fuel	6,800	6,492	<b>8,541</b>	31.6

### Petroleum product export duty rates,

as % of crude oil rate

	2017	2018	2019	Change 2019/2018, %
Motor gasoline, diesel fuel and light and middle distillates	30	30	<b>30</b>	-
Fuel oil and vacuum gas oil	100	100	<b>100</b>	-
Straight-run gasoline	55	55	<b>55</b>	-

## REFINING, MARKETING AND DISTRIBUTION SEGMENT FINANCIAL HIGHLIGHTS

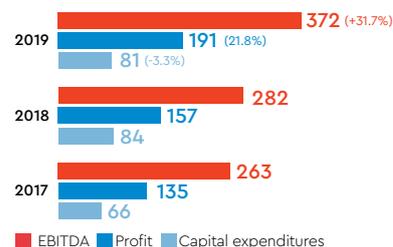
EBITDA in Refining, Marketing and Distribution segment was up by 31.7% in 2019, despite lower benchmark refining margins in Russia and Europe. The growth was driven by higher throughput and improved product slate at LUKOIL refineries,

as well as better performance of the retail and trading businesses.

Refining, Marketing and Distribution segment CAPEX remained broadly flat year-on-year at RUB 81 billion.

### Refining, Marketing and Distribution segment performance,

RUB billion



## OIL REFINING

### 2019 RESULTS

- Refining throughput grew by 2.1% to a record high of 68.7 million tonnes
- Took steps to prepare for MARPOL 2020: fuel oil output down by 10% to a historic low of 6.8 million tonnes, low-sulfur bunker fuel (fuel oil) production started at the Volgograd Refinery
- Continued with selective projects at Nizhny Novgorod and Volgograd refineries
- Progressed further on enhancing operational efficiency and cost optimization programs
- Digitalization pilots launched

### 2020 PRIORITIES

- Launch the isomerization unit at the Nizhny Novgorod Refinery
- Proceed with the construction of the delayed coker complex at the Nizhny Novgorod Refinery
- Continue with the implementation of the digitalization program
- Take next steps in developing the continuous improvement system, design further activities

LUKOIL Group owns 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 83.2 million tonnes.

In 2019, the Group's throughput at its own refineries was up by 2.1% year-on-year to 68.7 million tonnes, or 79% of LUKOIL's total oil production. Refineries in Russia accounted for 64% of total throughput volumes.

#### Refineries in Russia

The throughput at LUKOIL's refineries in Russia increased by 2.2% year-on-year (largely driven by higher Nizhny Novgorod Refinery utilization rates) and amounted to 44.2 million tonnes. Capital expenditures of Russian refineries amounted to RUB 40 billion in 2019, down by 10.6% year-on-year. The reduction was due to 2018 advance payments for the delayed coker complex construction at the Nizhny Novgorod Refinery.

Construction of the delayed coker complex at the Nizhny Novgorod Refinery continued in 2019. The facility's annual feedstock capacity is 2.1 million tonnes. 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. The launch of the delayed coker complex and related optimization measures will increase the light product yield at the 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. In 2019, installation of intra-site pipelines and process piping began, with most of the equipment already delivered to the site. The project was 60% complete at the end of 2019.

Another project aimed at improving the high value-added product output at the Nizhny Novgorod Refinery is the construction of an isomerization unit to ramp up our output of motor gasolines. Installation of equipment and metal structures was underway in 2019. The project was 45% complete at the end 2019.

Major efforts were made during the year to develop and launch new types of products at our refineries in Russia. In October 2019, the Volgograd Refinery launched production of low-sulfur bunker fuel (fuel oil) compliant with the new MARPOL requirements, with a planned output of up to 1 million tonnes per year.

In the reporting year, LUKOIL continued increasing its refining depth through the use of alternative feedstock and 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 2019.

New refining units commissioned in 2015 and 2016 and optimized utilization rates of secondary processing units have considerably improved the refining depth and reduced the fuel oil yield from 22% in 2014 to 11% in 2019.

Excluding mini-refineries, light product yield was 69.9% in 2019 (69.3%

in 2018), while the refining depth reached 88.7% (88.0% in 2018). Fuel oil and vacuum gas oil output was reduced by 12% year-on-year, mainly due to the lower output of these products at the Volgograd and Nizhny Novgorod refineries.

### Refineries in Europe

In 2019, throughput at LUKOIL's refineries in Europe increased by 1.9% year-on-year to 24.6 million tonnes, mainly driven by higher utilization of the Burgas Refinery in Bulgaria after its scheduled maintenance in 2018.

Following a change in the market environment, we modified the utilization

structure at some of our European refineries in 2019 by increasing crude oil refining and reducing heavy product refining due to feedstock mix optimization as well as to comply with the new MARPOL requirements tightening the cap on sulfur content in bunker fuels from 2020. These developments, along with the scheduled maintenance at our Bulgarian refinery in 2018, led to an increased light product yield at LUKOIL's European refineries, at 77.6% (72.8% in 2018).

The capital expenditures of the Group's refineries in Europe totaled RUB 12 billion in 2019, almost flat year-on-year.

## Refinery throughput and production of petroleum products at LUKOIL Group refineries

	2017	2018	2019	Change 2019/2018, %
<b>Refinery throughput, thousand tonnes</b>	<b>67,240</b>	<b>67,316</b>	<b>68,746</b>	<b>2.1</b>
<b>Petroleum products output, thousand tonnes</b>	<b>63,491</b>	<b>63,774</b>	<b>65,081</b>	<b>2.0</b>
Light product yield, %	71	71	<b>73</b>	2 p.p.
Refining depth, %	87	88	<b>89</b>	1 p.p.
Nelson Index	8.8	9.1	<b>9.1</b>	-

## LUBRICANT PRODUCTION AND MARKETING

### 2019 RESULTS

- Launched the lubricants plant in Kazakhstan
- Implemented production site upgrade programs
- Developed service programs for industrial companies
- Implemented performance improvement and cost optimization programs – developed own production of motor oil additive packages
- Expanded distribution geography
- Expanded cooperation with international automotive manufacturers

### 2020 PRIORITIES

- Increase the share of high value-added products
- Launch the R&D center for industrial lubricants and specialty products at the INTESMO engineering center
- Implement digital and service projects
- Further expand cooperation with international equipment manufacturers
- Improve sales efficiency through reformulations and new products development

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

In 2019, about 40% of total lubricants in Russia were produced at facilities operated by the LUKOIL Group. LUKOIL's lubricant production (full cycle) in 2019 was almost flat year-on-year, at 963 thousand tonnes, while sales of LUKOIL-branded lubricants were 574 thousand tonnes.

In 2019, LUKOIL launched its lubricants plant in Kazakhstan with an annual product capacity of 100 thousand tonnes. The plant's location will optimize LUKOIL's lubricant-related logistics in Kazakhstan and Central Asia.

In 2019, progress was made on upgrades to our production sites in Perm, Volgograd, and Tyumen. In Perm, we launched a project to promote the mobility and flexibility of the process flow to enable fast-tracking of orders and boost the volume and quality of output. In Volgograd, a number of projects were underway to improve the engineered security level. In Tyumen, a production facility retrofit project was completed.

Our focus in industrial sales during the year was on the development of service programs for industrial facilities. In 2019, we carried out projects to implement service solutions for major companies such as Severstal, NLMK, EVRAZ and Kuzbassrazrezugol.

We also implemented Phase 1 of our own additive package production for modern truck motor oils at LLK-NAFTAN. This project will help bring down our cost of motor oil production and reduce dependence on third-party producers.

During the year we expanded the geography of our lubricants business, with sales in more than 100 countries enabled by the signing of new export agreements and development of local subsidiaries in a number of countries in Africa and South America. One of the Group's key priorities is to develop its product range in line with modern requirements. In 2019, we developed over 70 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 had over 800 products within the lubricant category at the end of 2019. In 2019, LUKOIL sold its lubricants to all Russia-based plants of foreign automotive manufacturers where car engines are assembled and filled. LUKOIL's largest automotive partners in Russia are the Renault-Nissan-Mitsubishi Alliance, the PSA Group, Volkswagen and others. We continue cooperation with commercial

### Lubricant production and blending, thousand tonnes

	2017	2018	2019	Change 2019/2018, %
Full cycle lubricant production	998	961	<b>963</b>	0.2
Lubricant blending	128	131	<b>138</b>	5.4

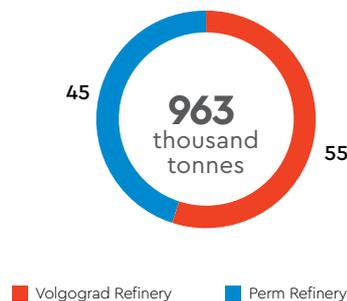
and specialized vehicle manufacturers: IVECO, MAN, CNH Industrial, Ford and others.

The largest Russian grease producer and a joint venture between LUKOIL and Russian Railways, INTESMO (launched in 2014), increased its output by 29% in the five years of operation. The plant houses an engineering center, unique in Russia, where greases are developed and tested. Since 2014, the center adopted 211 testing methods of greases and lubricants and also developed and launched the production of 119 types of greases, many of which outperform foreign counterparts by operational characteristics. As part of the initiative to launch an R&D center for industrial lubricants and specialty

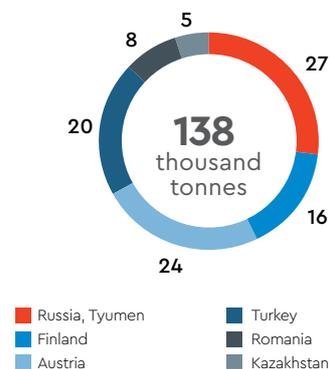
products at the INTESMO engineering center, an analytical laboratory is planned

to be opened in 2020 to develop new and reformulated products.

**Full cycle lubricant production in 2019,**  
%



**Lubricant blending in 2019,**  
%



**GAS PROCESSING**

» **2019 RESULTS**

- Higher natural gas liquids (NGL) processing driven by higher utilization of Perm Refinery and Korobkovsky GPP

» **2020 PRIORITIES**

- Maximize synergy from vertical integration by increasing our associated petroleum gas (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.

Our 2019 gas processing and treatment volume was 4.2 billion cubic meters. Higher throughput at Lokosovsky

and Usinsky GPPs partly offset lower processing at Korobkovsky GPP and Stavrolen due to scheduled maintenance.

The output of liquefied petroleum gases and liquid hydrocarbons at the Group's GPPs was 1.8 million tonnes, up by 5.4% year-on-year in 2019 due to the increased output at the Perm Refinery. Our 2019 marketable gas production was 2.5 billion cubic meters.

**Gas processing and treatment in Russia,**  
million cubic meters

	2017	2018	2019	Change 2019/2018, %
<b>Total</b>	<b>4,038</b>	<b>4,308</b>	<b>4,239</b>	<b>-1.6</b>
Lokosovsky GPP	1,497	1,454	<b>1,473</b>	1.3
Perm Refinery's gas processing complex	1,162	1,211	<b>1,203</b>	-0.7
Korobkovsky GPP	362	384	<b>357</b>	-6.8
Usinsky GPP	161	149	<b>153</b>	2.6
Stavrolen gas processing complex	856	1,110	<b>1,053</b>	-5.2

## PETROCHEMICALS

### 2019 RESULTS

- Continued developing petrochemical projects at the Group's production sites
- Increased acrylonitrile and sodium cyanide production at Saratovorgsintez
- New grades of bimodal polyethylene developed at Stavrolen

### 2020 PRIORITIES

- Further work on projects of petrochemical facilities development

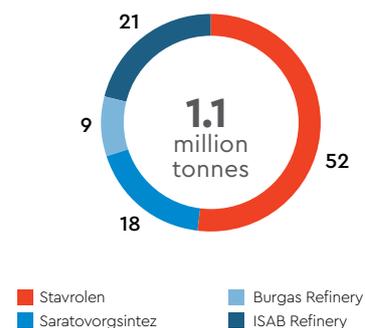
LUKOIL Group produces petrochemicals at two plants in Russia and at its refineries in Italy and Bulgaria. The output includes a wide range of polymers, organic synthesis products and other petrochemicals. LUKOIL meets a significant portion of domestic demand for various petrochemicals and is also a large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

In 2019, our petrochemicals output was 1.1 million tonnes, down by 8.7% year-on-year, primarily due to scheduled maintenance at Stavrolen.

Growth prospects in petrochemicals depend on the development of petrochemicals production at existing sites and the monetization of available feedstock. In 2019, we completed the feasibility study

of polypropylene production projects for the Nizhny Novgorod Refinery and the Burgas Refinery (Bulgaria). The project concept implies using the propylene from existing catalytic cracking units.

Petrochemicals output in 2019, %



Petrochemicals output, %

	2017	2018	2019	Change 2019/2018, %
<b>Marketable products output, thousand tonnes</b>	<b>1,171</b>	<b>1,246</b>	<b>1,137</b>	<b>-8.7</b>
Polymers and monomers	34.8	37.4	<b>39.3</b>	1.9 p.p.
Organic synthesis products	40.4	36.0	<b>40.1</b>	4.1 p.p.
Pyrolysis products	24.6	26.4	<b>20.3</b>	-6.1 p.p.
Other	0.2	0.2	<b>0.3</b>	0.1 p.p.

## POWER GENERATION

### 2019 RESULTS

- Three power units of Krasnodar CHPP included in the CSA-2 nationwide thermal power plant modernization program
- Development of renewable energy sources – completed the renovation of Belorechensk HPP
- Digitalization pilots launched

### 2020 PRIORITIES

- Participation in the competitive selection process under the CSA-2 nationwide thermal power plant modernization program
- Development of renewable energy sources – construction of a second solar power plant at Volgograd Refinery
- Expansion of the West Qurna-2 field power generating center
- Implementation of digitalization projects

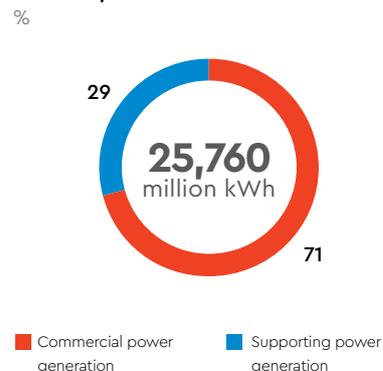
LUKOIL's power generation segment is a fully vertically integrated chain, from generation to transmission and distribution of heat and power to external consumers (commercial power generation) and for its own needs (supporting power generation). Our aggregate power generation capacity, excluding the West Qurna-2 project, is 6.4 GW, with commercial power generation accounting for 71% of the total, and supporting power generation for the remaining 29%. The power generating facilities in our asset portfolio help strengthen our vertical integration and ensure higher efficient APG use rates while reducing 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 93% of electricity generation in the Astrakhan Region and 60% in the Krasnodar Territory. Our commercial electricity generation in 2019 totaled 18.3 billion kWh, while heat supplies totaled 10.1 million Gcal.

In 2019, LUKOIL took part in the nationwide competitive selection for power generation facilities upgrade (Phase 2 of the agreement for the capacity supply to the wholesale electricity market that provides guaranteed recovery of investments in facility upgrades). As a result, LUKOIL's project for the upgrade of three units of Krasnodar CHPP, 150 MW each, to be re-commissioned in 2022–2024, was approved to be included in the program. The project calls for full replacement of steam turbines and core elements of boiler equipment, which will improve the plant's operating performance and extend its service life.

### Electric power generation in 2019,



### Commercial electricity output and commercial heat supplies

	2017	2018	2019	Change 2019/2018, %
Electricity, million kWh	20,189	19,919	<b>18,307</b>	-8.1
Including renewable power generation, million kWh	1,053	1,365	<b>1,100</b>	-19.4
Heat, million Gcal	10.7	11.0	<b>10.1</b>	-8.4

### 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 868 million kWh in 2019.

In 2019, we completed one of our important hydroelectric generation projects, the reconstruction of Belorechensk HPP. Hydroelectric Unit 2 was commissioned in 2019. The reconstruction included replacement of the two hydroelectric units, increasing the installed capacity of each from 16 MW to 24 MW, totaling

48 MW of hydroelectric installed capacity post-renovation.

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 the Volgograd Refinery (10 MW), in Romania (9 MW) and in Bulgaria (1.3 MW). The plants are built on unutilized industrial sites of the refineries. Their total electricity output was 24 million kWh in 2019. The Company is looking at building more solar generation capacity at other unutilized industrial sites of its refineries. For example, in 2019 it was decided to launch the construction of the second solar

power plant at the Volgograd Refinery with the installed capacity of 20 MW.

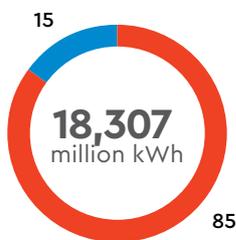
LUKOIL also owns the 84 MW Land Power wind power plant in Romania. The annual output of the plant totaled 218 million kWh in 2019.

### Supporting power generation

Development of in-house electricity generation at fields and plants helps the Group reduce its electricity costs and achieve higher efficient APG use, for example as a fuel for gas power plants.

In 2019, supporting power generation by the Group totaled 7,453 million kWh, while its share in LUKOIL's total electricity consumption for production purposes was 35%.

### Commercial power generation in 2019, %



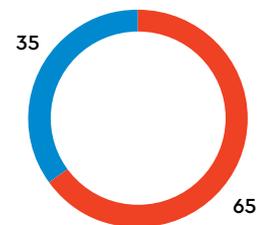
■ Russia ■ Outside Russia

### Commercial heat supplies in 2019, %



■ Russia ■ Outside Russia

### Power consumption by the Group's production entities in 2019, %



■ Purchased ■ In-house generation

## WHOLESALE AND TRADING

### 2019 RESULTS

- Increased trading volumes
- Increased transshipment via LUKOIL's own transportation infrastructure
- Higher share of crude oil exports with a quality premium to the Urals crude

### 2020 PRIORITIES

- Diversify sales markets

LUKOIL sells crude oil, gas and petroleum products in the domestic and international markets, distributing optimized flows to suit the market environment. We own both pipelines and crude oil and petroleum product transshipment facilities, which minimizes 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, gas products, and petrochemicals totaled 212.9 million tonnes in 2019, up by 1.1% year-on-year primarily due to increased oil trading volumes.

#### Crude oil

Crude oil sales volumes increased by 5.1% to 89.6 million tonnes in 2019, primarily due to higher volumes of international trading. The markets outside of the Customs Union accounted for approximately 95.9% of LUKOIL's total crude oil sales volumes, while 1.1% was sold

in Russia and 3% in other countries of the Customs Union.

Domestic sales volumes of crude oil amounted to 0.9 million tonnes, which is 54.1% lower year-on-year. The decline was mainly driven by higher supplies of crude oil to our own refineries due to the increase in refinery throughput volumes. LUKOIL's 2019 crude oil export volumes were up by 1.1% year-on-year to 37.1 million tonnes. International crude oil sales increased to 88.7 million tonnes, or by 6.6%, primarily driven by higher trading volumes.

As in the previous year, the most efficient way to monetize LUKOIL's crude oil in 2019 was processing it at its own refineries. Crude oil supplies to the Group's refineries in Russia amounted to 44.2 million tonnes in 2019, up by 2.2% year-on-year. Crude oil supplies to the Group's refineries in Europe totaled 22.7 million tonnes in 2019, up by 6.6% year-on-year. Supplies of oil for processing at third-party refineries amounted to 4.5 million tonnes, down by 31.9% year-on-year due to changes in the contract terms with a Canadian refinery.

### Oil supplies and sales, million tonnes

	2017	2018	2019	Change 2019/2018, %
Sales in Russia	2.3	2.1	<b>0.9</b>	-54.1
Supplies to LUKOIL's Russian refineries	43.1	43.2	<b>44.2</b>	2.2
Exports from Russia	36.6	36.7	<b>37.1</b>	1.1
Sales outside Russia	72.5	83.2	<b>88.7</b>	6.6
Supplies to LUKOIL's European refineries	22.0	21.3	<b>22.7</b>	6.6

## Petroleum products

Sales of petroleum products and gas products amounted to 121 million tonnes in 2019, down by 2% year-on-year. The reduction, seen even with higher refining volumes, was due to lower petroleum product trading volumes.

Sales of petroleum products in Russia accounted for approximately 20% of the total, or 24.4 million tonnes. Sales in Russia were down by 4.7% year-on-year, mostly in retail due to higher demand for LUKOIL's products in 2018. LUKOIL's retail sales volumes in Russia amounted to 9.9 million tonnes, down by 9.1% year-on-year.

LUKOIL's 2019 petroleum product exports were up by 15.3% year-on-year to 18.7 million tonnes driven by higher refining volumes and lower domestic demand for our products. Fuel oil exports were up by 29.3%, and their share in LUKOIL's total exports of petroleum products grew from 9.3% in 2018 to 10.5% in 2019. The growth in fuel oil exports, seen even with lower volumes of its production in Russia, was caused by redirecting its volumes from domestic sales to export given the market environment.

A total of 79.8% of LUKOIL's petroleum products were sold in the international market. Wholesale sales outside Russia decreased by 1.4% to 92.4 million tonnes, mostly driven by lower trading volumes of petroleum products. Retail sales outside Russia were broadly flat, at 4.2 million tonnes.

## Gas

In 2019, LUKOIL Group sold 28.7 billion cubic meters of gas (natural gas, APG and dry stripped gas), up by 3% year-on-year. Russia accounted for 45.1% of the Group's total gas sales volumes, at 12.9 billion cubic meters, of which 11.1 billion cubic meters were sold to Gazprom Group. International gas

sales volumes amounted to 15.8 billion cubic meters, up by 11.4% year-on-year, due to gas production growth in Uzbekistan. As a result, the share of international sales in the total gas sales volumes was up by 4 percentage points year-on-year, to 54.9%.

### Sales of petroleum products and gas products, million tonnes

	2017	2018	2019	Change 2019/2018, %
<b>Total</b>	<b>128.5</b>	<b>123.5</b>	<b>121.0</b>	<b>-2.0</b>
Russia	24.8	25.6	<b>24.4</b>	-1.3
Outside Russia	103.7	97.9	<b>96.6</b>	-4.7

### Exports of petroleum products and gas products, million tonnes

	2017	2018	2019	Change 2019/2018, %
<b>Total</b>	<b>17.5</b>	<b>16.2</b>	<b>18.7</b>	<b>15.3</b>
Diesel fuel	10.1	9.8	<b>10.2</b>	4.4
Gasoline	0.3	0.2	<b>0.5</b>	111.6
Jet fuel	0.1	0.05	<b>0.01</b>	-79.6
Lubricants	0.6	0.6	<b>0.6</b>	4.8
Gas products	1.3	0.7	<b>0.8</b>	18.3
Fuel oil	2.8	1.5	<b>2.0</b>	29.3
Other	2.3	3.4	<b>4.6</b>	36.2

### Gas sales, million cubic meters

	2017	2018	2019	Change 2019/2018, %
<b>Total</b>	<b>22,837</b>	<b>27,896</b>	<b>28,727</b>	<b>3.0</b>
Russia	13,751	13,723	<b>12,942</b>	-5.7
To Gazprom Group	11,140	11,925	<b>11,149</b>	-6.5
To other consumers	2,611	1,798	<b>1,793</b>	-0.3
Outside Russia	9,086	14,173	<b>15,785</b>	11.4

## LUKOIL's transportation infrastructure and dedicated supply channels

Our priority when selling crude oil and petroleum products is efficient logistics and maximum utilization of our transportation infrastructure to reduce transportation costs and optimize routes. LUKOIL Group owns three crude oil and petroleum products transshipment terminals in Russia (Varandey in Timan-Pechora on the Barents Sea, one in the port of Svetly in the Kaliningrad Region, and one in the port of Vysotsk on the Baltic Sea), and a 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 2019, transshipment via LUKOIL's own infrastructure in Russia was up by 5.9% year-on-year and totaled 22.1 million tonnes of crude oil and petroleum products.

Crude oil transshipped via our terminals in Russia increased by 1.6% year-on-year to 9.8 million tonnes, primarily driven by higher own crude oil exports through Varandey terminal. The share of crude oil export through LUKOIL's transport infrastructure remained flat year-on-year at 23.8%.

Petroleum products transshipped via our terminals in Russia grew by 9.6% to 12.3 million tonnes, driven by higher transshipment in the port of Vysotsk, at 12 million tonnes.

LUKOIL also holds a 12.5% stake in the Caspian Pipeline Consortium (CPC). LUKOIL's oil exports via the CPC increased by 10.4% in 2019 to 5.3 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 2019, LUKOIL exported 1.7 million tonnes of crude oil via the East Siberia – Pacific Ocean (ESPO) pipeline, up by 40.2% 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. Average ESPO premium to Urals was USD 6.3 per barrel in 2019.

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). The pipeline capacity is 8.7 million tonnes per year. LUKOIL transported 4.8 million tonnes through the pipeline in 2019, up by 21% year-on-year.

In June 2017, LUKOIL began 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. LUKOIL transported 1.1 million tonnes through the pipeline in 2019, up by 10.9% year-on-year.

In June 2018, LUKOIL launched transportation of the jet fuel produced at its Volgograd Refinery via Transneft's petroleum product pipeline to the Moscow Aviation Hub, including to Domodedovo and Vnukovo airports. LUKOIL transported 414 thousand tonnes through the pipeline in 2019, up by 156.5% year-on-year.

As a result, in 2018–2019 LUKOIL was able to significantly increase the share of pipeline shipments in its total petroleum product exports (from 26% in 2017 to 48% in 2019) and thus reduce the share of more expensive rail transportation, achieving major savings in transportation costs.

## Trading

LUKOIL performs its trading operations in all 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 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 2019, while trading third-party crude oil and petroleum products accounted for the remaining two thirds.

## PREMIUM SALES CHANNELS

### 2019 RESULTS

- Increased gross profit from sales of non-fuel goods and services at filling stations by 8%
- Increased sales volumes through the high-margin retail channels in marine bunkering and aircraft refueling businesses
- Increased sales of ECTO 100 premium gasoline

### 2020 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 premium 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 5,044 filling stations located in 19 countries.

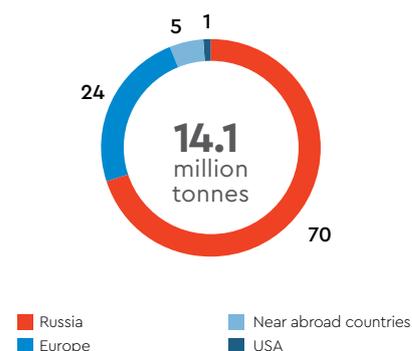
In 2019, our total retail sales volumes of petroleum products amounted to 14.1 million tonnes, of which 9.9 million tonnes was sold in Russia and 4.2 million tonnes sold abroad.

Our main focus in retail during the year was on improving efficiency and maximizing free cash flow while also optimizing the retail network's geography and the formats of our filling stations.

Retail sales volumes of petroleum products in Russia were 9.9 million tonnes, down by 9.1% year-on-year. The reduction was due to the 2018 demand surge for motor fuels produced by vertically integrated companies. As part of our operational efficiency

growth program in Russia, 16 filling stations were sold and 43 were retrofitted in 2019. International retail sales were 4.2 million tonnes in 2019, broadly flat year-on-year.

### Breakdown of retail sales volumes of LUKOIL petroleum products in 2019, %



## Retail sales of petroleum products

	2017	2018	2019	Change 2019/2018, %
<b>Number of filling stations<sup>1</sup> as at December 31</b>	<b>5,258</b>	<b>5,168</b>	<b>5,044</b>	<b>-2.4</b>
Russia	2,609	2,556	<b>2,469</b>	-3.4
Outside Russia	2,649	2,612	<b>2,575</b>	-1.4
<b>Total retail sales volumes, thousand tonnes</b>	<b>14,238</b>	<b>15,144</b>	<b>14,129</b>	<b>-6.7</b>
Russia	10,083	10,927	<b>9,935</b>	-9.1
Outside Russia	4,155	4,217	<b>4,194</b>	-0.5
<b>Average daily sales volumes at LUKOIL's filling stations, tonnes per day</b>	<b>10.0</b>	<b>10.7</b>	<b>10.0</b>	<b>-6.0</b>
Russia	12.8	13.8	<b>12.7</b>	-8.3
Outside Russia	6.6	6.8	<b>6.8</b>	-0.1

### Branded fuel

LUKOIL actively promotes sales of its fuels under the ECTO brand, which provides improved efficiency and environmental performance. In 2019, sales volumes of ECTO-branded fuels

were 9 million tonnes. The share of ECTO fuels in total domestic retail sales grew to 79%, or 3 percentage points year-on-year. Sales of premium ECTO 100 motor gasoline were launched in 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. In 2019, ECTO 100 gasoline sales were up by 16% to 129 thousand tonnes.

<sup>1</sup> Including owned, leased, franchised, and suspended stations.

### Non-fuel goods and services

In 2019, we continued our efforts to develop sales of non-fuel goods and services at our filling stations. Gross profit from sales of non-fuel goods and services in Russia reached RUB 8.6 billion, a 7% increase year-on-year, and gross profit from sales outside Russia was RUB 6.5 billion, up by 10% year-on-year. LUKOIL's revenues from sales of non-fuel goods and services are boosted by product range optimizations, continuous marketing efforts, developing value-added services, rolling out best retail practices, focusing on customer service excellence, and upgrading filling stations.

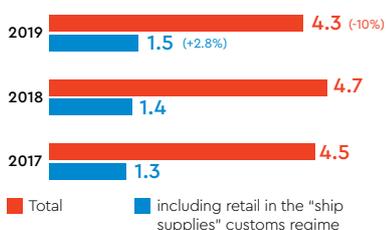
The higher profitability of our Russian filling stations in 2019 was driven by increased food sales and higher sales of café products.

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 2019, the gross profit from non-fuel sales covered 42% of the expenses of our Russian filling stations, compared to 39% in 2018 and 33% in 2017.

### Marine bunkering

LUKOIL is one of the largest suppliers of bunker fuels, with bunkering operations in 25 ports across 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.

### Bunker fuel sales, million tonnes



The Group sold 4.3 million tonnes of bunker fuel in 2019, including 1.5 million tonnes (up by 3% year-on-year) sold to retail customers under the "ship supplies" customs regime, securing higher margins. The high quality of our bunker fuel helps LUKOIL retain its significant market share.

### Low-sulfur bunker fuel

In 2019, LUKOIL launched sales of bunker fuel (fuel oil) with 0.5% sulfur content, produced at the Volgograd Refinery and MARPOL compliant. In addition to low-sulfur fuel oil, LUKOIL sells other bunker fuels with improved environmental performance. For example, starting from 2015, Perm Refinery produces environmentally safer bunker fuel ("TSE") with lower sulfur content (0.1%). It is used for marine bunkering in the Baltic Sea, which is a Sulphur Emissions Control Area (SECA). The Company produces approximately 1 million tonnes of TSE per year.

### Aircraft fueling

LUKOIL sells both its own and purchased jet fuel, mostly through aircraft fueling, at airports in Russia, Bulgaria and Turkey through its own sales network, as well as through contracts with third-party refueling companies.

Jet fuel sales in Russia exceeded 3.4 million tonnes in 2019, up by 5.0% year-on-year. High-margin sales in a form of aircraft fueling showed continued growth, rising by 1% in 2019 to 2.1 million tonnes (including share in equity affiliates) as we launched operations in Kaliningrad, Rostov-on-Don and Krasnodar airports.

The share of sales in a form of aircraft fueling was 63% in the total volume

### Aircraft fueling volumes (including share in equity affiliates), million tonnes



of LUKOIL's jet fuel sales. LUKOIL's long-standing consumers of jet fuel include major Russian and international airlines and civil aviation companies.

Our network for aircraft fueling covers 33 Russian airports, of which 18 have jet-refueling complexes that are operated by LUKOIL or are joint ventures.

### Bitumens

The bitumen segment is an important area of business development for LUKOIL.

In 2019, our bitumen sales increased by 15% to 911 thousand tonnes. We also launched sales of high-margin polymer bitumens. Sales of packaged bitumens increased six-fold from 2018, while sales to end users (road construction companies) were up by 50%.

In 2019, we opened an innovation research center for the development of bituminous materials in the Nizhny Novgorod Region, which has the capabilities to model traffic loads and very complex climatic conditions for testing bitumen and bitumen concrete performance in road surfacing. The center has laboratories and equipment that are unmatched in Russia in terms of the range of bitumen and bitumen concrete tests, covering over 70 techniques.

A revamp of the bitumen production at the Nizhny Novgorod Refinery started in 2019. This project will enhance the bitumen quality and production volumes, including for polymer bitumen products. At the end of 2019, the project received a positive opinion of the government environmental impact audit and part of the process equipment was delivered to the site.

### Bitumen sales volumes, 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. This means that economic, environmental and social goals and objectives are integrated into our corporate decision-making system.



For more details on the sustainability management system, see the Sustainability Management System section, **page 132**

Ensuring high level of Health, Safety and Environment (HSE) compliance is one of the key elements of our sustainable development strategy. LUKOIL's HSE Management System is certified to international

standard ISO 14001 and OHSAS 18001 standard, and is based on principles of preventive actions and personal accountability of both managers and line employees. Compliance of the Company's HSE Management System with these standards was confirmed in 2019 by an external audit.

As OHSAS 18001 was superseded by ISO 45001 in 2019, LUKOIL continued working to ensure transition to the new standard by 2021.

The Health, Safety and Environment Policy Implemented by LUKOIL Group in the Twenty-First Century (the HSE Policy) defines our HSE Management System.



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



To develop the HSE Management System, the Company has in place the Health, Safety, and Environmental Committee of PJSC LUKOIL, chaired by Ravil Maganov, First Executive Vice President in charge of exploration and production and Vice Chairman of the Board of Directors.

The Committee reviews relevant HSE matters, including HSE Policy development, measures for material HSE risks and environmental matters management, proposals for motivating the Group entities' employees to comply with HSE requirements (including through KPIs), HSE compliance performance, and HSE activities performance analysis, as well as responses to regulatory and other changes. The Committee also prepares proposals to the Company's governance bodies for approving key HSE documents, such as 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. The Committee had two meetings in 2019. To implement the HSE Policy, the Company develops three-year targeted HSE programs, approved by an order of PJSC LUKOIL. Targeted programs performance is reviewed annually at the Management Committee meeting. PJSC LUKOIL's Board of Directors also annually reviews issues on the Company's HSE status and measures to improve occupational safety, and makes decisions on the priority areas for improving the HSE Management System.

## 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, including among contractor employees
- Compliance of the HSE Management System with the requirements of international standards
- Accident frequency rate (LTAFR)

- 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 in the incentive system for managers at all levels, as well as for workers and specialists.

# HEALTH AND SAFETY

## KEY TARGETS OF THE INDUSTRIAL SAFETY PROGRAM

- Improve working conditions and occupational safety, thereby reducing work-related injury and occupational disease rates
- Reduce the risks of accidents, incidents, fires, and emergencies at the Group's facilities

## 2019 RESULTS

- Improved working conditions
- Reduced number of occupational accidents
- Maintained low injury rates
- Conducted drills and on-site trainings
- Conducted Company-wide Safety Day
- Conducted inspections as part of the internal audit and corporate supervision procedure

## 2020 PRIORITIES

- Works to reduce the number and types of hazardous operations and minimize the human factor
- Automation and modernization of technology processes
- Further development of the culture of safety
- Adopt and roll out best HSE Management and fire safety practices across the Group
- System upgrades and repair of automatic fire protection units

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 2019, the number of occupational accidents involving Group employees were down by 10% compared to 2018. As a result, the lost-time accident frequency rate (LTAFR) decreased to 0.19. The main injury causes in 2019 were violations of workplace discipline, insufficient safety supervision, failure to use of personal protective equipment, and violation of traffic rules.

In 2019, two fatalities occurred at Group organizations.

The first fatality was caused by an assault on a filling station operator in the Voronezh Region. A review of the circumstances was conducted, followed by unscheduled employee security briefings, communication of rules of behavior in life-threatening situations, and identification of workplace risk level. A decision was also made to set up a project office at the corporate level to develop a unified technology solution for a remote operations security monitoring system covering all filling stations across our retail network in Russia.

The second fatality involving a LUKOIL employee occurred in a traffic accident in the Perm Region. As of the end of 2019, the investigation of the circumstances of the accident was still ongoing.

### Work-related injury indicators at LUKOIL Group

	2017	2018	2019	Change 2019/2018, %
Number of occupational accidents	20	21	<b>19</b>	-10
Number of injured employees	22	23	<b>25</b>	9
Fatalities	4	1	<b>2</b>	
Lost-time accident frequency rate (LTAFR) <sup>1</sup>	0.20	0.20	<b>0.19</b>	
Lost-time injury frequency rate (LTIFR) <sup>2</sup>		0.12	<b>0.13</b>	

<sup>1</sup> LTAFR is calculated as the number of work-related injuries per thousand people of the average headcount during the reporting period.

<sup>2</sup> LTIFR is calculated as the number of lost-time injuries per million of total man-hours worked.

In 2019, we had two accidents at production facilities and petroleum product supply entities at oil depots.

The first accident occurred at a truck loading rack at an oil depot in Belarus as a result of static electricity generated by a free falling flow. There were no injuries, and as at the end of 2019 the oil depot was closed for repair. A decision was made to improve petroleum product loading processes across the Group, and in particular to install bottom loading systems at oil depots, provide oil depots with backup gas analyzers, and check dimensions of tank trucks prior to loading.

The second accident occurred at an oil depot in the Republic of Komi, where an explosive mixture ignited while gasoline was being pumped from one tank to another. There were no injuries and no downtime. A technical investigation established that the root cause of the accident was that the pumping unit did not conform to the design documentation. A decision was made to develop and implement a retrofit project for the oil depot's pumping unit.

All information about accidents was reviewed at the Health, Safety and Environment Committee of PJSC LUKOIL and at the Board of Directors meeting in December 2019.

### INVOLVEMENT IN HSE LEGISLATIVE INITIATIVES

LUKOIL has standing representatives in working groups under the Ministry of Energy of the Russian Federation, Rosstandart, and the RSPP Committee on Technical Regulation, Standardization and Compliance, an important vehicle for developing and amending both the Russian legislation and Company regulations. In 2019, our involvement resulted in the approval and enactment by Rosstandart's Order No. 167-st dated April 25, 2019 of a new technical standard, GOST R 58404-2019 "Filling stations: operating rules" with enhanced safety measures when operating tank trucks.

### Accidents at LUKOIL's production facilities

	2017	2018	2019
Accidents	6	0	2

### LEADERSHIP AND SAFETY CULTURE

Over the past three years, LUKOIL has put a particular focus on fostering leadership and safety culture. This is embodied in the following initiatives:

- Conducting annual safety days involving LUKOIL's top management, managers of Group entities, trade union representatives and key contractors to review the root causes of injuries and best practices in health and safety. A project to visualize accident reviews was initiated at the 2019 Safety Day
- Implementing key safety rules and appropriate accountability mechanisms across the Group to ensure compliance among both Group employees and contractors
- Conducting leadership safety visits involving the Company management

As part of the shared agenda with the International Association of Trade Union Organizations, training under the Leadership and the Safety Culture program was provided during 2019 to workplace technical inspectors of the Association. The Company plans to deliver training under the program to health and safety officers.

We continued to roll out best practices in safety procedure digitization, with a number of practices approved at the corporate Safety Day already being implemented across the Company. Another project that is currently being put to practice is automated safety briefings.

### NOTIFICATION SYSTEM

LUKOIL Group has uniform requirements for the notification, recording and analysis procedures for occupational accidents. All injuries at Group 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 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 Group entities and contractors, and additionally discussed both at the Health, Safety and Environment Committee of PJSC LUKOIL and Safety Days with the involvement of trade unions and key contractors. Organizational and technical measures to prevent injuries are developed, implemented and tested. The occupational accident analysis results are included in the annual report to the Management Committee and on the agenda of Board of Directors meetings.

## TRAININGS AND DRILLS

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 who are present at the site during such trainings. During 2019, 200 drills of different levels were conducted, with 117 of them dedicated to oil and petroleum product spills response. Certification was organized for three professional and 11 volunteer emergency response teams, and for over 570 rescue workers from 17 entities of the Group.

We also continued to deploy digital technologies enabling support for management decision making on emergency containment and elimination. Over 10.7 thousand on-site trainings were conducted, with over 97 thousand LUKOIL Group

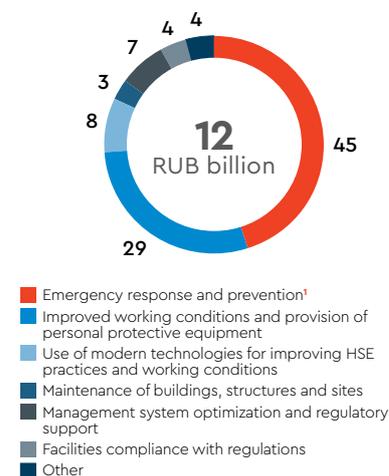
and contractor employees participating in the drills and training sessions. A special area of focus in 2019 was drills in response to potential oil and petroleum product spills.

### ASSESSMENT OF WORKING CONDITIONS

LUKOIL carries out special assessment of working conditions annually. 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 approximately 34% of the average headcount at our Russian entities in 2019.

## Industrial safety program expenditures (capital and operating) across the Group in 2019,

%



## HSE COMPLIANCE FOR CONTRACTORS

Contractor selection follows the Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Entities and local regulations setting forth HSE requirements.

Contractors are audited for HSE compliance during the prequalification 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. Contractors must also ensure compliance with requirements by their sub-contractors.

HSE compliance by contractors is monitored during contract performance (with HSE standards included in the contracts), including through technical audits. In addition to mandatory certification by the Federal Environmental, Industrial

and Nuclear Supervision Service of Russia (Rostekhnadzor), contractors' safety managers are also certified by LUKOIL Group's certification committees. In 2019, we recommended that our contractors who work at well stimulation and workover job send their employees for training and certification at specialized training centers that are endorsed by LUKOIL and have training grounds.

## CORPORATE SUPERVISION AND INDUSTRIAL CONTROL

An important tool in maintaining high-level HSE standards is high-quality compliance control. LUKOIL has developed key safety rules and appropriate accountability mechanisms to ensure compliance among both Group employees and contractors. Approximately 12 thousand inspections were conducted across LUKOIL Group

as part of corporate supervision and industrial control in 2019, including contractor inspections. For any violations identified, disciplinary action is taken against non-complying employees, while contractors face penalties. Typical issues identified through inspections during 2019 included violations of technical maintenance rules, failure to observe

electrical safety knowledge assessment procedures, and deviating from design documentation requirements. A special reward system is in place to encourage employees to take an active role in identifying violations and preventing non-compliant behaviors, including by contractors.

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

# ENVIRONMENTAL PROTECTION

## KEY TARGETS OF THE ENVIRONMENTAL SAFETY PROGRAM

- Increase efficient APG use rates
- Reduce air pollutant and greenhouse gas emissions
- Ensure treatment of the wastewater discharged into water bodies and centralized wastewater collection systems as required by applicable standards
- Disposal of hazardous waste accumulated and prevention of further hazardous waste accumulation

## 2019 RESULTS

- Efficient APG use rate across the Group's Russian entities reached 97.5%
- Air pollutant emissions across the Group's Russian entities were reduced by 7% year-on-year to 402 thousand tonnes
- Mid-term target to reduce Scope 1 greenhouse gas emissions was exceeded by 2 percentage points
- Wastewater discharge across the Group's Russian entities remained flat year-on-year
- Met the waste management KPI whereby 2019 waste disposal was equal to waste generation volumes

## 2020 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 as required by applicable standards
- Set further targets to reduce Scope 1 greenhouse gas emissions
- Prepare an inventory of direct and indirect greenhouse gas emission sources under the GHG Protocol standard
- Further efforts under the World Bank's Zero Routine Flaring by 2030 initiative

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

A number of key environmental impact metrics were improved in 2019. APG use rate across the Group's Russian entities was increased to 97.5%. Air pollutant emissions were reduced by 7% year-on-year to 402 thousand tonnes as a result of flaring reduction measures, while gas flaring by Russian oil and gas producing entities was down by 4% year-on-year to 299 million cubic meters.

Almost all of our water consumption for operational needs is used in industrial processes, with over 66% utilized for power generation and approximately 15% for formation pressure maintenance systems. Water consumption for operational needs across the Group's Russian entities in the reporting year remained almost unchanged year-on-year, at 358 million cubic meters.

Production waste disposal across the Group's Russian entities was 1,642 thousand tonnes, up 4% year-on-year, with 2019 waste disposal equal to waste generation volumes. Of the total waste generated by the Group in 2019, hazardous waste (hazard classes 1 to 3, according to the Russian classification) accounted for 15%, low-hazard waste (hazard class 4) for 77%, and non-hazardous (hazard class 5) for 8%. 68% of the waste was drilling waste. The area of oil-contaminated land at year-end was down by 28% year-on-year to 43 hectares.

## CLIMATE CHANGE

LUKOIL recognizes the importance of preventing global climate change and supports Russia's involvement in the global effort to reduce greenhouse gas emissions. We are involved in developing a statutory and regulatory framework governing greenhouse gas emissions management in Russia and will plan our operations in accordance with the resulting decisions.

### Greenhouse gas emissions

Scope 1 greenhouse gas emissions across the Group were 37.2 million tonnes in 2019. This includes 30.3 million tonnes of CO<sub>2</sub> equivalent Scope 1 greenhouse gas emissions generated by the Group's Russian entities, which is up by 0.9% year-on-year. In 2019, we accounted for additional Scope 1 greenhouse gas emissions in LLC LUKOIL-Komi, coming from the usage of natural gas for our own operational needs purchased from third parties. Net of this factor, total Scope 1 greenhouse gas emissions across the Group's Russian entities were 28.9 million tonnes of CO<sub>2</sub> equivalent, down by 3.6% year-on-year, or by 1.1 million tonnes of CO<sub>2</sub> equivalent.

As a result, the reduction of Scope 1 greenhouse gas emissions across the Group's Russian entities totaled 3.3% from a 2016 baseline, as compared to the targeted reduction of 1.2% by 2020. The Company exceeded its target to reduce Scope 1 greenhouse gas emissions while ramping up hydrocarbon production and refining volumes across the Group's Russian entities from a 2016 baseline by 1% and 6%, respectively, even after accounting for emission sources previously not included.

LUKOIL holds a leading position among the world's largest private oil and gas companies by greenhouse gas emissions per unit in the Exploration and Production segment.

The Company 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 6% of the commercial power generated by the Group in 2019.

*i* For more details on renewable energy, see the Power Generation section, page 68.

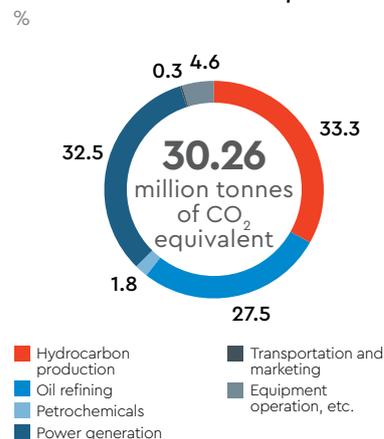
#### GHG EMISSIONS DISCLOSURE

Since 2013, LUKOIL has been participating in the Carbon Disclosure Project (CDP), an international initiative for the disclosure of greenhouse gas emissions. Following its CDP disclosure in 2019, LUKOIL received a "D" score.

#### Scope 1 greenhouse gas emissions by the Group's Russian entities, million tonnes of CO<sub>2</sub> equivalent



#### Structure of Scope 1 greenhouse gas emissions by the Group's Russian entities in 2019, %

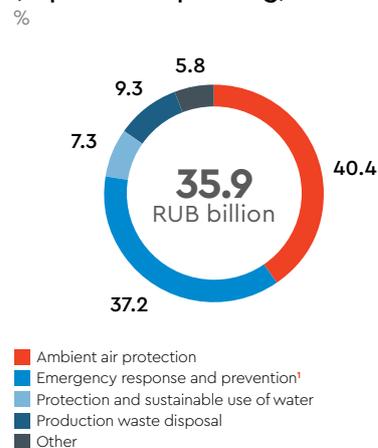


### ENVIRONMENTAL SPENDING

LUKOIL's environmental spending totaled RUB 35.9 billion in 2019 (up 1% year-on-year), of which capital expenditures were RUB 30 billion. The Group's Russian entities accounted for RUB 34.3 billion, international entities spent RUB 1.6 billion. The biggest 2019 items were ambient air protection (RUB 14.5 billion,

of which RUB 10.4 billion was allocated to increasing APG use and flare system upgrades) and pipeline transport reliability. A decision was made in 2019 to move emergency response and prevention expenditure to the Industrial Safety Program. The changes will be reflected in the programs starting from 2020.

#### Environmental expenditures (capital and operating) in 2019, %



<sup>1</sup> Including the use of corrosion inhibitors, diagnostics, and major repairs of pipelines; spill drills; installation of emergency reservoirs.

## THE COMPANY'S KEY ENVIRONMENTAL EFFORTS

### WATER

#### SUSTAINABLE USE OF WATER AND PREVENTING WATER POLLUTION

##### KEY 2019 INITIATIVES

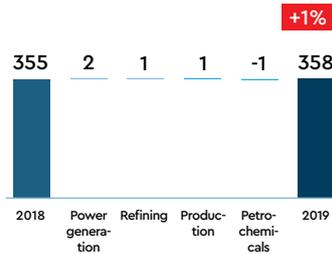
- Construction continued on wastewater treatment facilities at the Yaregskoye field
- Upgrade of biological treatment facilities at Ukhta Refinery
- Optimized circulating water supply at Budyonnovskaya TPP, following which our Power Generation business became a zero wastewater discharge operation

#### PRESERVING BIODIVERSITY

##### KEY 2019 INITIATIVES

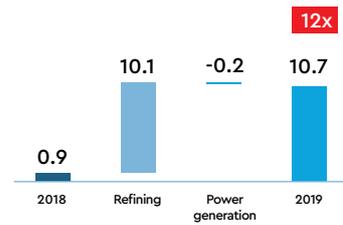
- More than 35.5 million young fish of valuable species were released into rivers and water reservoirs during 2019 under our Biodiversity Conservation Program

#### Water consumption for operational needs by the Group's Russian entities, million cubic meters



Almost all of our water consumption (>99%) is used for operational needs, with approximately 70% utilized for power generation and approximately 15% for formation pressure maintenance systems.

#### Discharge of contaminated (untreated and insufficiently treated<sup>1</sup>) wastewater by the Group's Russian entities, million cubic meters



In 2019, our wastewater discharge grew to 10.7 million cubic meters from 0.9 million cubic meters in 2018 because allowance standards at the Ukhta Refinery had been reclassified as insufficiently treated as concerns the discharge from biological treatment facilities of the refinery. Work was carried out in 2019 to retrofit the biological treatment facilities, with planned completion in 2021. The retrofitting will allow us to reach the standard and get wastewater discharge reclassified back into the category of treated.

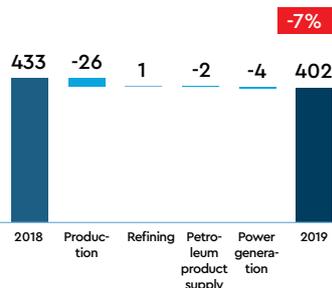
### AIR

#### MINIMIZING AIR EMISSIONS

##### KEY 2019 INITIATIVES

- Design, construction, and upgrade of efficient APG use facilities, including the commissioning of nine facilities
- Upgrade of furnaces at Group refineries

#### Air pollutant emissions by the Group's Russian entities, thousand tonnes



The reduction in air pollutant emissions was primarily attributable to decreased APG flaring by the Group's Russian oil and gas producing entities by 4% to 299 million cubic meters. Sulfur oxide emissions were down by 12%, or 3 thousand tonnes, across the Group's Russian entities as a result of commissioning the gas module of the oil treatment unit at the Vostochno-Lambeyshorskoye field in 2018.

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

## LAND

### PRODUCTION WASTE DISPOSAL

#### KEY 2019 INITIATIVES

- We continued our waste disposal activities
- Performed monitoring of our contractors' compliance with contract terms, including by checking their waste management methods, the condition of operational controls, and the availability of sufficient resources for meeting contractual obligations
- New in-house waste landfill and disposal facilities were constructed and existing facilities were upgraded at the Pyakyakhinskoye and Shchelyayurskoye fields
- Waste generation increased in 2019 due to the expansion of the federal classification of waste

The volume of pre-privatization waste across the Group's Russian entities was reduced by 17% to 223 thousand tonnes.

#### Production waste generation by the Group's Russian entities, thousand tonnes



#### Ratio of annual waste disposal volume to new waste generation by the Group's Russian entities



#### Production waste disposal<sup>2</sup> and landfill by the Group's Russian entities, thousand tonnes

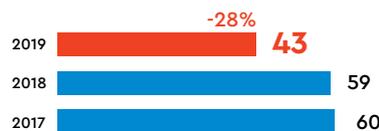


### PIPELINE FAILURE REDUCTION AND CONTAMINATED LAND REHABILITATION

#### KEY 2019 INITIATIVES

- There were no material oil spills<sup>3</sup> in 2019
- The volume of spilled crude oil and petroleum products was down by 50% to 0.016 thousand tonnes
- A total of 57 hectares of oil-contaminated land was rehabilitated
- Annually replaced pipelines accounted for 2.4% of the total pipeline length, with pipelines with anti-corrosion coating comprising the majority of replacements, at 63% in 2019. We used more bimetal pipes with longer service life

#### Oil-contaminated land at the Group's Russian entities as at December 31, hectares



Reduction of oil-contaminated land area was achieved through continued reclamation activities, fast response measures and remediation of damage caused by pipeline failures, works on improving pipeline reliability and reducing pipeline failures.

<sup>2</sup> Include production waste use, disposal, landfill and transfer to specialized organizations.

<sup>3</sup> Pollution of surface and groundwater bodies, which led to exceeding the established allowable standards.

## EFFICIENT APG USE

LUKOIL uses APG reinjection to maintain reservoir 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.

We annually increase our overall APG utilization rate through consistent efforts under the Efficient APG Use Program. Efficient APG use across LUKOIL Group reached record-breaking 97.6% in 2019.

Under LUKOIL Group's Efficient APG Use Program for 2018–2020, nine facilities were commissioned, and total spendings on APG projects and flare system upgrades amounted to RUB 10.4 billion in 2019.

### History of commissioning efficient APG use facilities

Following the construction and commissioning of efficient APG use facilities, efficient APG use across the Group increased over the past five years by 5.6 percentage points to 97.6%, while flaring was down by 648.3 million cubic meters from a 2015 baseline, to 309.5 million cubic meters.

### Gross APG production across the Group,



<sup>1</sup> Including consumption for power generation, boiler house needs, line heaters, etc.

### Efficient APG use, %

	2017	2018	2019
<b>Total</b>	<b>95.4</b>	<b>97.4</b>	<b>97.6</b>
Russia	95.2	97.3	<b>97.5</b>
West Siberia	97.0	97.9	<b>98.0</b>
Urals	96.5	97.5	<b>97.3</b>
Volga region	95.7	98.1	<b>98.1</b>
Timan-Pechora	89.9	94.6	<b>95.2</b>
Other	97.3	98.6	<b>97.6</b>
International projects	97.6	98.1	<b>98.9</b>

### Efficient APG use projects completed in 2019

Region	Field	Facility
Timan-Pechora	Usinskoye field	<ul style="list-style-type: none"> <li>Steam-generating units at Phase 2</li> </ul>
Urals	Pavlovskoye field, the Dorokhovskaya cluster of fields	<ul style="list-style-type: none"> <li>Process units of gas compressor stations</li> <li>Gas pipeline</li> <li>Switching the boiler house to gas</li> </ul>
Volga region	Yu. Korchagin field	<ul style="list-style-type: none"> <li>Ice-resistant fixed platform retrofitting</li> </ul>
West Siberia	Sredne-Nazymskoye field	<ul style="list-style-type: none"> <li>Setting up and launch of a mobile initial water separation unit</li> </ul>
	Galyanovskoye field	<ul style="list-style-type: none"> <li>Oil acceptance and delivery unit with a horizontal flare, multiphase pipeline</li> </ul>

Year	Efficient APG use across the Group, %	Commissioning of key efficient APG use facilities
<b>2019</b>	<b>97.6</b>	Thermal steam treatment facilities at the Usinskoye field, construction of process facilities in the Urals, ice-resistant fixed platform retrofitting at the Yu. Korchagin field
2018	97.4	Commissioning the gas module of the oil treatment unit at the Vostochno-Lambeyshorskoye field, installation of gas pipelines and combined-cycle gas turbines (CCGT) in the Republic of Komi
2017	95.4	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	92.1	The amine-based gas conditioning unit at the Vostochno-Lambeyshorskoye field
2015	92.0	Export gas pipelines from North Caspian fields

# 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 2019 included replacing pumps, optimizing pump operation, installing energy saving pumps and variable frequency drives, replacing and upgrading on-site equipment to boost efficiency factor, upgrading lighting and heating solutions, replacement and adjustment of furnaces, optimization of condensate collection and recirculation.

During the year, we increased the number of artificial lift wells with permanent magnet motors (PMSM) by 31% as part of our program for transitioning to energy efficient pumps. By the end of the year, PMSMs were installed at 50% 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 30% in 2019. In 2019, the cost savings effect from these initiatives was over 12% of attributable electricity costs.

## Results of increasing energy efficiency initiatives across LUKOIL Group

	2017	2018	2019
Electricity savings, million kWh	66	98	<b>159</b>
Heat savings, thousand Gcal	186	101	<b>92</b>

## Energy consumption of PJSC LUKOIL, by type

	2019 consumption	
	by volume	by monetary value (including VAT), RUB million
Electric power	20,702 thousand kWh	119.0
Heat energy	13,979 Gcal	26.1

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 industrial gas use.

Fuel and energy resources (FER) make up a significant part of LUKOIL's

operating expenses and their efficient use is among the Group's major goals. The fuel and energy consumed by LUKOIL Group include electricity (25%), heat (17%), and fuel (58%). In 2019, 35% of total industrial power consumption was covered by our own sources.

## MANAGING ELECTRIC POWER DEMAND

In June 2019, the Company joined a demand management pilot project in Russia's wholesale electricity and capacity market (WECM). LUKOIL's participating entities (LLC LUKOIL-West Siberia and LLC LUKOIL-PERM as of the end of 2019) will be able to reduce their electricity purchasing costs and indirect greenhouse gas emissions.

The pilot project participants will receive payments in the WECM system services market for reducing capacity consumption during peak hours. Managed demand reduction is a better option for the power market than loading more expensive and less efficient power stations. The demand management system will contribute to reducing costs and greenhouse gas emissions to 40% of the unmanaged power generation fleet, while improving the overall reliability of the power grid.

# PERSONNEL

## 2019 RESULTS

- Completed HR management software upgrades
- Implemented personnel training and HR management projects

## 2020 PRIORITIES

- Further improve the job rotation system and adopt respective local regulations within the Company
- Streamline software-enabled business processes in HR management across Group entities
- Further develop in-house corporate training, leverage mobile training technology and a Safety Culture 4.0 mobile application

A 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.

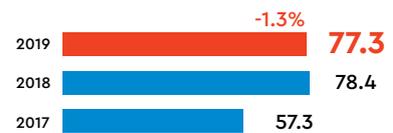
LUKOIL's talent management strategy is aligned with its Strategic Development Program and the staffing demands of its business segments based on planning and budgeting processes that enable the workforce to be efficiently reallocated through insourcing as well as flexible recruitment, professional training,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

As the Strategic Development Program of LUKOIL Group for 2018–2027 is aimed, among other things,

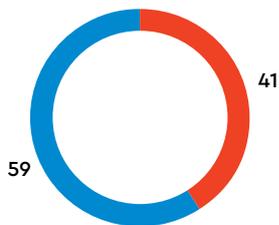
at improving the Company's operational efficiency, our talent management strategy is focused on boosting labor productivity through business process digitization and automation, as well as upgrading employee skills.

In 2019, the Group's average headcount was 101.4 thousand employees, down 1% year-on-year as a result of headcount optimization and restructuring. Employee turnover went down by 3 basis points year-on-year to 7.5%.

Revenue per employee, RUB million

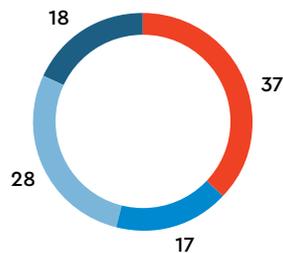


Personnel by gender as at December 31, 2019, %



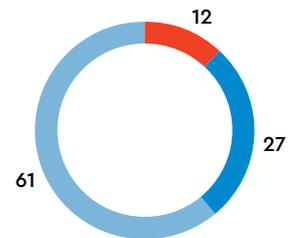
Female Male

Personnel by age as at December 31, 2019, %



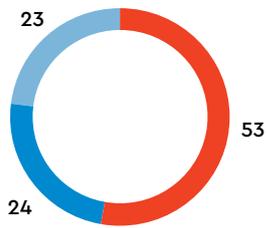
Under 35 41 to 50 years  
36 to 40 years 51 years and older

Personnel by job type as at December 31, 2019, %



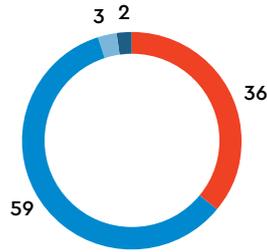
Managers Specialists  
Workers and other personnel

Personnel by education level as at December 31, 2019, %



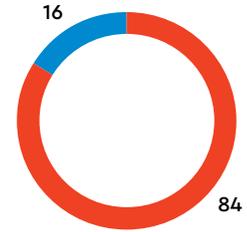
Higher  
Secondary vocational  
Primary vocational, secondary, below secondary

Personnel by segment as at December 31, 2019, %



Exploration and Production  
Refining, Marketing and Distribution  
Other business  
Corporate

Personnel by geography as at December 31, 2019, %



Russian entities  
Foreign entities

**Personnel incentives.** Motivating our personnel to put in their best effort involves providing both financial and non-financial incentives. Non-financial incentives include state, ministerial and corporate awards, such as certificates of merit and letters of gratitude. In the course of 2019, 41 employees received state awards,

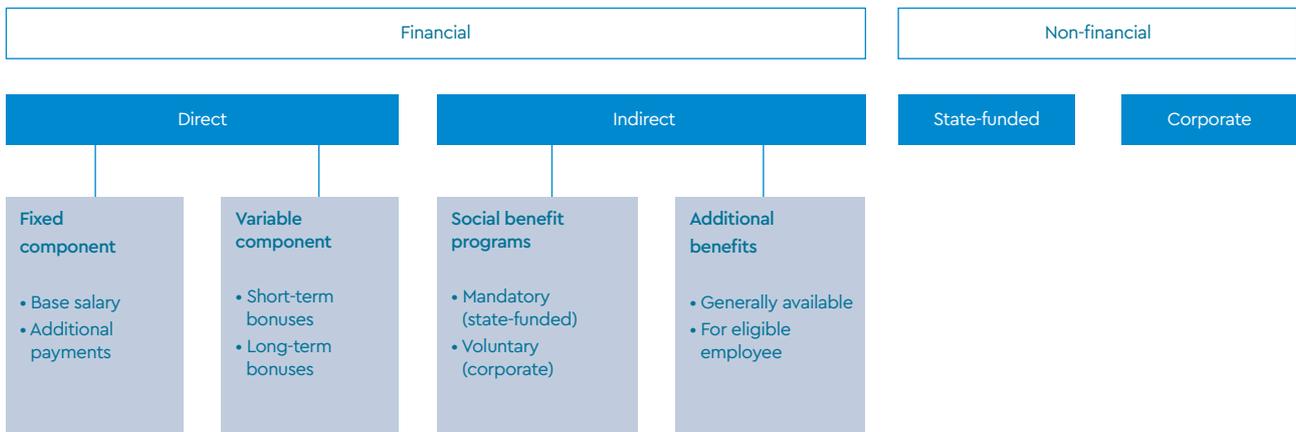
389 employees – ministerial awards, and 1,966 employees – Company awards.

Top managers are remunerated according to the Regulations on PJSC LUKOIL Management Remuneration and Incentive System.

*i* For more details on top management remuneration, see the Top Management Remuneration System section on Page 120.

Motivation system

Total remuneration



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.

### EMPLOYMENT SATISFACTION

Employee satisfaction is one of the key performance measures of the HR Management process. We run monitoring of employee morale and motivation across the Group every two years to assess job satisfaction level, identify priorities as well as the most and least relevant remuneration forms. We have psychological resilience trainings to reduce

occupational risks related to stress and social and psychological adaptation.

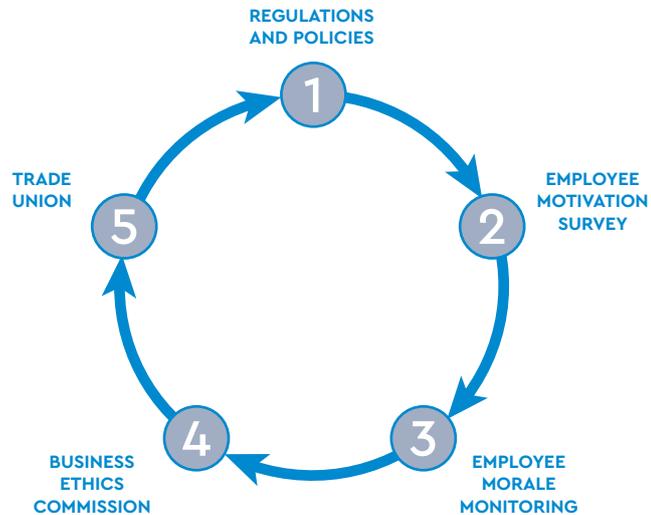
Positive workplace atmosphere attributes include:

- Human rights are observed
- Positive team environment maintained

- Employees are satisfied with their jobs
- Opportunity to realize one's potential and be proactive
- Constructive relationships, based on trust
- Support and assistance between employees and business units encouraged

### 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 improved employee performance and lower costs. Employee development is based on annual professional development plans.



### DIGITALIZATION IN CORPORATE TRAINING

The mobile training technology was successfully implemented in 2019 as per our plans, with MOOC-type projects and the AR-enabled Leadership Program launched. Safety Culture 4.0 mobile application was successfully piloted in the Group's six Russian entities in 2019, and a decision was made to roll out the solution across other Group entities and further enhance its functionality in 2020. A new project to build a single digital platform of internal policies and procedures was initiated at the 2019 Safety Day.

Professional Training Days are held twice a year for all managers of the Group entities to discuss the most pressing matters. In 2019, topics discussed included leadership and building effective teams looking at engagement through delegation.

In order to perform its employee training, the Company uses workshops, seminars, trainings, secondments, professional development and retraining programs, as well as professional training days. In 2019, 78 thousand employees completed training (or 77% of the average headcount).

LUKOIL has a distance learning system that helps to optimize compulsory training costs. The Group has 59 entities

connected to the system with more than 98 thousand users. More than 140 thousand training courses were taught in 2019, including over 32 thousand courses on HSE and over 17 thousand courses on civil defense and protection against disasters. Total training time exceeded 2 million hours.

We also deployed a Corporate Knowledge Management System (covering over 12 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.

The Company also works with overseas companies and international organizations on HR development. A Memorandum of Intent was signed on HR development with Total in 2019 envisaging employee secondments to facilitate mutually beneficial exchange of best practices. Secondments to two Russian entities of the Group were organized for JSC Uzbekneftegaz staff. We continued liaison with the Ministry of Petroleum and Natural Resources of the Arab Republic of Egypt regarding LUKOIL's support of their staff development project; agreement was reached that a group of Egypt's energy sector professionals would be sent for a secondment at LUKOIL.

**EDUCATIONAL PROGRAMS FOR ENGINEERS**

To train engineers, we collaborate with leading higher educational institutions that offer oil and gas degree programs. There are cooperative agreements signed between the Group entities and 60 higher education and vocational training institutions. Eight anchor departments have been set up at universities and are in operation. In 2019, a Cooperation agreement was signed with the Perm Territory regional government to establish the "Sustainable Subsoil Use" world-class research center in Perm to train petroleum engineers, leveraging LUKOIL's experience, research capabilities and operational resources.

**Talent pool management.** Building our talent pool ensures the continuity of management. The grounds for being added to the talent pool include employee performance, professional and business qualities, and potential for managerial tasks. The Group entities maintain their talent pool rosters and the candidates in the pool have steady development tracks. We prepare individual three-year development plans for each employee in the talent pool and monitor their progress annually, changing and amending the plans where appropriate. These development plans are supervised by the Company's Vice Presidents and the top managers of its subsidiaries.

**Diversification.**

In implementing its HR Policy, LUKOIL is guided by the principles outlined in the conventions of the United Nations and the International Labor Organization. LUKOIL has zero tolerance for any form of discrimination and provides equal opportunities to all its employees.

To facilitate employment opportunities for people with disabilities, we have local regulations in place on job quotas for disabled persons. The quota is on average 2% to 3% of the Company's average headcount and is set individually for each region of operation. Special working conditions, benefits, and guarantees are provided for disabled employees, including shorter working 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 96% of the employees at our Russian entities and 50% of employees at our international entities.

Total 2019 expenditures for social programs for employees, members of their families, and retired employees amounted to RUB 17 billion. Major programs include healthcare, housing and private pension plans for employees.

**Human rights.** LUKOIL embraces and respects fundamental human rights and is committed to the fundamental principles of the UN Universal Declaration of Human Rights in its activities. These include 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 promoting the development of our employees, maintaining an effective employee remuneration system, and offering equal pay for equal work. Our commitments under the UN Global Compact apply to all regions and activities of the Company.

We also encourage all organizations we work with to support and respect human rights. When signing agreements with contractors and during their performance of contracted works or services, the relevant units of the Company audit the counterparty's compliance with human rights laws and regulations. If any breaches are 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 trade unions on corporate social responsibility and respect for human rights in its regions of operation.

LUKOIL also cooperates with the International Labor Organization (ILO). In 2019, our representatives participated in a meeting in which Guy Rider, ILO Director General, hailed LUKOIL's contribution to the ILO's efforts to promote youth employment. LUKOIL also participated in the landmark session of the International Labor Conference in Geneva and in the high-level event on youth employment on the margins of the 74th session of the UN General Assembly.

Our core principles and approaches in business ethics, human rights and stakeholder engagement are set forth in the Code of Business Conduct and Ethics of PJSC LUKOIL. With an updated version of the Code approved at the end of 2018, in 2019 HR departments communicated its provisions to all employees of the Group entities and joint ventures. The Code compliance is also routinely reviewed at corporate events, including with top management participation. The provisions of the Code are aligned with the UN and ILO conventions on ethical business conduct, ratified by the Russian Federation.



The full text of the Code of Business Conduct and Ethics of PJSC LUKOIL is available on the Company's website



Employees can discuss business ethics and human rights matters with entity-level HR departments and with independent trade union organizations. 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. Any Company employee (including from international entities) can approach Company management. Other stakeholders can liaise with the Commission using the contact phone numbers listed in the Whistleblowing section of the Code of Business Conduct and Ethics. The Company accepts anonymous reports that may be submitted via communication channels available on a 24-hour basis (email, speak-up hotline).

All reports are investigated, including with the involvement of the employer entity and, if necessary, a trade union representative. The reporting individual is always kept informed about the progress and the outcome

of their complaint. If any breaches of the law or corporate policies are established, the incident is raised with the manager, recommendations for remediation are made, and a feedback channel is established with the reporting individual.

The Business Ethics Commission registered seven reports in 2019; all of them were reviewed within an average review period of two weeks. In each case, measures were taken to prevent negative situations from escalating. During 2019, LUKOIL did not receive any complaints concerning human rights, including with regard to contractors working at the Group's facilities.



For more details on our corporate business ethics, see the Business Ethics section. See **page 134**



For more details on business ethics reporting channels, see the Reference Information section. See **page 148**

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



HR audits are a tool to monitor employee labor rights compliance. These are conducted together with the Internal Audit Service of PJSC LUKOIL or by our HR team only. This type of monitoring looks at compliance of the Company's regulations and policies with Russian law. The audit looks at having proper employment contracts in place, employee pay and incentive arrangements, employee personal data protection and provision of compensations and guarantees.

# CONTRIBUTION TO SOCIETY AND GOVERNMENT RELATIONS

## 2019 RESULTS

- Signed new cooperative agreements with regions of operation
- Delivered on a number of charitable and sponsorship projects for education, healthcare, culture, and social infrastructure construction
- Opened the Oil Pavilion at VDNH park in Moscow – Russia's largest multimedia exposition in applied science
- Continued cooperation with the federal authorities and nongovernment organizations (NGOs)

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.

The Company outlines the following categories of stakeholders:

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

In selecting charity recipients, we favor civic initiatives aimed at fostering economic growth and social stability in our operating regions. 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.

## 2020 PRIORITIES

- Delivery of social and charitable programs in our regions of operation
- Sustainable development of our operating regions and raising the quality of life in urban and rural areas through support of healthcare, education and social enterprises
- Engaging with environmental organizations

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 leverages the expertise and human capital available in the area. LUKOIL supports numerous social projects in its operating regions every year and helps address the economic issues of local communities while supporting their culture, sports, research, educational, environmental and health initiatives.

We carry out social research and questionnaires, whereby local residents in our operating regions are surveyed to ensure effective project planning and then we assess project performance. We also hold meetings with the administrations of municipalities to discuss the efficient implementation of our cooperative agreements, establish joint working groups, regularly monitor the social and economic environment in these regions and survey local residents.

Charitable expenditures and spending under cooperative agreements with Russian regions and municipalities (31 cooperative agreements) totaled about RUB 9 billion in 2019, with the vast majority of the funds (RUB 7 billion) allocated to the agreements. The main focus areas include assistance to the indigenous peoples of the North, preservation of cultural and historical heritage, support of healthcare, sports and religious institutions. LUKOIL funds numerous educational programs, including scholarship programs and grants, and supports orphanages and children's educational facilities.

In 2019, LUKOIL became a winner of IPRA (International Public Relations Association) Golden World Awards for Excellence as "Best Company for Community Engagement" and "Best Company for Promoting Territory and Tourism". The competition is held in cooperation with the UN which recognizes initiatives that address its Sustainable Development Goals (UN SDGs). The 2019 competition had projects from 89 countries.

In 2019, we gave a start to an interactive training center highlighting the history of Russian oil and development of national science and technology, located in the historic Oil

Pavilion at VDNH park in Moscow. The pavilion had been renovated by LUKOIL. The display introduces visitors to the full production cycle of a vertically integrated oil company and is designed for a wide audience.

## RELATIONS WITH INDIGENOUS MINORITIES OF THE NORTH

LUKOIL operates in regions that are home to indigenous minorities of the North: the Khanty-Mansi Autonomous Area – Yugra, the Nenets Autonomous Area, the Yamal-Nenets Autonomous Area and the Krasnoyarsk Territory. LUKOIL acknowledges and respects the rights of the indigenous minorities of the North as set out in international laws, including the United Nations Declaration on the Rights of Indigenous Peoples, the Convention on Biodiversity, the Resolution

on the UN World Conference on Indigenous Peoples, and the United Nations Global Compact. We support the rights of indigenous peoples 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. Our engagement with indigenous peoples is governed by federal and regional legislation of the Russian Federation, license obligations of LUKOIL Group entities, and federal and regional support programs for the indigenous minorities of the North.

No violations of the rights of the indigenous minorities of the North by the Company were reported in 2019.

**i** For more details on relations with indigenous minorities of the North, see the Company's website



**ENGAGING WITH LOCAL COMMUNITIES IN THE REPUBLIC OF KOMI**

We engage with local communities in the Republic of Komi on a regular basis. In 2019, there were 60 public hearings and community meetings to inform the local people about construction and development of oil production facilities. Most projects were approved, only three were challenged, and work is under way to amend the design documentation and move construction sites in those projects further away from local communities' residential areas.

The local people can get in touch with the Company by sending a letter to LLC LUKOIL-Komi mailing address, or via email, social media, speak-up hotline, as well as during public

hearings, community outreach initiatives and management meetings with local people. During the meetings we received five job applications, with three individuals being employed by the Company. In 2019, we ran several annual environmental activities: clean-ups of the banks of water bodies, combined with bioresource reproduction initiatives; and a decision was made to address water supply issues in the village of Ust-Usa. A project was developed to organize summer recreation for schoolchildren from rural areas of the Usa district in 2020.

The telephone hotline received 249 calls in 2019; most of these were unsolicited commercial offers unrelated to environmental safety. Inspections were carried out on four reports; no violations of environmental safety rules were found. The Company also engages with all NGOs active in the Republic of Komi, including inter-regional grassroots movements such as "Komi Voytyr", "Izvatas", "Rus' Pechorskaya", and the "Save Pechora Committee" NGO. In August 2019, we organized a study visit of the "Save Pechora Committee" activists to an oil sludge disposal landfill at the Zapadno-Tebukskoye oil field.

**GOVERNMENT RELATIONS**

LUKOIL is involved in developing a modern, robust and efficient government regulatory framework through a public consultation process on draft regulatory documents.

In 2019, we submitted to the federal authorities our proposals on 260 draft regulatory documents, with a particular focus on environmental legislation proposals, including on regulating

greenhouse gas and air pollutant emissions, compensatory reforestation, buffer zones around industrial facilities, carbon tax and other issues.

# CORPORATE GOVERNANCE

## 2019 RESULTS

- Expanded the functions of the Strategy and Investment Committee of the Board of Directors related to sustainable development, renamed the Committee the Strategy, Investment and Sustainability Committee of the Board of Directors
- Approved a new version of the Regulations on the Dividend Policy of PJSC LUKOIL
- Excluded PJSC LUKOIL shares recorded on the balance sheet of the Company's subsidiary from voting at General Shareholders Meetings
- For the first time, the Board of Directors included nominees at its own discretion in the list of candidates for election to the Board of Directors
- Dissolved the Audit Commission, made relevant amendments to the Charter and the Company's internal documents
- Piloted automated internal audit procedures
- As part of the buy-back programme, purchased 37.2 million PJSC LUKOIL shares and cancelled 35 million shares

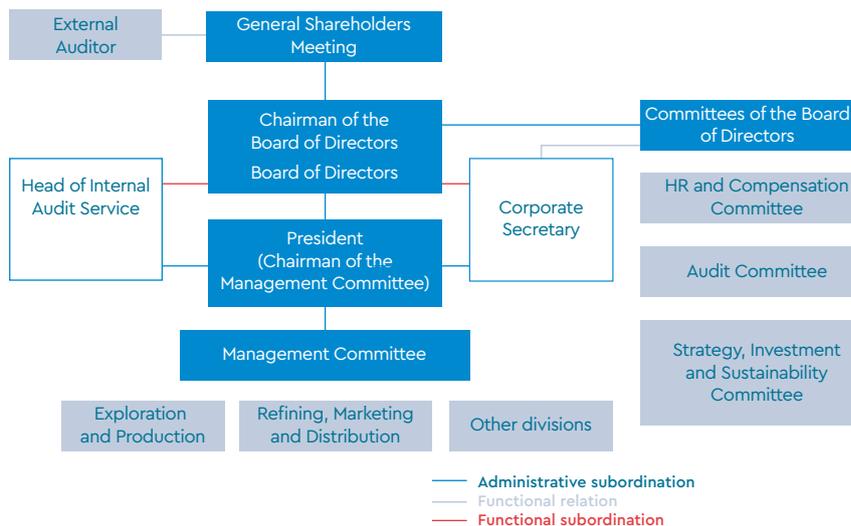
An efficient corporate governance system is a vital tool ensuring sustainable development and successful implementation of the corporate strategy to create shareholder value.

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 members 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 as at December 31, 2019



## 2020 PRIORITIES

- Develop an Anti-corruption Policy
- 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



## SPECIFIC COMMITTEES:

- Risk Committee
- Health, Safety and Environmental Committee
- Investment and Plans Coordination Committee
- Tender Committee
- Major E&P Projects Committee
- Priority Refining and Distribution Projects Committee

PJSC LUKOIL's corporate governance system is shaped in line with the principles and recommendations outlined in the Corporate Governance Code, recommended for application by the Bank of Russia. 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).

## Development of the corporate governance system

In 2019, PJSC LUKOIL focused on enhancing corporate procedures and practices in compliance with the Corporate Governance Code. The following areas were prioritized:

- Expansion of the functions of the Strategy and Investment Committee of the Board of Directors. In March 2019, the Strategy and Investment Committee was renamed the Strategy, Investment and Sustainability Committee and its functions were expanded accordingly
- Approval of a new version of the Regulations on the Dividend Policy of the Company, stipulating that the total amount of dividends on the Company's issued shares, excluding the shares held by LUKOIL Group entities, should equal at least 100% of the Company's adjusted free cash flow
- Cancellation of 35 million shares. Pursuant to the resolution of the Annual General Shareholders Meeting dated June 20, 2019 on reducing the charter capital of PJSC LUKOIL through acquisition of a portion of issued shares, PJSC LUKOIL

acquired 35 million ordinary shares from the Company shareholders to reduce the total number of such shares, including 15.5 million shares acquired from LUKOIL SECURITIES LIMITED, a wholly-owned subsidiary of PJSC LUKOIL, which implements the buy-back programme. As a result, the number of issued ordinary shares in PJSC LUKOIL decreased to 715 million shares

- Exclusion of shares recorded on the balance sheet of LUKOIL SECURITIES LIMITED from voting at the Annual and Extraordinary General Shareholders Meetings
- The Board of Directors included three nominees at its own discretion in the list of candidates for election to the Board of Directors. As a result, more than one fourth of the Board of Directors were new members, while the share of independent directors as of the end of 2019 was 55%, the most for any Russian oil and gas company
- Dissolution of the Audit Commission. Pursuant to the resolution of the Extraordinary General Shareholders Meeting, the Audit Commission was dissolved to eliminate duplication of functions

of the Audit Commission, the Audit Committee of the Board of Directors, and the Internal Audit Service dealing with control over the Company's business operations, as well as to cut costs related to the activities of the Audit Commission. A new version of the Company's Charter was approved, which does not contain provisions on the Audit Commission. Relevant amendments were made to the Company's internal documents regulating the activities of its governance bodies; and the Regulations on the Audit Commission were deemed invalid

As at the end of the reporting period, PJSC LUKOIL fully complied with 73.4% of the Code's principles.<sup>1</sup> As a result of efforts to develop the corporate governance system, the share of the principles partially complied with increased to 25.3% in 2019 while the share of the principles which are not complied with reduced to 1.3%. At the end of the reporting year, PJSC LUKOIL complied with all core principles of the Corporate Governance Code.

<sup>1</sup> 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<sup>1</sup>

Corporate governance principles	Number of principles recommended by the Code	2018			2019		
		Full compliance	Partial compliance	No compliance	Full compliance	Partial compliance	No compliance
Rights and equal opportunities for shareholders in exercising their rights	13	10	2	1	10	3	-
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	-
<b>Total score</b>	<b>79</b>	<b>58</b>	<b>19</b>	<b>2</b>	<b>58</b>	<b>20</b>	<b>1</b>
	<b>100%</b>	<b>73.4%</b>	<b>24.1%</b>	<b>2.5%</b>	<b>73.4%</b>	<b>25.3%</b>	<b>1.3%</b>

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 to major companies.

**i**

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

<sup>1</sup> Statistics provided based on the 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 its new versions
- Decisions on the number of Board members, election of its 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 report 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 law

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.

The procedures for preparing, convening, 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.

### General Shareholders Meetings of PJSC LUKOIL held in 2019

**Annual General Shareholders Meeting**  
**June 20, 2019**  
In person

PJSC LUKOIL 2018 Annual Report and annual accounting (financial) statements were approved, profit for the period was distributed, and the resolution on dividend payouts for 2018 was passed. The Board of Directors and the 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.

The resolution was passed on the reduction of the Company's charter capital through acquisition of a portion of PJSC LUKOIL issued shares in order to reduce the total number thereof.

A new version of the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting of PJSC LUKOIL was approved.

An interested party transaction was approved.

**Extraordinary General Shareholders Meeting**  
**December 3, 2019**  
Absentee voting

A resolution was passed on the reduction of the Company's charter capital through acquisition of a portion of PJSC LUKOIL issued shares in order to reduce the total number thereof.

Resolutions were passed on the interim dividend payout for nine months of 2019, on a partial payment of remuneration to members of the Board of Directors for their service on the Board of Directors, and on payment of remuneration to members of the Audit Commission.

The resolution was passed on early termination of powers of members of the Audit Commission.

A new version of the Company's Charter was approved.

Amendments were approved to the Company's internal documents regulating the activities of its governance bodies; the Regulations on the Audit Commission of OJSC LUKOIL were deemed invalid.

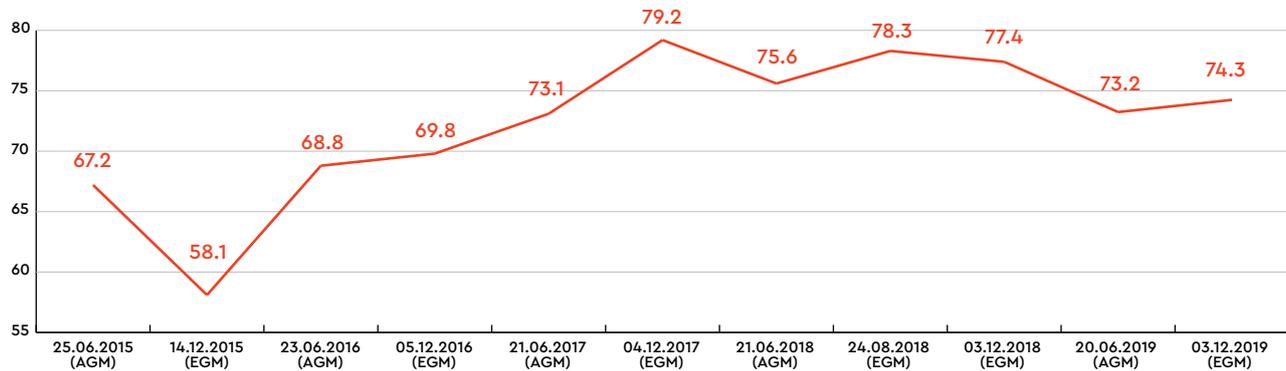
In 2019, two General Shareholders Meetings were held where shareholders demonstrated strong support for each

resolution on the agenda items. Votes in favor on all agenda items<sup>2</sup> ranged between 95.6% and 99.9%. Holders

of around 70% of issued depositary receipts usually participate in General Shareholders Meetings.

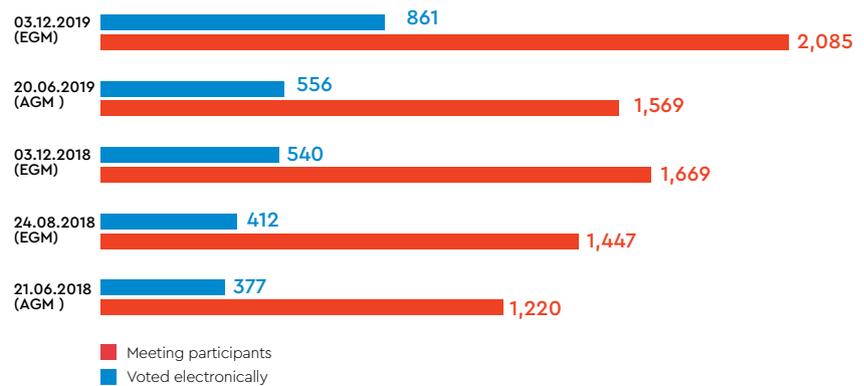
<sup>2</sup> Percentage of the number of votes by persons attending the General Shareholders Meetings and voting on respective agenda items (excluding the election of PJSC LUKOIL's Board of Directors and Audit Commission).

## Quorum at General Shareholders Meetings in 2015–2019



Continued successful use of electronic voting at the meetings held in 2019 enabled shareholders to vote regardless of where their rights were recorded. Electronic voting was 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. In 2019, the number of shareholders who used electronic voting services more than doubled versus the Annual General Shareholders Meeting held in 2018.

### The number of shareholders who used electronic voting services, and their share in the total number of the Meeting participants



Reports on voting results are available in the Shareholders Meeting section on the Company's website



<sup>1</sup> Quasi-treasury shares did not participate in the voting during General Shareholders Meetings held in 2019.

## 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 in particular 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

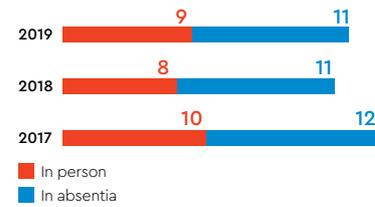
shares may submit their nominations to the Board of Directors within 60 days from the end of the reporting year. The Company's Charter establishes the right of the Board of Directors to include matters on the agenda of the General Shareholders Meeting and/or propose nominees to the Board of Directors at its discretion. Voting results are announced at the Annual General Shareholders Meeting, specifying the quorum and the number of votes for each nominee.

Meetings of the Board of Directors are held in person or in absentia as per the approved plan and as necessary, but generally at least once in two months.

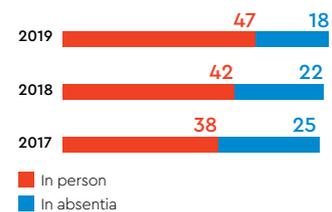
### Board of Directors' performance

The Board of Directors held 20 meetings in 2019, comprising nine 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; close attention was also paid to matters of sustainable development. 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 2019



## Key decisions of the Board of Directors in 2019

Agenda and decisions	Preview by the Committees of the Board of Directors
<b>Corporate governance</b>	
Decisions were adopted as part of preparing for the Company's Annual and Extraordinary General Shareholders Meetings; specifically, the Board of Directors proposed nominees for election to the Board of Directors	SISC, AC, HRCC
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 and the Report on Acquisition by Public Joint Stock Company "Oil Company 'LUKOIL'" of shares in PJSC LUKOIL were approved	
Independence of members of the Board of Directors of PJSC LUKOIL was discussed Victor Blazheev was recognized as an independent member of the Board of Directors of PJSC LUKOIL	HRCC
Implementation of the Regulations on Information Policy of PJSC LUKOIL was discussed	
PJSC LUKOIL investor and shareholder relations were discussed	SISC
The Regulations on Performance Assessment of the Board of Directors of Open Joint Stock Company "Oil Company 'LUKOIL'" were amended	HRCC
The Regulations on PJSC LUKOIL Management Remuneration and Incentive System were amended	HRCC
<b>Strategy, operating activity and finance</b>	
The progress of the Strategic Development Program of LUKOIL Group for 2018–2027 was discussed	SISC
LUKOIL Group's preliminary 2018 results and priorities for 2019 under the Strategic Development Program of LUKOIL Group for 2018–2027, as well as LUKOIL Group's results for the first half of 2019 and performance of the LUKOIL Group's Budget and the Investment Program for 2019 were discussed	
Recommendations were provided on the distribution of the Company's profits and losses based on the 2018 full-year results, on the amount of dividends on PJSC LUKOIL shares based on the results for full year 2018 and nine months of 2019, and the dividend payout procedure	SISC
The Regulations on the Dividend Policy of PJSC LUKOIL were amended International E&P projects were discussed	SISC
The Company's international business operations and key areas for developing business operations with the range of core petroleum products in 2017–2018 were discussed	
<b>Sustainable development, technology and innovation</b>	
The decision was adopted to rename the Strategy and Investment Committee of the Board of Directors of PJSC LUKOIL to the Strategy, Investment and Sustainability Committee of the Board of Directors of PJSC LUKOIL. The Regulations on the Strategy, Investment and Sustainability Committee of the Board of Directors of PJSC LUKOIL were approved	SISC
Key development trends in the world's liquid hydrocarbons market until 2035 were discussed	SISC
Progress against the Company's targets over the past few years was discussed: growth opportunities in the process of shifting to low carbon economy	
The Company's adaptation to climate change was discussed	SISC
Health and safety performance and efforts to improve occupational safety were discussed	SISC
Anticorruption measures were discussed	AC
The implementation of the Code of Business Conduct and Ethics of PJSC LUKOIL was discussed	
The progress of LUKOIL Group's IT Development functional program was discussed	SISC
The progress of the Mid-Term Target Research and Technology Development Program of LUKOIL Group for 2016–2018 was discussed	
LUKOIL Group Sustainability Report 2018 was discussed	SISC

SISC – Strategy, Investment and Sustainability Committee, AC – Audit Committee, HRCC – HR and Compensation Committee.

In 2019, members of the Board of Directors actively participated in the meetings of the Board of Directors and Committees of the Board of Directors.

### In-person participation of Directors in BoD and its Committees meetings in 2019

BoD members	In person (9 meetings)	Strategy, Invest- ment and Sustaina- bility Committee (7 meetings)	Audit Committee (8 meetings)	HR and Compensa- tion Committee (6 meetings)
Valery Grayfer	4/9			
Vagit Alekperov	9/9			
Victor Blazheev	9/9		8/8	3/6
Toby Gati	9/9	7/7 (4)		
Igor Ivanov (until June 2019)	3/4	3/3 (1)	4/4 (1)	
Ravil Maganov	8/9	4/7		
Roger Munnings	9/9			6/6
Richard Matzke (until June 2019)	4/4			2/2
Ivan Pictet (until June 2019)	4/4		3/4 (3)	
Pavel Teplukhin (since June 2019)	5/5 (1)		4/4 (1)	
Leonid Fedun	9/9	6/7		
Lyubov Khoba	9/9			
Sergey Shatalov (since June 2019)	5/5	3/4	3/4	
Wolfgang Schüssel (since June 2019)	5/5			4/4 (3)

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.

"7/7 (4)" layout in the table signifies attendance at seven out of seven meetings held, including four meetings via a conference call.

### The Board of Directors' performance assessment

The Board of Directors relies on the assessment procedure to ensure constant improvement of its performance. In December 2019, the Board of Directors amended the Regulations on Performance Assessment of the Board of Directors of Open Joint Stock Company "Oil Company 'LUKOIL'" to improve assessment effectiveness. In 2019, 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 2018 and to the date of termination of powers in June 2019).

The Board of Directors' performance assessment includes an overall assessment of its activities and the activities of each of its

Committees. In addition to improving the Board performance, assessment aims at providing an objective basis for determining the remuneration payable to the members of the Board of Directors.

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

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

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 2018–2019.

### 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 and sociocultural diversity.

In 2019, the composition of the Board of Directors changed: Igor Ivanov, Richard Matzke and Ivan Pictet resigned, and Pavel Teplukhin, Sergey Shatalov and Wolfgang Schüssel were nominated by the Board and appointed Directors. As a result, the share of independent directors reached 55%. A high share of independent members 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.

As at the end of 2019, 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.

### Board of Directors' membership as at December 31, 2019

Executive directors <sup>1</sup>	Vagit Alekperov, Ravil Maganov, Leonid Fedun
Non-executive directors, including the Chairman of the Board of Directors	Valery Grayfer, Lyubov Khoba
Independent directors	Victor Blazheev <sup>2</sup> , Toby Gati, Roger Munnings, Pavel Teplukhin, Sergey Shatalov, Wolfgang Schüssel
<b>Total</b>	<b>11 members</b>

Current members of the Board of Directors at the end of the reporting year had sufficient time to perform their duties. Almost half of the directors did not hold executive positions at other companies, and executive directors held no more than two positions at companies outside LUKOIL Group.

### 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 their professional and personal qualities and taking into consideration Directors' individual proposals on committees setup. The Chairman of the Board of Directors is not a member of any Committee of the Board of Directors.

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

at the Board meetings and ensuring free and constructive discussion of the matters reviewed by the Board to develop highly informed and efficient solutions, as well as productive cooperation between the members of the Board of Directors and the Company's management.

Valery Grayfer had been the Chairman of the Board of Directors of PJSC LUKOIL from 2000 to 2020.

### DIRECTOR OF THE YEAR

Valery Grayfer, the Chairman of the Board of Directors of PJSC LUKOIL, received the 14th "Director of the Year" National Award of the 9th Russian Corporate Governance Forum in recognition of his lifetime achievements in corporate boards of directors. The award recognizes personal contribution to developing and promoting high corporate governance standards to ensure efficient business development.

Pursuant to the Resolution of the Federal Agency for Subsoil Use passed in November 2019, PJSC LUKOIL's Rakushechnoye oil and gas condensate field in the Severny license area in the Russian sector of the Caspian Sea bed was renamed the V.I. Grayfer field to mark Valery Grayfer's valuable contribution to the development of the Russian oil industry.

<sup>1</sup> In line with the Corporate Governance Code recommendations, executive directors are both members of the Management Committee of PJSC LUKOIL and Company employees.

<sup>2</sup> Considered independent by the Resolution of the Board of Directors dated June 20, 2019 (Minutes No. 11).

## Key skills of Board members as at December 31, 2019

Board members	Status	Key skills								Industry experience, years	Share in the charter capital as at December 31, 2019, %
		Strategy	Finance and audit	Oil and gas, power generation	Law and corporate governance	Risk management	GR/IR/PR	HSE	HR management		
Valery Grayfer	Chairman Non-executive	•	•	•	•	•	•	•	•	67	0.01
Vagit Alekperov	Executive	•	•	•	•	•	•	•	•	51	2.99 (27.39 <sup>4</sup> )
Victor Blazheev	Independent <sup>3</sup>		•		•	•	•		•	10	
Toby Gati	Independent	•			•	•	•		•	3	
Ravil Maganov	Vice Chairman Executive	•	•	•	•	•	•	•	•	42	0.46
Roger Munnings	Independent	•	•	•	•	•	•	•	•	27	
Pavel Teplukhin	Independent	•	•		•	•	•		•	1	
Leonid Fedun	Executive	•	•	•	•	•	•	•	•	26	1.40 (9.07 <sup>5</sup> )
Lyubov Khoba	Non-executive	•	•	•	•	•	•	•	•	37	0.43
Sergey Shatalov	Independent	•	•	•	•	•	•		•		
Wolfgang Schüssel	Independent	•	•	•	•	•	•		•		

### Independent directors

Independent directors play an important role in effective implementation of the duties of the Board of Directors, particularly in the issues related to the Company's growth strategy and managing risks, as well as protecting the interests of both shareholders and investors. Independent directors help develop objective and well-balanced opinions on the matters discussed at meetings.

In 2019, the Board of Directors for the first time included three nominees at its own discretion in the list of candidates for the election to the Board of Directors, and these nominees were approved by shareholders at the Annual General Shareholders Meeting. As a result, the share of independent directors increased to 55%.

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

The independence of each Director and nominee to the Board of Directors was assessed during 2019 as per the Listing Rules of Moscow Exchange and provisions of the Corporate Governance Code, through questionnaires filled out by Board members or nominees. The HR and Remuneration Committee assessed Directors' independence three times in 2019. In March 2019, the Committee analyzed the qualification

and independence of all Board members. In June, the Committee assessed the independence of the newly elected Board of Directors and prepared its recommendations to the Board. In July, the independence of all members of the Board of Directors was reviewed by the Board. The HR and Compensation Committee reviewed the Board's independence again in November 2019.

Furthermore, by the Resolution of the Board of Directors dated June 20, 2019 (Minutes No. 11), Victor Blazheev was considered independent, although he met the formal criteria of being related to the Company due to having exceeded the seven-year tenure as a Director stipulated in the Corporate Governance Code and the Listing Rules of Moscow Exchange.

<sup>3</sup> Considered independent by the Resolution of the Board of Directors dated June 20, 2019 (Minutes No. 11).

<sup>4</sup> As of 31 December 2019, the aggregate percentage of shares in PJSC LUKOIL which Mr. Alekperov directly owns, or is a beneficiary of (including through family trusts and mutual funds), was 27.39%. Mr. Alekperov directly owned 2.99%, and was a beneficiary (including through family trusts and mutual funds) of 24.40%, of the shares in PJSC LUKOIL.

<sup>5</sup> As of 31.12.2019, the aggregate percentage of shares in PJSC LUKOIL which Mr. Fedun directly and/or indirectly owns, and/or is a beneficiary of, was 9.07%

### AMONG LEADERS IN BOARD DIVERSITY

PJSC LUKOIL was ranked sixth among 100 companies with the most diverse board of directors, according to the second annual ranking of boards of directors of public companies (prepared by Women on Boards), that takes into account shareholders' policy on board gender diversity.

### Diversity in the Board of Directors

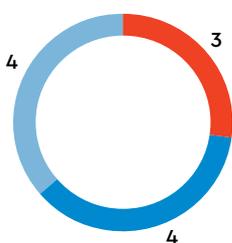
According to the Corporate Governance Code, nominees to Company's governance bodies must have relevant professional qualifications, knowledge, experience, expertise and business skills.

The current version of 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 other local regulations formalizing the application of such approaches.

At the same time, we believe that the performance of the Board of Directors is positively affected by the diversity of professional qualifications and sociocultural diversity based on gender, age, nationality, social and economic background, etc. Such diversity provides the Board of Directors with different points of view, helps avoid template and group thinking, brings new ideas to discussions and contributes to well balanced decision making.

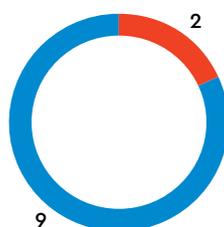
The current Board of Directors is sufficiently diversified and balanced.

Length of service on the Board of Directors as at December 31, 2019



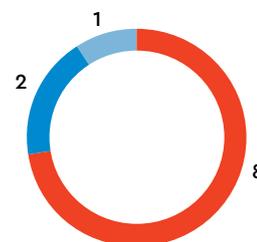
■ Less than 1 year  
■ 1 to 7 years  
■ Over 7 years

By gender



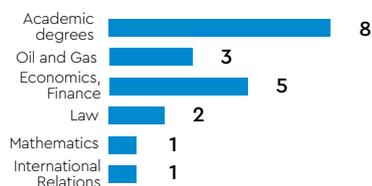
■ Female  
■ Male

Geography



■ Russia  
■ Europe  
■ USA

### Education<sup>1</sup>



<sup>1</sup> One Board member has a double degree.

## 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.

Following their election to the Board of Directors, Pavel Teplukhin, Sergey Shatalov and Wolfgang Schüssel completed an induction training program that included acquaintance with the Company, including meetings with the Company's executives in charge of strategy, finance, investor and shareholder relations, exploration and production, refining, marketing and distribution, and power

generation. During the meetings, the Company executives offered the new Directors information on the Company's strategic goals, operational plans and main performance indicators.

To ensure effective communication with Directors, PJSC LUKOIL uses up-to-date information and technical resources, including dedicated software in the Russian and English languages.

### BEST INDEPENDENT DIRECTORS

Two independent members of the Board of Directors, Victor Blazheev and Roger Munnings, were ranked in the "50 Best Independent Directors" category of the 14th "Director of the Year" National Award.

Independent member of PJSC LUKOIL's Board of Directors Roger Munnings won in the special Best Independent Director category of the Top 1000 Russian Managers award set up by the Association of Managers and Kommersant Publishing House. The award marks achievements of independent members of boards of directors who made a significant contribution to developing and improving corporate governance in Russian companies.

## Biographies of members of the Board of Directors<sup>1</sup>



**Valery  
GRAYFER**

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

1929–2020.  
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.  
2000–2020: Chairman of the Board of Directors of PJSC LUKOIL.

**1996–2020: Member of the Board of Directors of PJSC LUKOIL (formerly OJSC LUKOIL).**

**Membership in the governance bodies of other organizations:**

Chairman of the Board of Directors of LLC RITEK



**Ravil  
MAGANOV**

- Vice Chairman of the Board of Directors
- Executive Director
- Member of the Strategy, Investment and Sustainability 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, Honored Fuel and Energy Industry Specialist. Awarded five 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 OJSC LUKOIL.
- 1994–2006: First Vice President of OJSC LUKOIL (E&P).
- Since 2006: First Executive Vice President of PJSC LUKOIL (E&P).
- Since 2016: Vice Chairman of the Board of Directors of PJSC LUKOIL.

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

**Membership in the governance bodies of other organizations:**

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. Honored Fuel and Energy Industry Specialist, Honored Oil Specialist. Awarded five orders and nine medals, awarded a Certificate of Honor, and 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 OJSC LUKOIL.
- Since 1993: President of PJSC LUKOIL.

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

**Membership in the governance bodies of other organizations:**

Chairman of the Supervisory Board of LUKOIL INTERNATIONAL GmbH  
Chairman of the Community Council of Our Future Fund for Regional Social Programs  
Member of the Bureau of the Russian Union of Industrialists and Entrepreneurs



**Victor**

**BLAZHEEV**

- Independent Director<sup>1</sup>
- 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 Law (PhD), Professor. Awarded the titles of the Distinguished Lawyer of the Russian Federation, 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 OJSC LUKOIL).**

**Membership in the governance bodies of other organizations:**

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



**Toby Gati**

- Independent Director
- Member of the Strategy, Investment and Sustainability Committee

Born in 1946.

Graduated from Pennsylvania State University in 1967 (Bachelor's degree in Russian Literature and Language), Columbia University in 1970 (Master's degree in Russian Literature) and 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:**

Member of the U.S.–Russia Business Council (USRBC)

President of TTG Global LLC



**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 (C.B.E.).

1993–2008: Chairman of KPMG's Global Energy and Natural Resources Practice.

- 1996–2008: President and CEO of KPMG Russia and CIS.
- 1998–2008: Member of KPMG's International Council (ultimate governance body).
- Currently a member of the Russian National Council on Corporate Governance and a member of the Expert Council of the Russian Institute of Directors.

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

**Membership in the governance bodies of other organizations:**

Independent member of the Board of Directors of PJSC Sistema

Chairman of the Russian-British Chamber of Commerce

Independent member of the Board of Directors of PJSC MMC NORILSK NICKEL



**Pavel**

**TEPLUKHIN**

- Independent Director
- Member of the Audit Committee

Born in 1964.

Graduated with distinction from economics faculty of Lomonosov Moscow State University in 1986, Candidate of Economics (PhD). Graduated from the London School of Economics with a Master of Science degree in Economics in 1993.

- 2008–2015: member of the Supervisory Board of JSC WTC Moscow.
- 2010–2013: Member of the Board of Directors of OJSC VTB.
- 2012–2016: Chief Executive Officer of Deutsche Bank Ltd.
- Since 2017: President of LLC Matrix Advisors.

**Since 2019: Member of the Board of Directors of PJSC LUKOIL.**

**Membership in the governance bodies of other organizations:**

Member of the Board of Directors of JSC RUSNANO, Chairman of the Strategy Committee

President of LLC Matrix Advisors

<sup>1</sup> Determined to be independent by the Resolution of the Board of Directors dated June 20, 2019 (Minutes No. 11).



**Leonid  
FEDUN**

- Executive Director
- Member of the Strategy, Investment and Sustainability 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 OJSC LUKOIL.
- Since 2012: Vice President for Strategic Development of PJSC LUKOIL.

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

**Membership in the governance bodies of other organizations:**

Chairman of the Board of Directors of Football Club Spartak Moscow  
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, Honored Fuel and Energy Industry Specialist. Awarded two orders and two medals.

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

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



**Sergey  
SHATALOV**

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

Born in 1950.

Graduated from Zhdanov Leningrad State University with a Bachelor's degree in Mathematics in 1972. Defended his doctoral thesis on the methodology of forming and developing the tax system in the Russian Federation in 2003. External Fiscal Policy Advisor at the Ministry of Finance of the Russian Federation. State Counselor of the Russian Federation, 1st class.

- 1990–1993: Member of the Supreme Council of the Russian Federation.
- 1993–1995: Director of the Tax Department of JSC Foreign Investment and Privatization Center.
- 1995–1998: Deputy Minister of Finance of the Russian Federation.
- 1998–2000: Director of the Tax Department of PricewaterhouseCoopers and CJSC PricewaterhouseCoopers Audit.
- 2000–January 18, 2016: Deputy Minister of Finance of the Russian Federation.
- 2016–2018: Vice President of Action-MCFER Mediagroup.

**Since 2019: Member of the Board of Directors of PJSC LUKOIL.**

**Membership in the governance bodies of other organizations:**

Member of the Board of Directors of LLC Avtotor Holding



**Wolfgang  
SCHÜSSEL**

- Independent Director
- Member of the HR and Compensation Committee

Born in 1945.

Graduated from the University of Vienna with a degree in Economics and Law in 1977. Holds a doctoral degree.

- 1989–1995: Austrian Federal Minister of Economic Affairs.
- 1995–1999: Vice Chancellor and Federal Minister of Foreign Affairs of the Republic of Austria.
- 1979–2011: Member of the Austrian National Council.
- 1995–2007: Chairman of the Austrian People's Party.
- 2000–2007: Federal Chancellor of the Republic of Austria.
- 2007–2016: Member of the Board of Trustees of Bertelsmann Foundation.

**Since 2019: Member of the Board of Directors of PJSC LUKOIL.**

**Membership in the governance bodies of other organizations:**

Chairman of the Board of Trustees of Konrad Adenauer Stiftung  
 President of the Foreign Policy and United Nations Association of Austria (UNA-Austria)

Member of the Supervisory Board of RWE AG

**Liability insurance of Board members**

Pursuant to the Contract (policy) with IPJSC Ingosstrakh on insuring the liability of directors, officers and corporations for 2019–2020, 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 470 thousand.



The biographies of Igor Ivanov, Richard Matzke and Ivan Pictet, who resigned from the Board of Directors in June 2019, are available in PJSC LUKOIL 2018 Annual Report on the Company's website



## 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 essential matters while preparing relevant recommendations:

- Strategy, Investment and Sustainability Committee (SISC)
- Audit Committee (AC)
- HR and Compensation Committee (HRCC)

Committee activities are governed by applicable regulations.

**i** LUKOIL's Board Committee regulations are available in the Board of Directors section of the Company's website



The Committees are fully accountable to the Board of Directors. Committee members are elected from among the Board members, and all independent directors are involved in the work of the Committees in line with both best practice and the requirements of the Listing Rules of Moscow Exchange. 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 and the HR and Compensation Committee are comprised exclusively of independent directors. Independent directors also make up half of the Strategy, Investment and Sustainability Committee,

where two members out of a total four are independent, including the Chairman. The Board believes that the Strategy, Investment and Sustainability 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.

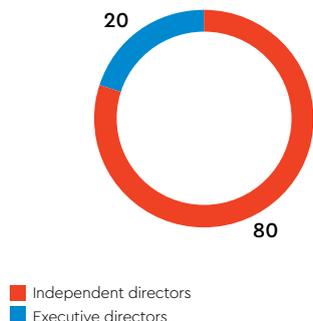
Both LUKOIL employees and third parties may attend Committee meetings upon invitation from a Committee Chairman. However, they may not vote on agenda items.

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

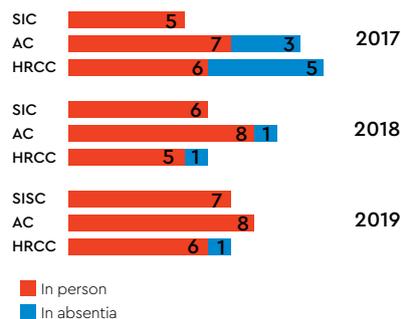
More than half of all matters discussed by the Board of Directors were previewed by the Board Committees, ensuring detailed discussions on the most essential matters brought up for the Board's approval.

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

### Committee membership as at December 31, 2019, %

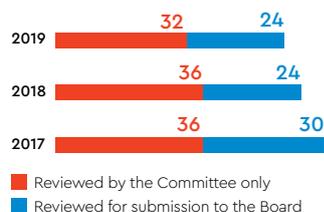


### Committee meetings



The increased number of matters reviewed by Committees only reflects the active work of the Committees and shows that more matters reserved within the Committees' competence require a more detailed review before being submitted to the Board of Directors.

### Matters discussed



## Strategy, Investment and Sustainability Committee

« In 2019, we focused on matters related to implementing the Strategic Development Program, improving efficiency and optimizing costs.

Within the Company's commitment to the UN Sustainable Development Goals, and given LUKOIL's specific business profile, the Committee has been increasingly focused on reviewing matters related to the climate agenda. In the reporting year the Committee reviewed decarbonization issues and the strategies of international oil and gas companies to adapt to climate change, which is particularly relevant given Russia's ratification of the Paris Climate Agreement in 2019, and the fact that the international investment community has been paying more attention to decarbonization.

We have also considered matters related to the analysis of long-term trends in the hydrocarbon market and their impacts on the Company's strategy, as well as health and safety matters.

It is also worth noting that we have started to pay more attention to non-financial reporting: during the year, the Committee reviewed LUKOIL's Sustainability Report at two of its meetings.

In the context of our sustainability agenda, I would like to highlight the deep involvement of the Independent Committee member Toby Gati in the review of relevant matters. Her knowledge, broad perspectives, active participation and informal approach to dealing with the Committee's tasks are a valuable contribution to our common efforts.

The Board of Directors' increased focus on sustainability prompted the need to expand the Committee's roles and rename it to the Strategy, Investment and Sustainability Committee in spring 2019.

An important highlight of the year was the decision to change the Company's approaches to capital distribution

and improve its dividend policy. The respective decision was taken following a comprehensive review of a number of internal and external factors. A transparent dividend policy is a key factor for any company's investment attractiveness. Crucially, the new policy has already been applied to determining the interim dividend for 2019. »



Chairman of the Strategy, Investment and Sustainability Committee  
**SERGEY SHATALOV**

Committee tasks	Key topics covered in 2019
<p>Making recommendations to the Board of Directors on:</p> <ul style="list-style-type: none"> <li>Defining the strategic objectives of the Company's business</li> <li>Defining the sustainability strategic goals of the Company's business (including industrial safety, environment protection, climate, social responsibility and corporate governance) and implementing them into the Company's Strategic Development Program</li> <li>The Company's business priorities</li> <li>The dividend policy, dividend per share, and dividend payout procedure</li> <li>The distribution of the Company's profit (losses) for the reporting year</li> <li>Assessment of the Company's long-term performance</li> <li>Involvement in monitoring the progress against the Company's Strategic Development Program</li> <li>Reviewing sustainability reporting, including LUKOIL Group Sustainability Report</li> </ul>	<ul style="list-style-type: none"> <li>Current situation in the hydrocarbon market and its impact on the implementation of the Company's long-term strategy</li> <li>Development and implementation of the Roadmap for Enhancing the Performance of the Refining and Distribution Business Segment Entities</li> <li>Measures to improve technologies of advanced oil refining and gas processing</li> <li>Comprehensive program to optimize costs, increase efficiency, reduce accident rates and downtime at oil refining facilities</li> <li>The report on cost optimization practices</li> </ul>

Committee membership	Name
Independent Directors	Sergey Shatalov (Committee Chairman) Toby Gati
Executive Directors	Ravil Maganov Leonid Fedun

**i** For a list of key decisions made by the Board of Directors based on the Committee's previews and recommendations, see the Board of Directors section on page 98

**i** The Regulations on the Strategy, Investment and Sustainability Committee are available on the Company's website



## Audit Committee

« In 2019, we continued to enhance the internal audit system, and improve the effectiveness of the internal control and risk management systems. The Committee has reviewed the results of an external assessment of internal audit at the Company. I am pleased to note that, according to the assessment results, LUKOIL's internal audit broadly complies with the International Professional Practices Framework (IPPF), and meets the expectations of the Company's management. The assessment highlighted the high degree of independence from management as one of the key strengths of LUKOIL's Internal Audit Service.

An important step towards a more efficient corporate governance system was the dissolution of the Company's Audit Commission, a decision supported by the shareholders. This has eliminated the duplication of functions between the Audit Committee of the Board of Directors,

the Internal Audit Service and the Audit Commission.

In the reporting year, the Committee reviewed the opinion of the Internal Audit Service on the performance assessment of LUKOIL Group's internal control, risk management and corporate governance systems. The assessment has confirmed the effectiveness of these systems.

Given the ever-increasing importance of the sustainable development matters, the Committee has paid particular attention to anti-corruption. The Company has in place a set of local regulations at various levels that cover different aspects of its business and touch on anti-corruption and fraud prevention, but lacks a single document that brings together our principles, scope and objectives in this area. Since having an anti-corruption policy in place is a standard international practice for large companies and is recommended by the Corporate

Governance Code, the Committee has prepared its recommendations to the Board of Directors regarding the advisability of developing a separate anti-corruption document. »



Chairman of the Audit Committee  
**VICTOR BLAZHEEV**

Committee tasks	Key topics covered in 2019
<ul style="list-style-type: none"> <li>Reviewing the Company's accounting (financial) statements for completeness, accuracy and reliability</li> <li>Making recommendations on the Company's proposed independent auditor and the auditor's remuneration</li> <li>Reviewing the independent auditor's opinion and determining the auditor's independence, objectivity and absence of a conflict of interest</li> <li>Assessing the internal audit, reviewing the effectiveness of control and audit procedures, and considering proposals for improvement</li> <li>Reviewing the Company's internal audit activity plans and budget</li> <li>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</li> <li>Making recommendations for the Board's preliminary approval of the Company's Annual Report</li> </ul>	<ul style="list-style-type: none"> <li>Discussion of material accounting issues, including the Company's accounting policy, and material matters that arose during the independent external audit</li> <li>External assessment of internal audit at PJSC LUKOIL</li> <li>Review of draft consolidated financial statements of PJSC LUKOIL prepared under IFRS</li> <li>Information on material litigations and claims related to the operations of LUKOIL or other LUKOIL Group entities</li> <li>Review of the most material amendments to accounting reports following the audit results</li> </ul>

Committee membership	Name
Independent Directors	Victor Blazhev (Committee Chairman) Pavel Teplukhin Sergey Shatalov

**i** For a list of key decisions made by the Board of Directors based on the Committee's previews and recommendations, see the Board of Directors section on page 98

**i** The Regulations on the Audit Committee are available on the Company's website



## HR and Compensation Committee

« In 2019, the composition of LUKOIL's Board of Directors was refreshed by more than one fourth, with the share of independent directors on the Board increasing to 55%. This has enabled the Board to form the Audit Committee and the HR and Compensation Committee entirely of independent directors. Prior to the Annual General Shareholders Meeting that elected the Board of Directors, the Committee assessed the professional qualifications, experience and independence of the candidates to the Board of Directors.

To improve the performance assessment procedure of the Board of Directors conducted on an annual basis, the Committee has prepared recommendations to the Board on amendments to the Regulations on Performance Assessment of the Board of Directors. The Committee has also carried out a preliminary review of matters

concerning the external assessment of the performance of the Board.

Within its remit, the Committee considered matters related to the remuneration of members of the Board of Directors, the President, members of the Management Committee and the Corporate Secretary.

The Committee considered the candidates to the Management Committee and carried out a preliminary performance assessment of the Management Committee members in the corporate year of 2018–2019 against the criteria set out in the Regulations on Management Remuneration and Incentive System of PJSC LUKOIL.

The Committee has regularly heard reports from representatives of the Company's management on HR policy and HR management at LUKOIL Group entities.

A particular focus was placed on ESG practices, specifically on ethics and employee rights. The Committee has reviewed the progress in the implementation of the new version of the Code of Business Conduct and Ethics of PJSC LUKOIL, approved in 2018. The Committee has also reviewed matters related to safeguarding employee rights and interests, as well as surveys of employee morale and motivation across LUKOIL Group. »



Chairman of the HR and Compensation Committee  
**ROGER MUNNINGS**

Committee tasks	Key topics covered in 2019
<ul style="list-style-type: none"> <li>Assessing the performance of the Board of Directors, its members and Committees; identifying priority areas to strengthen Board composition</li> <li>Communicating with shareholders to prepare recommendations for voting in the election of the Board of Directors</li> <li>Making recommendations on staff appointments</li> <li>Development and regular reviews of the Company's policy on remunerating members of the Board of Directors and the Management Committee, and the President</li> <li>Making recommendations to the Board of Directors on determining the remuneration of the Corporate Secretary</li> <li>Pre-assessing the performance of the Management Committee members and the President throughout the year in line with the Company's remuneration policy</li> </ul>	<ul style="list-style-type: none"> <li>Assessment of professional qualifications and independence of all nominees to the Company's Board of Directors. Recommendations to the Company shareholders on voting in the election of the Company's Board of Directors</li> <li>Preview of matters concerning external assessment of the Board's performance</li> <li>Human resources management across the LUKOIL Group</li> <li>The state of the system of preventive measures against violations of employees' rights and interests</li> <li>Existing measures to monitor workplace atmosphere and employee motivation level across LUKOIL Group entities</li> </ul>

Committee membership	Name
Independent Directors	Roger Munnings (Committee Chairman) Victor Blazheev Wolfgang Schüssel

**i** For a list of key decisions made by the Board of Directors based on the Committee's previews and recommendations, see the Board of Directors section on page 98

**i** The Regulations on the HR and Compensation Committee are available on the Company's website



## Corporate Secretary



**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 (PhD) from Moscow State Linguistic University since 1998.

- 1983–1998: engaged in translation/interpreting, lecturing and research.
- 1998–2002: Manager at CJSC KPMG.
- 2002–2016: chief specialist at the Administrative Office of the Board of Directors of OJSC LUKOIL, chief specialist at PJSC LUKOIL.
- Since 2016: Corporate Secretary of PJSC LUKOIL.

« A reliable information and digital environment is crucial for efficient performance of the corporate governance system. »

Corporate Secretary of PJSC LUKOIL  
**NATALIA PODOLSKAYA**

The Corporate Secretary is sufficiently independent of the Company's executive bodies as she functionally reports to the Board of Directors. 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 Regulations on the Corporate Secretary of PJSC LUKOIL are available in the Board of Directors section of the Company's website



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.

Natalia Podolskaya has been the Corporate Secretary of PJSC LUKOIL since 2016.

In 2019, the Corporate Secretary ran a two-day induction training program for newly elected Directors of PJSC LUKOIL to ensure their quickest possible involvement in the activities of the Board.



For more details, see the Induction of new members of the Board of Directors section on page 103

As a member of the Company's sustainability Working group, the Corporate Secretary actively participated in coordinating its activities in 2019, including through preparing materials for meetings, cooperating with members of the Board of Directors and the Company's relevant

business units on sustainability matters, and contributing to preparation of the Sustainability Report.

Natalia Podolskaya is a member of the professional National Association of Corporate Secretaries. She participates in promoting best practices, including the methodological basis for corporate governance and IT. For instance, she actively participated in developing the requirements of, and testing, the Corporate Secretary digital solution. According to the developers of this solution, her expert knowledge and corporate governance experience became determinant in creating a practically applicable and valuable to experts information system.

### DIRECTOR OF THE YEAR

In 2019, Corporate Secretary of PJSC LUKOIL Natalia Podolskaya won the "25 Best Corporate Governance Directors/Corporate Secretaries" annual category of the 14th "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 to 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
- Managing 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 to employees
- Approving the Company's organization
- Approving PJSC LUKOIL's internal documents regulating its day-to-day operations, save for internal documents to be approved by the Management Committee as prescribed by the Company's 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 authority of the Management Committee covers:

- Developing and implementing the Company's current business policy
- Developing and approving the Company's quarterly, annual and perspective activity plans, budget, and investment program, as well as monitoring their performance
- 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 15 in July 2019. Meetings of the Management Committee are convened as necessary. All meetings are held 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 remained traditionally high and in 2019 was 93.3%.

In 2019, the Management Committee held 28 meetings and discussed 149 matters (compared to 26 meetings and 126 matters in 2018). Among others, the following key matters were discussed:

- Approval of key budget indicators for LUKOIL Group
- Taking resolutions on the operations of LUKOIL 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
- Discussion of matters related to industrial safety, occupational health and social policy
- Approval of the Company's local regulations underlying the Company's core businesses

### Statistics of Management Committee meetings



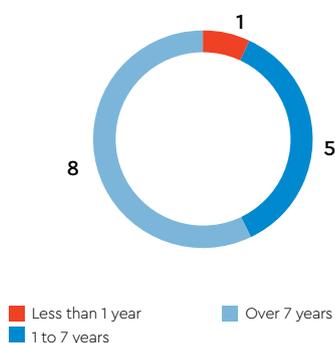
### Matters discussed



### Management Committee membership as at December 31, 2019

	Length of service on the Management Committee, years <sup>1</sup>	Share in charter capital of PJSC LUKOIL
Vagit Alekperov	26	2.99 (27.39 <sup>2</sup> )
Vyacheslav Verkhov	Elected to the Management Committee on July 16, 2019	0.001
Vadim Vorobyev	9	0.03
Denis Dolgov	1	0.04
Ravil Maganov	26	0.46
Ilya Mandrik	2	0.02
Ivan Maslyayev	26	0.04
Alexander Matytsyn	22	0.37
Anatoly Moskalenko	16	0.02
Oleg Pashaev	3	0.009
Denis Rogachev	4	0.006
Gennady Fedotov	9	0.02
Evgeny Khavkin	16	0.01
Azat Shamsuarov	6	0.01

### Length of service on the Management Committee as at December 31, 2019



### Changes in the membership of the Management Committee

Changes in the membership of the Management Committee of PJSC LUKOIL during 2019 were as follows:

- The powers of the member of the Management Committee Stanislav Nikitin were terminated early (Resolution of the Board of Directors dated December 12, 2019, Minutes No. 19). Stanislav Nikitin's biography is available in PJSC LUKOIL 2018 Annual Report on the Company's website.
- Vyacheslav Verkhov, Chief Accountant of PJSC LUKOIL, was

elected to the Management Committee (Resolution of the Board of Directors dated July 16, 2019, Minutes No. 12).

Changes in the positions held by members of the Management Committee of PJSC LUKOIL during 2019 were as follows:

- As from October 25, 2019, Anatoly Moskalenko was transferred from the position of Vice President for Human Resources Management and Corporate Structure Development to the position of Vice President for Human Resources Management and Social Policy.

<sup>1</sup> Full years as at December 31, 2019.

<sup>2</sup> As of 31 December 2019, the aggregate percentage of shares in PJSC LUKOIL which Mr. Alekperov directly owns, or is a beneficiary of (including through family trusts and mutual funds), was 27.39%. Mr. Alekperov directly owned 2.99%, and was a beneficiary (including through family trusts and mutual funds) of 24.40%, of the shares in PJSC LUKOIL.

The Company is not aware of any loans (credits) received by members of the Management Committee from an entity within LUKOIL Group.

## Biographies of members of the Management Committee and the President



- Vagit ALEKPEROV**
- President
  - Chairman of the Management Committee
  - Executive Director

Member of the Management Committee since 1993.

For more details, see the Biographical details of members of the Board of Directors section.



- Vyacheslav VERKHOV**
- Member of the Management Committee
  - Chief Accountant

Born in 1972.  
 Graduated from Lomonosov Moscow State University in 1994.

- 2000–2004: lead specialist, Deputy Head, Head of Transformation at the International and Consolidated Financial Statements Division; Head of Accounting and Tax Reporting Automation Methodology at the Accounting Department of OJSC LUKOIL.
- 2004–2012: Deputy Chief Accountant of OJSC LUKOIL.
- 2012–2018: Head of the Accounting Methodology Department of PJSC LUKOIL.
- Since 2018: Chief Accountant of PJSC LUKOIL.

Member of the Management Committee since July 2019.



- 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 three medals, including a Medal of the Order "For Merit to the Fatherland", 1st and 2nd class, and the Order of Friendship. Distinguished employee of the Company.

- 1981–1992: served at local youth and party bodies.
- 1992–1998: 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 LLC LUKOIL Volga-nefteprodukt.
- 2005–2009: Vice President, Head of the Main Division of Petroleum Product Sales Coordination in Russia of OJSC LUKOIL.
- 2009–2012: Vice President, Head of the Main Division of Petroleum Product Sales Coordination of OJSC 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.

Member of the Management Committee since 2010.



- Denis DOLGOV**
- Member of the Management Committee
  - 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). Honored Power Generation Specialist. Awarded two medals.

- 1995: started to work at entities in West Siberia.
- 2002–2006: Deputy General Director for Production, First Deputy General Director – Chief Engineer of TPU Langepasneftegaz of LLC LUKOIL-West Siberia.
- 2006–2009: General Director of TPU Langepasneftegaz of LLC LUKOIL-West Siberia.
- 2009–2011: First Deputy Head of the Main Division of Power Generation of OJSC LUKOIL.
- 2011–2012: Head of the Main Division of Power Generation of OJSC LUKOIL.
- Since 2012: Vice President for Power Generation of PJSC LUKOIL.

Member of the Management Committee since 2018.



**Ravil  
MAGANOV**

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

Member of the Management Committee since 1993.

For more details, see the Biographical details of members of the Board of Directors section.



**Ilya  
MANDRIK**

- Member of the Management Committee
- Vice President for Exploration and Development

Born in 1960.

Graduated from Ivano-Frankovsk Oil and Gas Institute in 1982 and Tyumen Industrial Institute in 1994. Candidate of Geology and Mineralogy (PhD). Doctor of Technical Sciences. Honored Fuel and 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 Exploration Division, Deputy Head of the Main Exploration Division of OJSC LUKOIL.
- 2007–2012: Vice President, Head of the Main Exploration Division of OJSC LUKOIL.
- 2012–2017: Vice President for Exploration.
- Since 2017: Vice President for Exploration and Development of PJSC LUKOIL.

Member of the Management Committee since 2017.



**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. Honored Fuel and 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 OJSC LUKOIL.
- 2000–2012: Head of the Main Division of Legal Support of OJSC LUKOIL.
- Since 2012: Vice President – General Counsel of PJSC LUKOIL.

Member of the Management Committee since 1993.



**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 OJSC LUKOIL.
- 2012–2013: Vice President for Finance of OJSC LUKOIL.
- 2013–2017: Senior Vice President for Finance of PJSC LUKOIL.
- Since 2017: First Vice President of PJSC LUKOIL.

Member of the Management Committee since 1997.



**Anatoly  
MOSKALEV**

- Member of the Management Committee
- Vice President for Human Resources Management and Social Policy

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, twenty medals and a Certificate of Honor from the President of the Russian Federation. 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 OJSC LUKOIL.
- 2003–2012: Head of the Main Division of Human Resources of OJSC LUKOIL.
- 2012–2016: Vice President for Human Resources Management and Corporate Structure Development of PJSC LUKOIL.
- 2016–2017: Vice President for Human Resources Management and Security of PJSC LUKOIL.
- 2017–2019: Vice President for Human Resources Management and Corporate Structure Development of PJSC LUKOIL.
- Since 2019: Vice President for Human Resources Management and Social Policy of PJSC LUKOIL.

Member of the Management Committee since 2003.



**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 the Order of Honor and three medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class. Distinguished employee of the Company.

- 1984–1993: service in the Armed Forces of Russia.
- 1993–1997: worked for JSC Northern Shipping Company.
- 1998–2002: General Director of LLC Quorum-SK.
- 2002–2004: General Director of LLC LUKOIL Severnefteprodukt.
- 2004: First Deputy General Director for Aircraft Refueling of LLC LUKOIL Tsentrnefteprodukt.
- 2004–2016: General Director of LLC 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.

Member of the Management Committee since 2016.



**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. Honored Oil Specialist.

- 2000–2003: employed by the Main Division of Geology and Exploration of OJSC LUKOIL and LLC LUKOIL-West Siberia.
- 2003–2009: employed by Schlumberger Logelco and Baker Hughes B.V.
- 2009–2012: Deputy Chief of Staff, First Deputy Head of the Administrative Office of the Board of Directors of OJSC LUKOIL, First Deputy Head of the Administrative Office of the Board of Directors of OJSC LUKOIL – Executive Assistant to the President of OJSC LUKOIL.
- 2012–2013: General Director of LLC Trading House LUKOIL
- Since 2013: Vice President for Procurement of PJSC LUKOIL.

Member of the Management Committee since 2015.



**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 the Order of Friendship and two medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class.

- 1994–2002: employed by Halliburton and Shell.
- 2002–2007: Head of the Division of Planning and Investments, Deputy Head, Head of the Main Division of Corporate Budget Planning and Investments of OJSC LUKOIL.
- 2007–2012: Vice President, Head of the Main Division of Economics and Planning of OJSC LUKOIL.
- Since 2012: Vice President for Economics and Planning of PJSC LUKOIL.

Member of the Management Committee since 2010.



**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 Academy in 2014. Honored Oil Specialist. Awarded two medals and a Letter of Acknowledgement Certificate of Gratitude from the President of the Russian Federation. Distinguished employee of the Company.

- 1988: started to work at entities in West Siberia.
- 1997–2003: Deputy Head, First Deputy Head of the Administrative Office of the Board of Directors of OJSC LUKOIL.
- 2003–2012: Secretary of the Board of Directors, Head of the Administrative Office of the Board of Directors of OJSC LUKOIL.
- Since 2012: Vice President – Chief of Staff of OJSC LUKOIL.

Member of the Management Committee since 2003.



**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 Fuel and Energy Industry Specialist. 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 OJSC LUKOIL, General Director of LLC LUKOIL-West Siberia.
- 2012–2013: Vice President of OJSC LUKOIL for Oil and Gas Production of OJSC LUKOIL.
- Since 2013: Senior Vice President of PJSC LUKOIL for Oil and Gas Production of PJSC LUKOIL.

Member of the Management Committee since 2013.

## 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.

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 committee 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.

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 20, 2019 resolved to establish the following amounts of remuneration to elected members of the Board of Directors (for 2019–2020 corporate year):

- Remuneration to the member of the Board of Directors – RUB 7,000,000
- Remuneration to the Board Chairman – RUB 5,400,000
- Remuneration to the Chairman of a Board Committee – RUB 1,100,000
- Remuneration to the member of a Board Committee – RUB 1,100,000
- Remuneration for each in-person attendance at Board or Committee meeting requiring a transcontinental flight – RUB 350,000
- Remuneration for each attendance at a conference or other event 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, including costs of traveling, using video conference services, engaging advisors and experts to obtain their opinions on matters pertaining to the activities of the Board of Directors, with the total not exceeding the budget allocated by the Company, etc.

 For more details, see the Director Compensation and Expense Reimbursement Policy of PJSC "LUKOIL" available on the Company's website



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 the reporting year, three members of the Board of Directors were the Company's executives (President, First Executive Vice President, and Vice President for Strategic Development), with the President and the First Executive Vice President also sitting on the Management Committee.

## Payments to the Board of Directors,<sup>1</sup>

RUB thousand

	2017	2018	2019
<b>Total payments to the Board of Directors</b>	<b>262,091</b>	<b>816,787</b>	<b>208,784</b>
Remuneration of members of the Board of Directors	87,067	100,375	103,075
Compensation of costs	29,146	34,119	26,478
Payments to Directors who are employed by the Company, but are not members of the Management Committee	145,878	682,293	79,231
including:			
salary	48,059	35,968	33,925
bonus	87,832	607,372	30,372
other types of remuneration	9,987	38,953	14,934

<sup>1</sup> 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.

Considerable year-on-year reduction in payments to members of the Board of Directors who are employed by the Company but do not sit on the Management Committee in 2019 was due to the payment in 2018 of final bonuses under the Regulations on Long-Term Incentives for Employees of PJSC LUKOIL and its Subsidiaries in 2013–2017.

### Top management remuneration system<sup>2</sup>

The Top Management Remuneration System was developed to ensure the delivery of business targets, promote strategic business activities, 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.

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 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: Company-wide (team performance) and individual (key executive's performance within the business line the top manager is responsible for).



For more details, see the Key Performance Indicators on page 38 and the Performance Assessment System on page 122 sections

## Performance indicators used for annual bonus payments to key executives

Indicator group	Indicators	Group weight
Company-wide <sup>3</sup>	<ul style="list-style-type: none"> <li>• LUKOIL Group's profit for the year</li> <li>• LUKOIL Group's free cash flow</li> <li>• Hydrocarbon production volume</li> <li>• Ensuring HSE compliance across LUKOIL Group entities</li> </ul>	From 50% to 100%
Individual	Personalized for each executive in accordance with targets and objectives of his or her business line	Under 50%

<sup>2</sup> 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.

<sup>3</sup> The Key Performance Indicators from the Set of KPIs approved by the Management Committee of PJSC LUKOIL are used as Company-wide indicators.

The balance of the Company-wide and individual components is determined for the functional activity the key executive is responsible for. Annual bonuses paid to the President of PJSC LUKOIL are based on Company-wide indicators. The weighting of the Company-wide and individual component 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 Company-wide priority KPIs are LUKOIL Group's profit and free cash flow. Individual KPIs used for certain key executives also

include the free cash flow of relevant business segments and sectors. In March and December 2019, additional amendments to the Regulations were made to adjust annual bonus calculation methodology and to reflect changes in the list of the Company's key executives.

Our management remuneration system also uses long-term incentives to drive better performance in the medium and long term. The incentives are set out in the Regulations on the Long-Term Incentive Program for Key Employees of LUKOIL Group for 2018–2022 and are intended to build an interest in the Company's long-term performance, enhance its investment case, and create shareholder value. The Program involves about 40 million PJSC LUKOIL shares. In 2019, the Program participants were given an opportunity to acquire shares on the Program terms for the first time.

### Management Committee remuneration system

Each of the Management Committee members received remuneration for performing the duties of a Management Committee member in 2019, 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 Company-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 and other bonuses
- Additional social benefits

Management Committee members also participate in the Long-Term Incentive Program for Key Employees of LUKOIL Group. In 2019, they

### Payments<sup>1</sup> to the Management Committee,

RUB thousand

	2017	2018	2019
<b>Total payments to the members of the Management Committee</b>	<b>1,738,788</b>	<b>5,502,415</b>	<b>1,684,611</b>
Remuneration of Management Committee members	54,307	54,744	56,534
Salary	524,056	440,644	474,853
Bonuses (annual and other bonuses)	957,268	4,618,592	538,092
Other payments	203,157	388,434	615,132

<sup>1</sup> Including payments to the President of PJSC LUKOIL.

acquired a total of 179 thousand shares under the Program.

Considerable year-on-year reduction in bonuses in 2019 was due to the payment in 2018 of final bonuses under 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 the sum of his basic salary for 12 months.

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 the sum of his basic salary for 24 months.

## PERFORMANCE ASSESSMENT SYSTEM

The Company has in place a corporate performance assessment system based on Key Performance Indicators (KPIs). KPIs are a set of indicators that reflect the Group'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 budgetary unit, along with a guide to their calculation

LUKOIL Group's Set of KPIs has around 60 unique indicators. The total number of KPIs for LUKOIL Group across business segments, business sectors and budgetary units is around 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. The Set of KPIs is approved by the Management Committee of PJSC LUKOIL and reviewed once every two years.

In 2019, the Set of KPIs was expanded: an additional KPI reflecting hydrocarbon reserves replacement was added to the list of KPIs of the Exploration and Production segment; the list of KPIs of petroleum product supply entities was also changed.

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

### KPIs in planning

To ensure connection between the goals and objectives at different time horizons, a designated set of indicators within the KPI system is applied at all planning stages. Furthermore, 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 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 provide reasonable assurance of achieving the following targets and objectives in the context of 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



The Regulations on the risk management and internal control are available on the Company's website



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

- Integration with the corporate governance system
- Focus on risk
- Ongoing operation 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

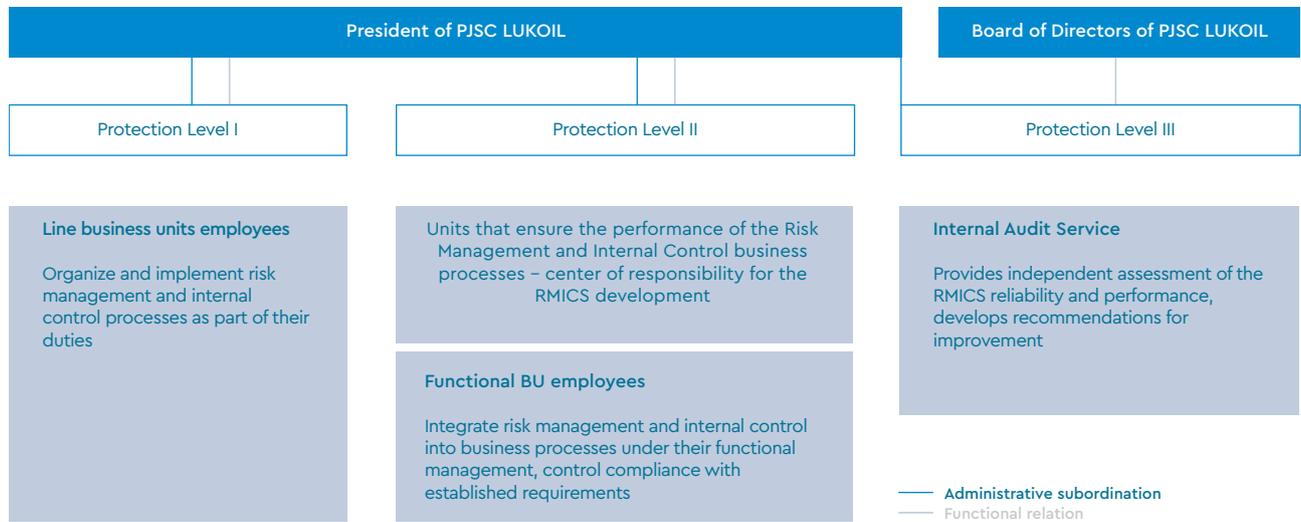
Risk management and internal control processes are interrelated ongoing processes followed by governance bodies and employees while performing their functions. They are integrated into the operations of LUKOIL Group entities, i.e. they are implemented along with all other business processes and projects, 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 in this sphere and details key targets and objectives of the RMICS participants.

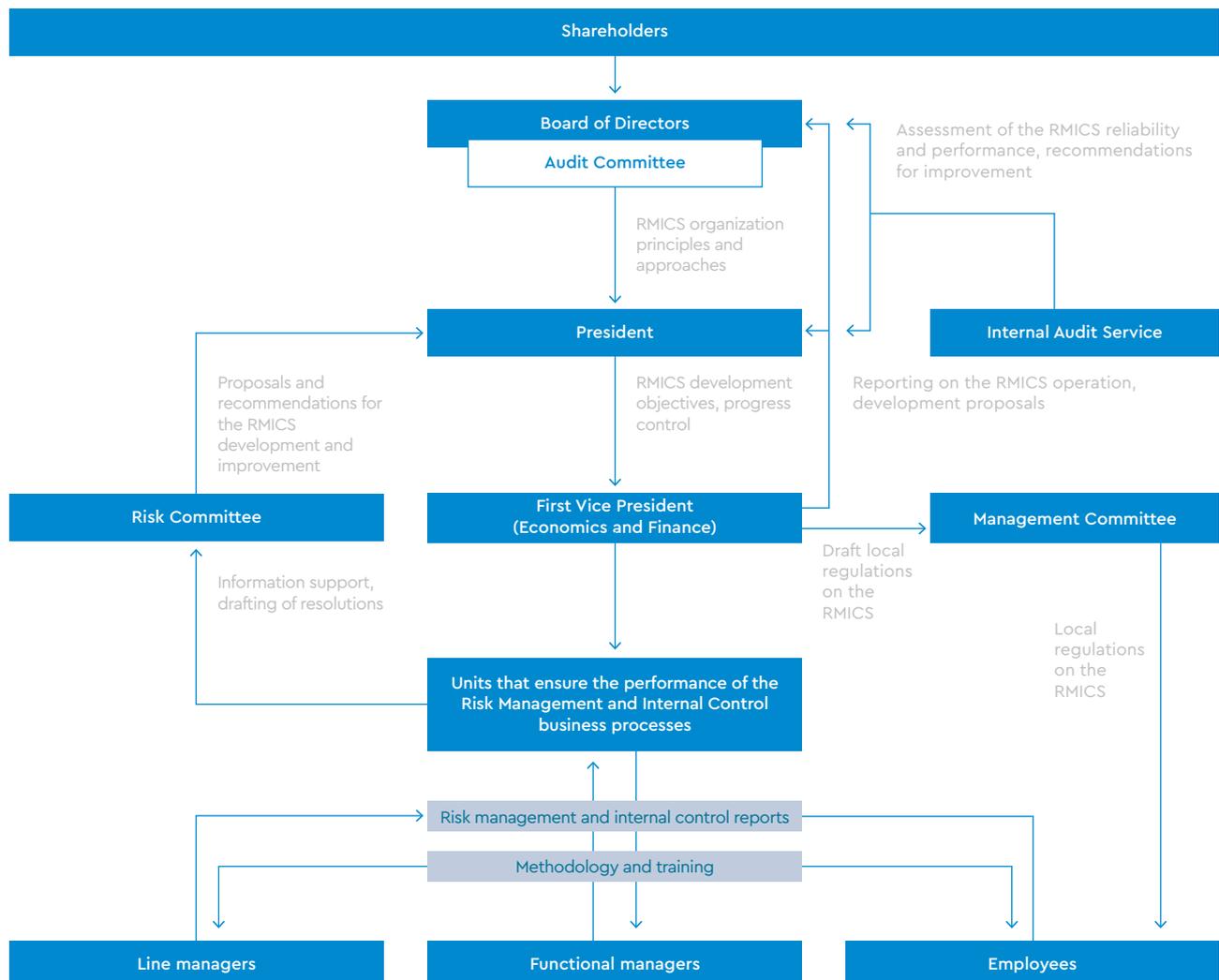
LUKOIL has implemented an approach to organizing the RMICS as a three-level system to protect the Company's

interests (see the LUKOIL's interests protection system diagram). LUKOIL believes that organizing a system of responsibility for achieving the Company's goals is justified by enhanced reliability achieved through eliminating redundancies, with each level complementing the others by focusing on its specific functions.

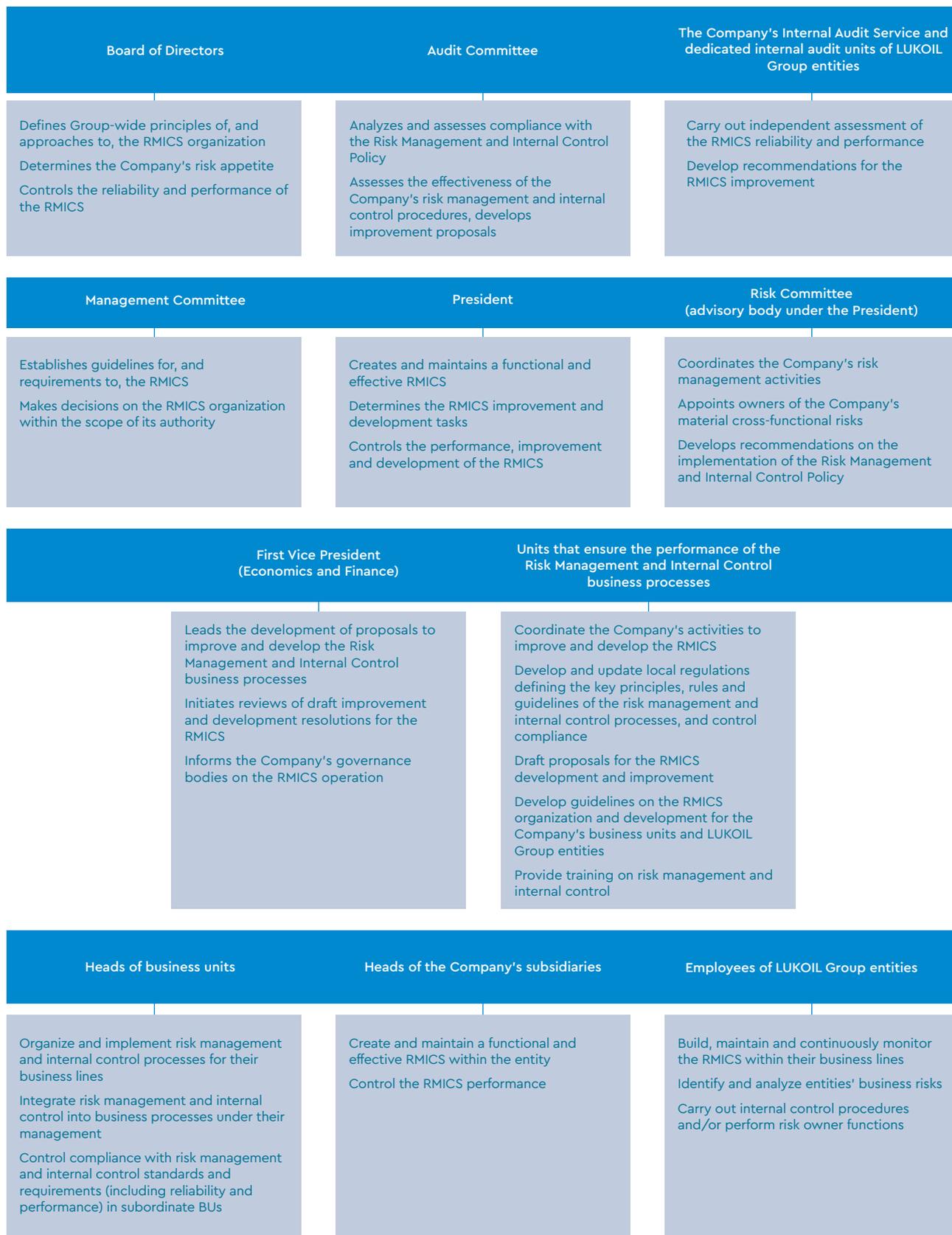
### LUKOIL's interests protection system



### RMICS structure at PJSC LUKOIL



## Functional map of RMICS participants



## Risk management

PJSC LUKOIL continuously improves its risk management system. In 2019, 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 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 the 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 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.

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 the business operations of LUKOIL Group entities, 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.

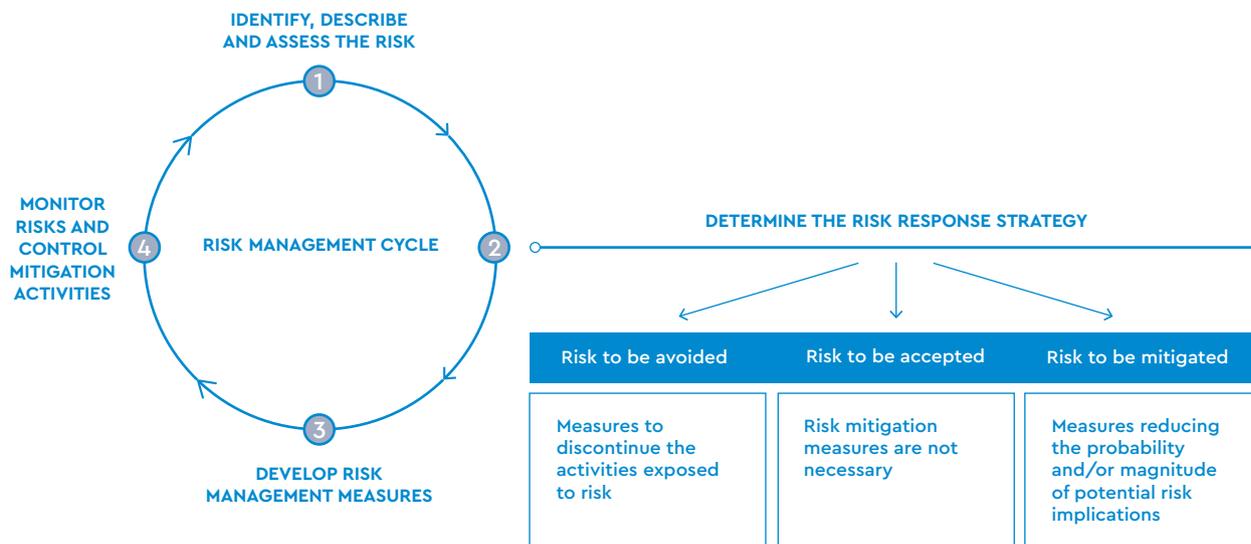
Taking into account the probabilistic and external nature of LUKOIL's risks, we cannot fully guarantee that risk management measures will reduce their adverse effect to an acceptable level. When disclosing identified risks, LUKOIL informs stakeholders about certain circumstances inherent to its operations, 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 as quickly as possible in order to minimize damage to the Company.

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

## Risk management process at LUKOIL Group



### 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, among others, 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 of PJSC LUKOIL

### Internal control

In 2018–2019 we developed measures to enhance the internal control system at LUKOIL Group in accordance with the standards and requirements of the Regulations on Internal Control at PJSC LUKOIL. The following measures are aimed at further optimizing the use of available assets and minimizing avoidable losses through improving the efficiency of internal controls:

- Introduction of unified standards of, and requirements to, organization of an internal control system (ICS) into the operations of LUKOIL Group
- Prompt elimination of ICS gaps identified during monitoring activities
- Updating the internal control structure to reflect actual business processes
- Compliance with requirements of the Federal Tax Service (FTS) of Russia to ICS setup at LUKOIL Group entities that have switched or are preparing to switch to the tax monitoring regime

As part of regular report reviews in 2019, the Company monitored compliance with standards of, and requirements for, ICS organization and functioning at LUKOIL Group entities, with the snapshot of their ICS status submitted to the Audit Committee of the Board of Directors and then to the Company's Board of Directors. The Company's Internal Audit Service confirmed the effective ICS operation across LUKOIL Group entities.

In line with approved plans for developing and improving internal control, we continued to align ICS components at Group entities with the standards and requirements of the Regulations on Internal Control at PJSC LUKOIL. All violations and gaps identified and response measures taken were audited by the Internal Control Department and the Company's dedicated units.

LUKOIL Group has in place a scheme of applying violation and gap response measures at similar management units.

**i** For more details on risks, see Appendix 2: Risks

To make ICS enhancement activities more effective, the Company has updated the Corporate Distance Learning System with a special training course for employees of LUKOIL Group entities responsible for internal controls. The Company also plans to develop a number of specialist training courses in 2020.

To improve the LUKOIL Group corporate governance system through digitalization of the Internal Control business process and providing all ICS-related units with quality updates and effective communications in internal control, the Company focused on developing and testing IT solutions and continued to automate control procedures in the reporting year.

#### SWITCHING TO THE TAX MONITORING REGIME

Since 2016, the Russian Federation has been introducing tax monitoring as a new form of tax control. To be able to switch to the tax monitoring regime the taxpayer must have in place an effective ICS complying with the Requirements of the FTS of Russia for organizing and functioning of all ICS components. The taxpayer must collect and submit to the tax authorities quarterly and annual reports on ICS organization and functioning, and assess the ICS maturity level against the FTS of Russia's criteria.

In 2018, a switch to the tax monitoring regime was piloted for one LUKOIL Group entity. In 2019, the Company successfully prepared and completed the transition to tax monitoring for PJSC LUKOIL and 3 key LUKOIL Group entities, while also consistently preparing to switch 23 other entities of the Group.

### 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. LUKOIL applies the following key procedures and methods to organize its internal controls:

#### 1. 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). Russian entities prepare their RAS statements independently or through the Company's accounting center; IFRS statements of Russian entities are prepared by the Accounting Service of PJSC LUKOIL. IFRS statements of the Company's foreign subsidiaries are prepared either independently or at the Company's European accounting center. Local financial statements are the responsibility of entities' top managers and chief accountants or heads of accounting centers. The Company's President and Chief Accountant are responsible for preparing its consolidated financial statements.

#### 2. 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 Group entities' financial statements include:

- On-site audits

- Providing accounting advisory services to Group entities, solving complex accounting issues
- Organizing auditing and reconciliation procedures for numbers in financial statements, controlling the correctness and reliability of Group entities' statements
- Follow-up audit of the financial and operating figures on a regular basis

#### 3. 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.

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.

#### 4. 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 Group entities' accounting (financial) statements, end dates of their audit
- RAS and IFRS accounting policies
- Appointment of subsidiaries' chief accountants
- Accounting process automation

In 2019, LUKOIL continued to optimize and improve accounting services, including the merger of LLC LUKOIL-URTs Perm into LLC LUKOIL-Accounting Center (formerly LLC LUKOIL-URTs Volgograd). This merger continued the centralization of LUKOIL Group entities' accounting services operating in Russia into a shared services center.

**5. Business unit interaction.**

Consolidated IFRS financial statements are prepared in close collaboration between the Accounting Service of PJSC LUKOIL and various business units both within the Company and Group entities. The process stakeholders regularly exchange and additionally verify relevant information.

**6. 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 Extraordinary General Shareholders Meeting held on December 3, 2019 resolved on early termination of powers of members of the Audit Commission Pavel Suloev, Ivan Vrublevsky and Artem Otrubyannikov and on approval of a new version of PJSC LUKOIL's Charter having no reference to the Audit Commission. The Audit Commission was dissolved to exclude duplication of functions of the Audit Committee of the Board of Directors, the Internal Audit Service and the Audit Commission dealing with control over the Company's business operations, and to cut the costs related to the activities of the Audit Commission. The Extraordinary General Shareholders Meeting passed a resolution to pay each member of the Audit Commission remuneration in the amount of RUB 3.5 million.

**INTERNAL AUDIT**

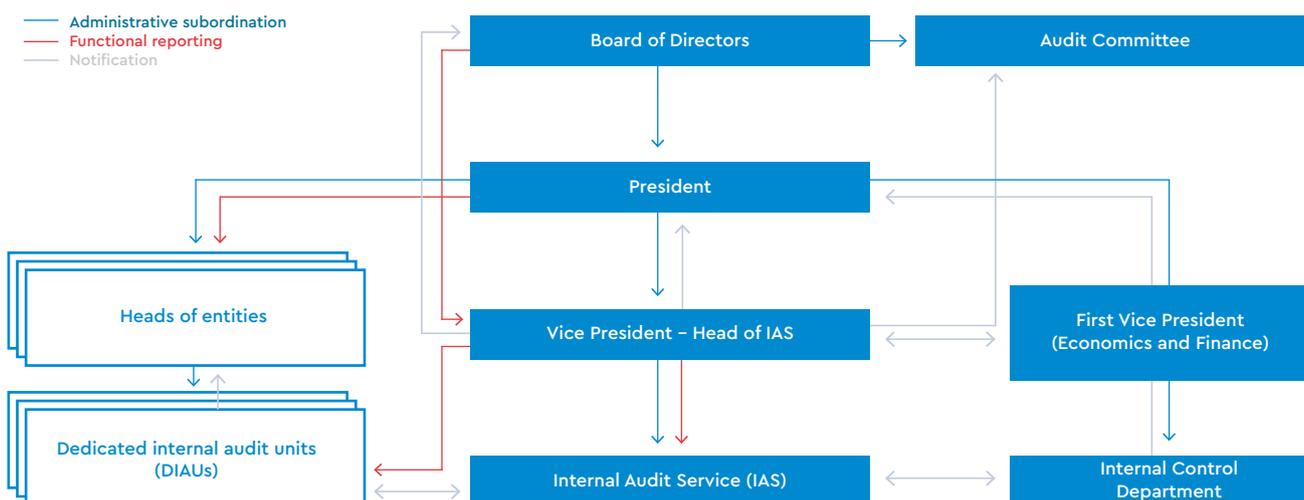
LUKOIL Group's internal audit system was set up to assist in achieving strategic goals and objectives through applying a holistic consistent approach

to assessment and improvement of the internal control and risk management system and corporate governance by way of audits and consulting engagements.

The Internal Audit Service of PJSC LUKOIL complies with 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 separates internal audit functions from internal control and risk management functions. A special mode of functional and administrative reporting and accountability is established for internal audit to ensure the auditors' unbiased approach and the independence of audit units. Such form of accountability allows to provide the Company's governance bodies with reliable and up-to-date information on the effectiveness of the internal control, risk management systems and corporate governance.

**Corporate internal audit system**



Within LUKOIL Group, internal audit is performed by:

- The Internal Audit Service of PJSC LUKOIL (IAS) 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 IAS activities; 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).

As at the end of 2019, internal audit functions existed at 16 LUKOIL Group entities.

## 2019 Results

**Controls & audits at LUKOIL Group entities.** In 2019, the Internal Audit Service conducted 10 audits and had 3 consulting engagements and the auditors of dedicated internal audit units carried out 126 controls & audits.

In the past few years, we have seen a steady decline in the number of gaps and violations identified at LUKOIL Group entities due to higher performance of audited entities, as well as better and more reliable internal control, risk management and corporate governance systems.

In addition to audits, the Internal Audit Service provided audit consulting services in 2019 to LUKOIL Group entities implementing priority investment projects such as development of the Yaregskoye field, the V.I. Grayfer field and construction of a delayed coker complex to process heavy residuals at Nizhny Novgorod Refinery.

The objective of audit consulting is to assist and support LUKOIL Group entities in preventing and avoiding violations and irregularities and enhancing internal control and risk management processes.

Consulting engagements have helped build excellent partnerships between audit and management functions, achieve new audit competencies and demonstrated the usefulness and relevance of such practices going forward.

As part of providing for independent assessment of internal audit, by resolution of the Audit Committee of the Board of Directors of PJSC LUKOIL passed on March 4, 2019 (Minutes No. 1) the internal audit function of PJSC LUKOIL was assessed in 2019 by an independent external assessor for compliance with the International Professional Practices Framework (IPPF).

The assessment was carried out by the Institute of Internal Auditors and comprised two phases.

The first phase included analysis, assessment and development of recommendations for enhancing the internal audit in the form of a preliminary assessment report, followed by development of an internal audit improvement plan. The second phase focused on following up on the recommendations developed during the first phase and preparing an implementation report.

Based on the results of the analysis, the independent assessor concluded that, overall, the internal audit operations at PJSC LUKOIL complied with the IPPF, as well as the expectations and needs of the Company's management.

Among the positive aspects of internal audit operations were a high

degree of independence, transition from enforcing to fact-finding control with consulting factored in, highly skilled IAS employees, and effective use of an automated system – the corporate IT system for automation of risk management, internal control and internal audit processes.

Focus areas for improvement, in particular, included improvement of the risk analysis process in annual planning, a clear distinction between consulting projects and audits, and enhancing the IT skills of internal auditors.

### As part of improving the guidelines supporting internal audit across LUKOIL Group, the Group updated

the following key local regulations on internal audit in 2019 to include the external assessment results and the international best practices:

- The Regulations on Internal Audit at PJSC LUKOIL (updated version)
- The Rules of Internal Audit of Public Joint Stock Company "Oil Company 'LUKOIL'"
- The Regulations on Organizing and Conducting Audits at PJSC LUKOIL (updated version)

These local regulations were updated to align the Company's regulatory framework with the requirements of the International Professional Practices Framework, including the recommendations of the Institute of Internal Auditors made during the independent external assessment of the internal audit at PJSC LUKOIL, and to specify the main approaches to audits and consulting engagements.

In 2019, 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 later developed into their final versions.

In addition, the IAS continued to develop and update procedures for audits (controls & audits) applied by internal auditors.

**As part of assessment of the internal control, risk management and corporate governance systems**, in early 2019, the Internal Audit Service carried out relevant audit evaluations of the 2018 performance; the results were submitted to the Audit Committee of the Company's Board of Directors (Minutes No. 2 dated April 10, 2019) and the Board of Directors of PJSC LUKOIL (Minutes No. 6 dated May 15, 2019).

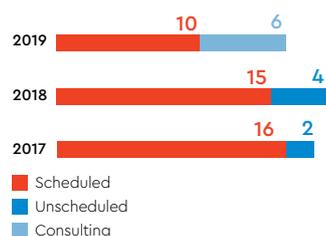
The assessment results confirm that PJSC LUKOIL operates effective internal control, risk management and corporate governance systems.

**As part of audit automation and development of the corporate IT system for automation of risk management**, internal control and internal audit processes, the Internal Audit Service piloted the automation of internal audit procedures in 2019 to screen data in the Company's information systems in order to identify unapproved and suspicious transactions (anomalies) and fraudulent activities.

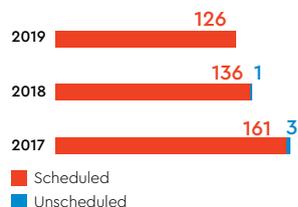
The pilot proved the effectiveness of this solution for internal audit automation.

### Controls & audits

#### Audits and consultations by the IAS



#### Audits by DIAUs



Fewer audits in 2019 resulted from the IAS providing audit consulting on three priority investment projects of LUKOIL Group entities in addition to regular controls & audits conducted in the reporting period.

#### Plans to improve internal audit

The key 2020 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
- Carry out audit and consulting 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 audit (control & audit) options during audits
- Update (based on test results) and approve audit guidelines for corporate governance, internal control and risk management systems
- Enhance the performance of DIAUs at LUKOIL Group entities, including through consulting engagements and methodological support provided by the Internal Audit Service of PJSC LUKOIL
- Introduce and further improve automated internal audit 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

- Introduce regular self-assessments of the internal audit at PJSC LUKOIL for compliance with the International Standards for the Professional Practice of Internal Auditing

### 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 International Standards on Auditing and the national auditing rules (standards) approved by resolutions of the Russian Government.

In June 2019, the Annual General Shareholders Meeting approved JSC KPMG as the auditor of PJSC LUKOIL. 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.

The fee payable to JSC KPMG for auditing the Company's IFRS consolidated financial statements for 2019 was RUB 246,778 thousand (excluding VAT), for auditing the Company's RAS accounting (financial) statements for 2019 was RUB 10,286 thousand (excluding VAT).

The share of remuneration unrelated to audits in the total fee payable to the auditor is less than 30%.

## SUSTAINABILITY MANAGEMENT SYSTEM

The Company's long-term development model aims to meet the social demand for energy 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 goals.

The achievement of sustainability objectives is controlled strategically (by the Board of Directors, the Strategy, Investment and Sustainability Committee of the Board of Directors, the Management Committee) and operationally (by the Health, Safety and Environmental Committee of PJSC LUKOIL, by heads of functions

and business units at PJSC LUKOIL and by heads of LUKOIL Group entities). Sustainable development objectives are included in the employee motivation system and are applicable to all employees of PJSC LUKOIL and to heads and managers of LUKOIL Group entities.

### Sustainability management system at PJSC LUKOIL as at December 31, 2019

Members	Key roles
Board of Directors Chairman – Valery Grayfer	<ul style="list-style-type: none"> <li>• Defines general principles and approaches</li> <li>• Determines the Company's business priorities</li> <li>• Aligns and approves long- and mid-term strategic development plans and programs</li> <li>• Monitors the implementation of strategic sustainability objectives, plans and development programs</li> </ul>
Strategy, Investment and Sustainability Committee of the Board of Directors Chairman – Sergey Shatalov, an independent director	<ul style="list-style-type: none"> <li>• Develops recommendations on setting up strategic goals aimed at long-term development of the Company and its business priorities</li> <li>• Develops recommendations to the Board of Directors on defining the sustainability strategic goals of the Company's business (including industrial safety, environment protection, climate, social responsibility and corporate governance) and implementing them into the Company's Strategic Development Program</li> <li>• Analyzes the existing corporate development concepts, programs and plans, as well as the competitive environment</li> </ul>
Audit Committee of the Board of Directors Chairman – Victor Blazheev, an independent director	<ul style="list-style-type: none"> <li>• Monitors the reliability and performance of the risk management and internal control system, as well as the corporate governance system</li> <li>• Analyzes and assesses compliance with the Risk Management and Internal Control Policy</li> <li>• Monitors procedures that ensure legislative compliance</li> <li>• Analyzes and assesses compliance with the conflicts of interest management policy</li> </ul>
HR and Compensation Committee of the Board of Directors Chairman – Roger Munnings, an independent director	<ul style="list-style-type: none"> <li>• Develops priority areas related to human resources management</li> <li>• 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</li> <li>• Plans staff appointments, provides recommendations on nominees to the positions of Management Committee members, the President of the Company and the Corporate Secretary</li> </ul>

Members	Key roles
<p>Management Committee</p> <p>Chairman – Vagit Alekperov, President of PJSC LUKOIL</p>	<ul style="list-style-type: none"> <li>• Elaborates and approves the Company's quarterly, annual and perspective activity plans</li> <li>• Develops and approves budgets and investment programs, including the Environmental Safety Program of LUKOIL Group Entities and the Industrial Safety, Labor Conditions Improvement and Protection, Emergency Prevention and Response Program of LUKOIL Group Entities</li> <li>• Monitors progress against activity plans</li> <li>• Develops and implements the overall strategy of the Company's subsidiaries</li> </ul>
<p>Health, Safety and Environmental Committee of PJSC LUKOIL</p> <p>Chairman – Ravil Maganov, First Executive Vice President of PJSC LUKOIL, Vice Chairman of the Board of Directors, a member of the Strategy, Investment and Sustainability Committee of the Board of Directors</p>	<ul style="list-style-type: none"> <li>• Develops the HSE Policy, objectives, targets, and key performance indicators of LUKOIL Group entities</li> <li>• Analyzes the effect of HSE initiatives</li> <li>• Develops proposals to improve the HSE Management System of LUKOIL Group, including the efficient allocation of resources to comply with the HSE requirements</li> <li>• Reviews measures for management of material HSE risks and environmental sustainability, including HSE initiatives</li> </ul>
<p>Head of sustainability – Evgeny Khavkin, a member of the Management Committee of PJSC LUKOIL, Vice President – Chief of Staff of PJSC LUKOIL</p>	<ul style="list-style-type: none"> <li>• Organizes and coordinates:                             <ul style="list-style-type: none"> <li>– Efforts to shape the overall corporate position on sustainability</li> <li>– Stakeholder engagement on the Company's sustainability agenda</li> <li>– Development of local regulations on sustainability</li> <li>– Sustainability-related communications between the Company's business units</li> <li>– Preparation of the Group's Sustainability report</li> </ul> </li> <li>• Develops recommendations and proposals to governing bodies on improving sustainability and its management practices at the Company and other LUKOIL Group entities</li> </ul>
<p>Working Group on Sustainability</p> <p>Head of sustainability – Evgeny Khavkin, a member of the Management Committee of PJSC LUKOIL, Vice President – Chief of Staff of PJSC LUKOIL</p>	<ul style="list-style-type: none"> <li>• Analyzes sustainability feedback from stakeholders</li> <li>• Develops a unified corporate position related to sustainable development issues and aspects</li> <li>• Effects sustainability-related communications and interactions between the Company's business units</li> <li>• Consistently improves the system of collecting, preparing and disclosing sustainability reporting information</li> <li>• Approves the list of disclosed indicators, their calculation guidelines and scope</li> <li>• Approves the overall public position on sustainability</li> <li>• Organizes and monitors the preparation of LUKOIL Group's Sustainability Report</li> <li>• Develops sustainability recommendations for governance bodies</li> </ul>
<p>Corporate Secretary of PJSC LUKOIL</p> <p>Natalia Podolskaya</p>	<ul style="list-style-type: none"> <li>• Interacts with members of the Board of Directors on sustainability-related matters</li> <li>• Develops recommendations on improving sustainability management</li> <li>• Participates in stakeholder engagement in sustainability matters</li> <li>• Coordinates stakeholder engagement with members of the Board of Directors on the sustainability agenda</li> <li>• Initiates activities aimed at improving sustainability management, with a view to their deeper integration into business processes</li> </ul>

In 2019, the Strategy and Investment Committee of the Board of Directors was renamed into the Strategy, Investment and Sustainability Committee and its functions were expanded accordingly. The Committee discussed a far greater number of sustainability matters at its meetings.

**i** For more details, see the Strategy, Investment and Sustainability Committee section

In the reporting year, the Working Group on Sustainability took on more functions and also changed its name. The Working Group was expanded to include heads of PJSC LUKOIL's core business units and held four meetings. Toby Gati, an independent director and a member of the Strategy, Investment and Sustainability Committee, regularly participated in the meetings. Her position on material sustainability aspects of non-financial disclosures was taken into account when LUKOIL Group Sustainability Report 2019 and other corporate documents were prepared. The Working Group's meetings were also attended by independent sustainability experts and consultants.

## BUSINESS ETHICS

Being the cornerstone of its activities, the Company's corporate values help ensure commitment to the highest ethical standards, including strict adherence to respect of human rights, full legislative compliance and zero tolerance for any form of corruption.

The Company has in place the Code of Business Conduct and Ethics of PJSC LUKOIL approved by the resolution of the Board of Directors in 2018, 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 also includes social responsibility provisions set out by the conventions of the UN and International Labor Organization.

**i** The full text of the Code of Business Conduct and Ethics of PJSC LUKOIL is available in the Internal Documents section on the Company's website



To regulate corporate ethics and ensure compliance with the Code, the Company has established the Business Ethics Commission.

**i** See the Reference Information section for contact information regarding business ethics issues, see the Reference Information section

## 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 he or she has 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.

**i** 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.

**The distribution of functions related to organizing preventive measures, identifying and preventing ethical standard violations, corporate fraud and corruption**

Members	Functions
Business Ethics Commission	Supervision of corporate ethical business relations and implementation of the standards and rules of the Code of Business Conduct and Ethics of PJSC LUKOIL and the Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations
Internal Audit Service	<p>Audits and audit consulting which include:</p> <ul style="list-style-type: none"> <li>• Analysis of the reliability and efficiency of the internal control, corporate governance and risk management procedures applied in LUKOIL Group entities</li> <li>• Engagement in the development and control of measures to increase the efficiency of corporate governance, internal control and risk management</li> <li>• 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</li> </ul>
Internal Control Department	<p>Overall coordination of the Company's activities to improve and develop the ICS</p> <p>Development of corporate standards of, and requirements to, the ICS, allowing to:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> </ul> <p>Supervision of corporate standards of, and requirements to, the ICS, through:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Reviewing LUKOIL's draft regulations brought up for approval by its governance bodies</li> </ul>
Corporate Security Department	<p>Coordination of LUKOIL Group's activities to ensure economic and internal security, and implementation of expert analytics and inspection measures at the following stages:</p> <ul style="list-style-type: none"> <li>• Bidding and contract signing</li> <li>• Reviewing candidates for positions at LUKOIL</li> <li>• Rotating and appointing managers</li> </ul>
<p>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.</p>	

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.

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 during 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.

To avoid conflicts of interest, members of the Management Committee need approval of the Board of Directors to be able to hold several positions.

LUKOIL's employees undergo regular professional trainings, trainings on ethical standards and anti-corruption conduct, and the Company's management is invited to attend guidance meetings. 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, 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 has in place a set of internal documents of different levels 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

To consolidate corporate anti-corruption practices, the Company's Board of Directors passed a resolution in 2019 to develop the anti-corruption policy of PJSC LUKOIL in 2020, setting out unified anti-corruption principles, goals and objectives.

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.

In particular, the updated Business Ethics Code which was adopted in late 2018 was sent down to LUKOIL Group entities. Their HR services were tasked that employees read and acknowledge the Code and were also advised to include it into the mandatory onboarding package for new hires. The progress of the Code implementation at Group entities was discussed and approved by the Board of Directors in autumn 2019.

LUKOIL has zero tolerance for any form or manifestation of corruption and complies with applicable anti-corruption laws in the countries of operation, with the management acting as a role model to employees in combating corruption.

For the past five years, the Company has prepared annual Reports on Payments to Governments pursuant to foreign laws applicable to PJSC LUKOIL as an issuer of publicly traded securities listed on the London Stock Exchange. These reports serve to increase the transparency of payments made by companies from extractive industries and may be helpful to different groups of users.

 The full text of the Report on Payments to Governments is available on the Company's website



### 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
- 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'"<sup>1</sup> and a number of other local regulations, also applicable to LUKOIL Group entities

Pursuant to the EU Market Abuse Regulation, a special procedure applies to transactions with Company securities performed by Board of Directors and Management Committee members. Newly elected Board of Directors and Management Committee members are promptly 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 closed periods. Pursuant to the international best practices, limitations on securities transactions during closed 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 2019, 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 owners 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.

<sup>1</sup> The updated version of the Insider Information Regulations of PJSC LUKOIL was approved by the Company's Board of Directors on February 12, 2020 (Minutes No. 4). The updated document sets out a legal framework for transactions on the domestic and foreign markets and further restricts the procedure and terms of transactions with Company securities.

One of LUKOIL's key priorities for 2020 is to increase automation of information security processes, including further development of information security solutions for automated process control systems to comply with regulatory requirements to IT functions.

## SUBSIDIARY MANAGEMENT SYSTEM

Being the corporate center of LUKOIL Group, PJSC LUKOIL coordinates the operations of Group subsidiaries.

The corporate governance model of subsidiaries reflects their legal status and jurisdiction and may include the general shareholders (members) meeting, the board of directors (supervisory board) and the sole executive body. The Company's governance bodies at all levels are involved in governing subsidiaries of PJSC LUKOIL within their respective authority.

In 2019, the Management Committee approved a set of local regulations governing business process communications between the Company and its subsidiaries, to enhance the Company's regulatory framework.

### 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 obtaining and terminating subsoil licenses under certain conditions
- 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 their 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 structure

The Management Committee consistently works to improve the structure 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 Charter of PJSC LUKOIL. In addition, the Management Committee approves measures for further restructuring of LUKOIL Group entities and other entities in which they directly hold an interest. The Restructuring Commission's meeting materials are prepared and approved using an information system set up for making decisions on LUKOIL Group entities holding stakes in other entities.



For the Group's structure and a list of its key entities, see the Key Subsidiaries section

### Approval of subsidiaries' material transactions<sup>1</sup>

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 of OJSC LUKOIL. Such transactions are made by subsidiaries only after their consideration and approval by the Management Committee in accordance with the Procedure. The Procedure does not apply to intra-group transactions.

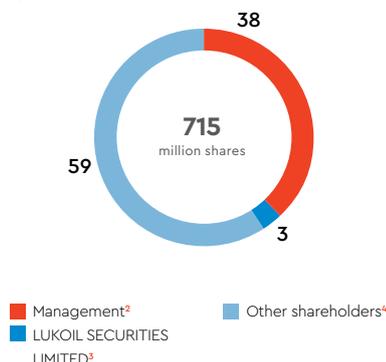
At the same time, material transactions made as part of investment projects affirmed by the Management Committee of PJSC LUKOIL, are approved according to the procedure established by the Company's local regulations governing the Group's investment activities.

<sup>1</sup> 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 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, 2019, PJSC LUKOIL had a charter capital of 715,000,000 ordinary shares with a nominal value of RUB 0.025 each.

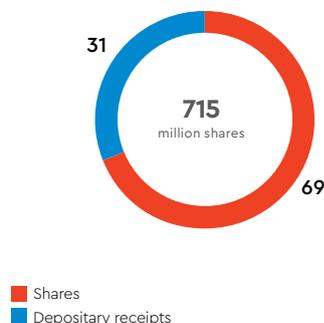
### PJSC LUKOIL share capital structure as at December 31, 2019, %



On June 20, 2019, the Annual General Shareholders Meeting of the Company passed a resolution to reduce the charter capital in 2019 by 35,000,000 ordinary shares. In February 2020, the charter capital was further reduced by 22,134,238 ordinary shares based on the resolution of the Extraordinary General Shareholders Meeting of the Company passed on December 3, 2019. As a result, the total number of issued ordinary shares decreased in the first quarter of 2020 to 692,865,762 shares.

As at December 31, 2019, depository receipts were issued to represent 31.2% of the Company ordinary shares.

### Shares and depository receipts of PJSC LUKOIL as at December 31, 2019, %



LUKOIL ranks among the Top 3 Russian companies with the highest free float value.

The list of key 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, LUKOIL SECURITIES LIMITED, a wholly owned subsidiary of the Company, launched the share buy-back programme of PJSC LUKOIL in the open market in an aggregate amount of up to USD 3 billion. The program was completed in August 2019 with 37.2 million shares purchased, including in the form of depository receipts.

In October 2019, the Company announced another buy-back programme for a total amount of up to USD 3 billion. The program is scheduled to last from October 1, 2019 to December 30, 2022.

## Cancellation of shares

In June 2019, the Annual General Shareholders Meeting of PJSC LUKOIL resolved to reduce the charter capital by way of purchasing a portion of issued shares to decrease their total number in order to optimize the share capital structure of the Company, including through acquisition and cancellation of the shares held by LUKOIL SECURITIES LIMITED (a 100% subsidiary of the Company). The Company shareholders were given equal and fair opportunities to sell their shares on the same terms.

To translate this resolution into action, PJSC LUKOIL purchased 35 million ordinary shares from Company shareholders, including 15.5 million shares from LUKOIL SECURITIES LIMITED. As a result, the number of issued ordinary shares in PJSC LUKOIL was decreased to 715 million shares.

In December 2019 the Extraordinary General Shareholders Meeting of PJSC LUKOIL resolved to reduce the charter capital by way of purchasing a portion of issued shares to decrease their total number. Based on this resolution the Company bought back and subsequently cancelled 22 million ordinary shares in February 2020. Almost all cancelled shares were bought from LUKOIL SECURITIES LIMITED. The Company shareholders were given equal and fair opportunities to sell their shares on the same terms. As a result, the total number of issued ordinary shares in PJSC LUKOIL was decreased to 693 million shares.

<sup>2</sup> Percentage of PJSC LUKOIL shares which the members of the Board of Directors or Management Committee own directly and/or indirectly, and/or are beneficiaries of. For more details, see the Board of Directors' composition and the Management Committee membership sections.

<sup>3</sup> LUKOIL SECURITIES LIMITED is a 100% subsidiary of the Company, which carries out shares purchases as part of the buy-back programme.

<sup>4</sup> Including 5.5% held by CYPROMAN SERVICES LIMITED which operates the Long-Term Incentive Program for Key Employees of LUKOIL Group for 2018-2022.

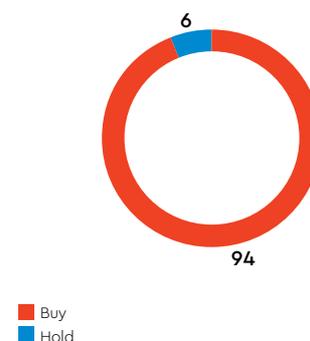
Except for the listed above, the Company management is not aware of any shareholders (holders of shares) holding more than 5% in the Company's charter capital.

## Major institutional investors in shares and depositary receipts as at December 31, 2019

Name	Share in free float, %
Vanguard Group	2.4
BlackRock	1.6
Invesco	0.9
Harding Loevner	0.9
FMR	0.8
Schroders	0.7
Dimensional Fund Advisors	0.6
LSV Asset Management	0.6
Government Pension Investment Fund Japan	0.6
Canada Pension Plan Investment Board	0.5

Source: Bloomberg

## Recommendations of analysts of investment banks and financial companies for LUKOIL shares, as at December 31, 2019, %



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.

## Ordinary shares and depositary receipts tickers of PJSC LUKOIL

Ticker	Exchange	Type	Listing
<b>LUKOH</b>	<b>Moscow Exchange</b>	<b>Ordinary shares</b>	<b>1st level</b>

PJSC LUKOIL ordinary shares are admitted to, and mainly traded on, the Moscow Exchange, included in the Level One quotation list, and are one of the most liquid instruments in the Russian equity market.

<b>LKOD</b>	<b>London Stock Exchange</b>	<b>Depositary receipts</b>	<b>Standard</b>
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The depositary receipts (DRs) of the Company are traded on the London Stock Exchange. One DR issued for PJSC LUKOIL shares equals one ordinary share issued by PJSC LUKOIL. Company depositary receipts are one of the most liquid depositary receipts among Eastern European issuers.

<b>LUK</b>	<b>Frankfurt Stock Exchange</b>	<b>Depositary receipts</b>
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<b>LUKOY</b>	<b>US OTC market</b>
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PJSC LUKOIL depositary receipts are also traded on the Munich and Stuttgart Stock Exchanges.

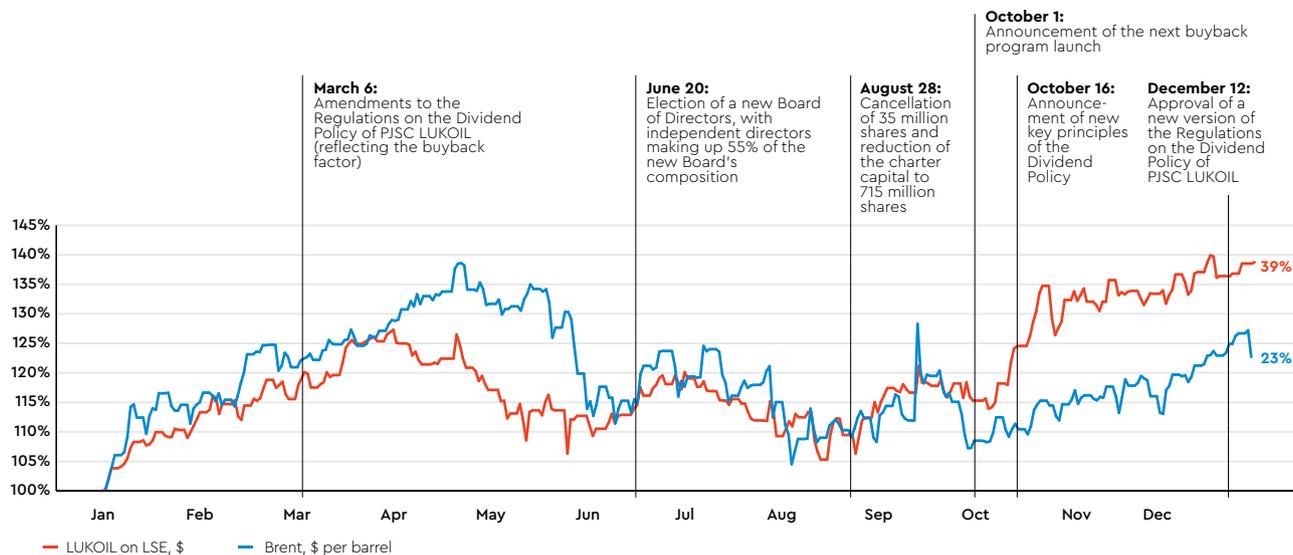
 The list of analysts covering Company securities is available on the Company's website



## Indices which include PJSC LUKOIL shares

Index	The Company's shares and DRs weight in the index as at December 31, 2019, %
FTSE Russia IOB	17.0
MOEX Russia Index	13.6
MSCI Russia	16.0
MSCI Emerging Markets Eastern Europe	12.0
MSCI Emerging Markets EMEA	4.2

## PJSC LUKOIL depository receipts price performance in 2019



**Stock price performance.** In 2019, all country indices comprising developed and the majority of emerging economies went up. The Russian market was one of growth leaders: the US dollar-denominated RTS Index was up by 45% in 2019, whereas the Russian ruble-denominated MOEX Russia Index was up by 29%. By the end of 2019, PJSC LUKOIL shares were up on the Moscow Exchange by 23% to RUB 6,169 per share. PJSC LUKOIL depository receipts on the London

Stock Exchange went up by 39% to USD 99.2 per DR. Throughout the year, the ruble-denominated price of Company shares reached historical peaks several times while the US dollar-denominated price hit its highest peak since mid-2008. As at the end of 2019, 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.

In early 2019, global rating agency Moody's upgraded LUKOIL's long-term credit rating from Baa3 to Baa2.

Rating agency	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, 2019

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
June 7, 2007/June 7, 2022	15	6.656	semiannual	500,000,000	XS0304274599/ US549876AA88

The Eurobonds 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.

The Dividend Policy agenda was discussed at two meetings of the Board of Directors in 2019. In early 2019, the Board of Directors approved an amendment to the Regulations on the Dividend Policy of PJSC LUKOIL, allowing to factor in 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. In late 2019, a new version of the Regulations on the Dividend Policy of PJSC LUKOIL was approved, stipulating the following new principles:

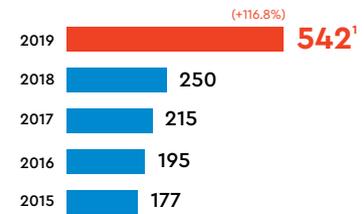
- The total amount of dividends on the Company's issued shares, excluding the shares held by LUKOIL Group entities, should equal at least

100% of the Company's adjusted free cash flow

- The adjusted free cash flow is calculated on the basis of the consolidated financial statements of PJSC LUKOIL prepared in accordance with IFRS and is determined as net cash from operating activities less capital expenditures, interest paid, repayment of lease obligations and expenses on purchasing the Company's stock
- Dividend per ordinary share is rounded to the nearest Russian ruble
- Dividends are paid twice a year (subject to approval by the General Shareholders Meeting) with the amount of interim dividends calculated based on the consolidated financial statements for the six-month period

Based on the 2019 performance, the Board of Directors recommended the Annual General Shareholders Meeting to approve the 2019 dividends of RUB 542 per ordinary share (including interim dividend in the amount of RUB 192 per ordinary share paid in January 2020).

## Dividend per share, RUB



<sup>1</sup> Total dividend amount recommended by the Board of Directors based on the 2019 results.



The Regulations on the Dividend policy are available on the Company's website



## The report on dividends accrued and paid

Period	2017			2018			2019		
	9M 2017	FY2017	Total	9M 2018	FY2018	Total	9M 2019	FY2019	Total
<b>Accrued dividend per share, RUB</b>	<b>85</b>	<b>130</b>	<b>215</b>	<b>95</b>	<b>155</b>	<b>250</b>	<b>192</b>	<b>350<sup>3</sup></b>	<b>542<sup>3</sup></b>
Accrued dividend, RUB million	72,298	110,573	182,871	71,250	116,250	187,500	137,280		
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, Minutes No.	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	June 20, 2019; Minutes No. 1 dated June 25, 2019		December 3, 2019; Minutes No. 2 dated December 5, 2019		
Declared dividend payout period	up to January 12, 2018 / up to February 2, 2018 <sup>2</sup>	up to July 23, 2018 / up to August 13, 2018 <sup>2</sup>		up to January 11, 2019 / up to February 1, 2019 <sup>2</sup>	up to July 19, 2019 / up to August 9, 2019 <sup>2</sup>		up to January 10, 2020 / up to January 31, 2020 <sup>2</sup>		
Ratio of unpaid to accrued dividends, % <sup>1</sup>	0.060271	0.046467	0.051925	0.060167	0.105070	0.083808	0.065803		

Total accrued dividends are calculated through multiplication of the total number of PJSC LUKOIL shares by the amount of dividends per share.



For more details, see the Share Capital, Share Prices, and Dividends section of the Analyst Databook



<sup>1</sup> Dividend payouts were not 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.

<sup>2</sup> 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.

<sup>3</sup> Dividend amount recommended by the Board of Directors based on the 2019 results.

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 operating 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 operating performance results in Excel format.

To enhance its openness, the Company presents its financial statements during quarterly conference calls, conducts other presentations, organizes site

visits, senior management speeches at conferences, face-to-face meetings, and communications with stakeholders. The Company regularly responds to inquiries made by stakeholders, including the media, institutional investors, environmental organizations and shareholders.



The Regulations on the Information policy are available on the Company's website



### EXPERT ASSESSMENT

PJSC LUKOIL won awards in three categories of the 22nd Annual Reports Contest 2019, organized by the Moscow Exchange and Stock Market Media Group and held in partnership with Institutional Investor for the first time.

Following the results of an independent survey, LUKOIL received an award in the Extel Survey Best Corporate by Large Cap Russia 2019 category as the Best IR Professionals.

Once again, LUKOIL also became the winner of the award of the Russian Union of Industrialists and Entrepreneurs for the best corporate social responsibility and sustainable development report.

The Company's revamped web-complex received a separate award in the Best Design and Navigation of a Corporate Website category. LUKOIL's web-complex had also been the only Russian website which had made it to Top 30 global corporate websites, according to Bowen Craggs & Co (Index of Online Excellence), a British consulting company.

## 2020 financial calendar

<b>Strategy Day</b>	
Presentation of 2019 results	March 11
<b>Financial results announcement</b>	
FY2019	March 10
Q1 2020	June 3
Q2 2020	August
Q3 2020	November
<b>2019 dividends</b>	
Recommendation by the Board of Directors	May 18
Dividend record date	July 10
<b>9M 2020 interim dividends</b>	
Recommendation by the Board of Directors	October
Dividend record date	December
<b>General Shareholders Meeting</b>	
Annual General Shareholders Meeting	June 23
Extraordinary General Shareholders Meeting	December
<b>Annual publications</b>	
Annual report	May
Analyst Databook	May

# KEY ENTITIES WITHIN THE GROUP

## EXPLORATION AND PRODUCTION

### RUSSIA

#### West Siberia

LLC LUKOIL-West Siberia  
LLC RITEK (TPU RITEK-Beloyarskneft)  
LLC LUKOIL-AIK  
LLC TURSUNT

#### 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 (TPU Volgogradneftegaz,  
TPU RITEK-Samara-Nafta)  
LLC JV Wolgodeminoil (50%)

#### Other

LLC LUKOIL-Kaliningradmorneft  
LLC RITEK (TPU 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

### UZBEKISTAN

LUKOIL Overseas Uzbekistan Ltd.  
LLC LUKOIL Uzbekistan Operating Company  
SOYUZNEFTEGAZ VOSTOK LIMITED

### 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.

### THE REPUBLIC OF CONGO

LUKOIL Upstream Congo Anonymous  
Company Unipersonel

### SAUDI ARABIA

LUKOIL Overseas Riyadh Ltd.

### UAE

LUKOIL Upstream Abu Dhabi GmbH

## OIL REFINING 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 Neftochim Burgas AD (99.85%)  
(Burgas Refinery)

### NETHERLANDS

Zeeland Refinery N.V. (45%)  
(Zeeland Refinery)

### ROMANIA

PETROTEL-LUKOIL S.A. (99.77%)  
(Ploiești Refinery)

## PETROCHEMICALS

### RUSSIA

LLC Saratovorgsintez  
(Saratovorgsintez)  
LLC Stavrolen  
(Stavrolen)

## BUNKERING

### RUSSIA

LLC LUKOIL MarinBunker

### BULGARIA

LUKOIL-Bulgaria Bunker EOOD

## AIRCRAFT REFUELING

### RUSSIA

LLC LUKOIL-AERO  
LLC LUKOIL-Varandey-AVIA

### BULGARIA

LUKOIL Aviation Bulgaria EOOD

(Short names of the Group's organizations used in the Report)

## REFINING, MARKETING AND DISTRIBUTION

### LUBRICANTS

#### RUSSIA

LLC LUKOIL-International  
LLC INTESMO (75%)

#### TURKEY

LUKOIL Lubricants Middle East Madeni  
Yağ Sanayi ve Ticaret Limited Şirketi

#### AUSTRIA

LUKOIL Lubricants Europe GmbH

#### ROMANIA

LUKOIL LUBRICANTS EAST EUROPE S.R.L.  
Belarus  
JLLC LUKOIL-NAFTAN

### POWER GENERATION

#### RUSSIA

LLC LUKOIL-Astrakhanenergo  
LLC LUKOIL-Volgogradenergo  
LLC LUKOIL-Kubanenergo  
LLC LUKOIL-Rostovenergo  
LLC LUKOIL-Stavropolenergo  
LLC LUKOIL-Ecoenergo  
LLC Volgodonskaya Teplovaya  
Generatsia  
LLC Kamyshin CHPP  
OJSC KamyshinTeploEnergo  
LLC Astrakhan Heat Supply Networks  
LLC Volgodonsk Heat Supply Networks  
LLC Volzhsky Heat Supply Networks  
LLC Rostov Heat Supply Networks  
OJSC KTE  
LLC LUKOIL-ENERGOSETI  
LLC Teplovaya Generatsia G. Volzhskogo  
LLC LUKOIL-TsUR  
LLC LUKOIL-ENERGOSERVIS  
LLC LUKOIL-Energoengineering

#### ROMANIA

LAND POWER S.A.

### TRANSPORTATION

#### RUSSIA

LLC LUKOIL-Trans  
LLC Varandey Terminal  
(Varandey terminal)  
LLC LUKOIL-KNT  
LLC RPK-Vysotsk LUKOIL-II  
(Terminal in Vysotsk)  
JSC LUKOIL-Chernomorje

#### LATVIA

VARIS

### DISTRIBUTION

#### RUSSIA

LLC LUKOIL-Severo-Zapadnefteprodukt  
LLC LUKOIL-Uralnefteprodukt  
LLC LUKOIL-Tsentrnefteprodukt  
LLC LUKOIL-Yugnefteprodukt  
LLC LICARD  
LLC LUKOIL-Reservnefteprodukt  
LLC LUKOIL-Reservnefteprodukt-Trading

#### AZERBAIJAN

CJSC LUKOIL-Azerbaijan

#### BELARUS

FLLC 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 Şirketi

#### FINLAND

Oy Teboil Ab

#### CROATIA

LUKOIL Croatia Ltd.

#### MONTENEGRO

LUKOIL MONTENEGRO DOO, Podgorica

### TRADING

#### SWITZERLAND

LITASCO SA  
(LITASCO)



The full list of Subsidiaries is available on the Company's website



## Reference Information

### About the Company

Public Joint Stock Company "Oil Company 'LUKOIL'" (hereinafter, 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, 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 Blvd, Moscow, 101000, Russia  
 Website: [www.lukoil.ru](http://www.lukoil.ru) (Russian),  
[www.lukoil.com](http://www.lukoil.com) (English)  
 Central Information Service  
 Tel.: +7 495 627 4444, +7 495 628 9841  
 Fax: +7 495 625 7016

### Shareholder Relations

Tel.: +7 495 981 7320  
 Fax: +7 495 627 4564  
 Email: [shareholder@lukoil.com](mailto:shareholder@lukoil.com)

### Investor Relations

Tel.: +7 495 627 1696  
 Email: [ir@lukoil.com](mailto:ir@lukoil.com)

### Press Service

Tel.: +7 495 627 1677  
 Email: [media@lukoil.com](mailto:media@lukoil.com)

### Filing Stations Hotline

Tel.: +7 800 100 0911  
 Email: [hotline@lukoil.com](mailto:hotline@lukoil.com)

### Business Ethics Commission

Tel.: +7 495 627 8259  
 Email: [ethics@lukoil.com](mailto:ethics@lukoil.com)

### Lukoil Stock Consulting Center

PJSC LUKOIL  
 11, Sretensky Blvd, Moscow, 101000, Russia  
 Tel.: +7 495 780 1943, +7 800 200 9402  
 Email: [fkclukoil.com](mailto:fkclukoil.com)

### Registrar

LLC Registrar "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](mailto:mail@reggarant.ru)

### Depository in the depository receipt program

Citibank, N.A.  
 Russian office: 6, Gasheka St., 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](mailto:michael.klochkov@citi.com),  
[drdividends@citi.com](mailto:drdividends@citi.com)

### Auditor

JSC KPMG (Joint Stock Company KPMG)  
 16, Olimpiyskiy Ave., Bld. 5, 3d floor, premises 1, office 24e, Moscow, 129110, Russia  
 Tel.: +7 495 937 4477  
 Fax: +7 495 937 4499  
 Email: [moscow@kpmg.ru](mailto:moscow@kpmg.ru)

### Self-Regulatory Organization of Auditors

Russian Union of Auditors (Association)  
 8, Petrovskiy Side St., Bld. 2, Moscow, 107031, Russia  
 Tel.: +7 495 694 0156  
 Fax: +7 495 694 0108

## Business proposals

Postal address: 11, Sretensky Blvd,  
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 (hereinafter, the "Report") presents key information on LUKOIL Group's overall performance in 2019 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 is based on the Group's consolidated financial statements under IFRS.

## The Company's other reports

- Analyst Databook (operating 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 in the Investors section



You can order a free printed version of this Annual Report via request on IR@lukoil.com

## Feedback

You are welcome to send any comments and/or suggestions as regards the Group's reports to our IR email [ir@lukoil.com](mailto: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 2019 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 2019 (RUB 64.7 per USD) is used for converting figures in rubles into US dollars, unless otherwise indicated.

1 barrel of oil equivalent = 6 thousand cubic feet of gas.

## Other information

The segment split used in the Report is in line with the information in the Group's IFRS consolidated financial statements.

Largest international oil & gas companies include Royal Dutch Shell, Total, Chevron and 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

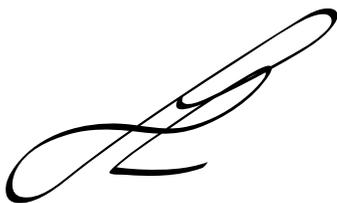
**References to "PJSC LUKOIL," "LUKOIL Group," "the Group," "LUKOIL," "the Company," "we" and "our" throughout this document are all equivalent for the purposes of this Report and refer to LUKOIL Group, PJSC LUKOIL and/or its subsidiaries depending upon the context in which the terms are used.**

**2D** – two-dimensional  
**3D** – three-dimensional  
**6M** – six months  
**9M** – nine months  
**AC** – Audit Committee  
**ADNOC** – Abu Dhabi National Oil Company  
**AELI** – All-Union Extra-Mural Law Institute  
**AGM** – Annual General Shareholders Meeting  
**AI** – Russian gasoline grades indicating the research octane number (RON)  
**APG** – associated petroleum gas  
**AR** – augmented reality  
**ASSR** – Autonomous Soviet Socialist Republic  
**BoD** – Board of Directors  
**boe** – barrel of oil equivalent  
**BU** – business unit  
**CAPEX** – capital expenditures  
**CCGT** – combined-cycle gas turbine  
**CDP** – Carbon Disclosure Project  
**CEO** – Chief Executive Officer  
**CHPP** – combined heat and power plant  
**CIS** – Commonwealth of Independent States  
**CJSC** – closed joint stock company  
**COSO** – Committee of Sponsoring Organizations of the Treadway Commission  
**CPC** – Caspian Pipeline Consortium  
**DIAU** – dedicated internal audit unit  
**DR** – depositary receipt  
**DWT/CTP** – Deepwater Tano/Cape Three Points (block)  
**E&P** – Exploration and Production  
**EBITDA** – earnings before interest, taxation, depreciation and amortization  
**EGM** – Extraordinary General Shareholders Meeting  
**EOR** – enhanced oil recovery  
**ERM** – enterprise risk management  
**ESG** – Environmental, Social and Governance  
**ESPO** – East Siberia – Pacific Ocean pipeline  
**EU** – European Union

**FER** – fuel and energy resources  
**FTS** – Federal Tax Service  
**FX** – Foreign Exchange  
**FY** – full year  
**Gcal** – gigacalorie  
**GDP** – gross domestic product  
**GHG** – greenhouse gas  
**GNPC** – Ghana National Petroleum Corporation  
**GPC** – gas processing complex  
**GPP** – gas processing plant  
**GR** – government relations  
**GW** – gigawatt  
**HPP** – hydroelectric power plant  
**HR** – human resources  
**HRCC** – HR and Compensation Committee  
**HSE** – health, safety and environment  
**IAS** – Internal Audit Service  
**ICS** – internal control system  
**IFRS** – International Financial Reporting Standards  
**ILO** – International Labor Organization  
**IMO** – International Maritime Organization  
**IPJSC** – insurance public joint stock company  
**IPPF** – International Professional Practices Framework  
**IPRA** – International Public Relations Association  
**IR** – investor relations  
**ISO** – International Organization for Standardization  
**IT** – information technology  
**JSC** – joint stock company  
**JV** – joint venture  
**km** – kilometer  
**KPI** – key performance indicator  
**kWh** – kilowatt-hour  
**LLC** – limited liability company  
**LTAFR** – lost-time accident frequency rate  
**LTIFR** – lost-time injury frequency rate  
**MARPOL** – International Convention for the Prevention of Pollution from Ships  
**MET** – mineral extraction tax  
**MOOC** – massive open online course  
**MSAL** – Moscow State Law Academy  
**MW** – megawatt  
**MZHF** – multi-zone hydraulic fracturing  
**NGL** – natural gas liquids  
**NGO** – non-governmental organization  
**OECD** – Organization for Economic Co-operation and Development  
**OEM** – original equipment manufacturer  
**OGPB** – Oil and Gas Production Board

**OHSAS** – Occupational Health and Safety Assessment Series  
**OJSC** – open joint stock company  
**OPEC** – Organization of Petroleum Exporting Countries  
**p.p.** – percentage point  
**PhD** – Doctor of Philosophy  
**PJSC** – public joint stock company  
**PJSFC** – Public Joint Stock Financial Corporation  
**PLMA** – Plan to Localize and Mitigate the Consequences of Accidents at Hazardous Production Facilities  
**PMSM** – permanent magnet motor  
**PR** – public relations  
**Q1** – first quarter  
**Q2** – second quarter  
**Q3** – third quarter  
**R&D** – research and development  
**RAS** – Russian Accounting Standards  
**RITEK** – Russian Innovation Fuel and Energy Company  
**RMICS** – risk management and internal control system  
**ROACE** – return on average capital employed  
**RSPP** – Russian Union of Industrialists and Entrepreneurs  
**RTS** – Russian Trading System (Index)  
**RUB** – Russian ruble  
**SAGD** – steam-assisted gravity drainage  
**SDGs** – Sustainable Development Goals  
**SEC** – Securities and Exchange Commission  
**SECA** – Sulfur Emissions Control Area  
**SISC** – Strategy, Investment and Sustainability Committee  
**SPCC** – Spill Prevention, Control and Countermeasure  
**TAI** – tax on additional income  
**TCFD** – Task Force on Climate-related Financial Disclosures  
**TPP** – thermal power plant  
**TPU** – Territory Production Unit  
**UAE** – United Arab Emirates  
**UK** – United Kingdom  
**UN** – United Nations  
**USA** – United States of America  
**USD (\$)** – US dollar  
**USRBC** – U.S.-Russia Business Council  
**USSR** – Union of Soviet Socialist Republics  
**VAT** – value-added tax  
**vs.** – versus  
**WECM** – wholesale electricity and capacity market

The Annual Report of PJSC LUKOIL  
is approved by the Annual general shareholders  
meeting (Minutes No. 1 dated June 23, 2020)  
and preliminarily approved  
by the Board of Directors of PJSC LUKOIL  
(Minutes No. 9 dated May 18, 2020).

A handwritten signature in black ink, consisting of a large, stylized initial 'V' followed by a series of loops and a final horizontal stroke.

**Vagit Alekperov**

President, Chairman of the Management  
Committee of PJSC LUKOIL



**LUKOIL**



# **APPENDICES**

PJSC LUKOIL ANNUAL REPORT FOR 2019

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# 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](http://www.cbr.ru/publ/Vestnik/ves140418040.pdf).

The Board of Directors confirms 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 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

The Company fully complies with the requirements to corporate governance set out in the Listing Rules of PJSC Moscow Exchange guided by the recommendations of the Corporate Governance Code. Compliance with these requirements is a prerequisite for including Company shares in the Level One Quotation List of the Moscow Exchange.

Compliance with the Code was influenced by the following events in 2019.

In the reporting year, the number of independent directors on the Board of Directors increased to six, enabling the Board to change the composition of its HR and Compensation Committee to comprise only independent directors, while previously it comprised one non-executive director and two independent directors. The HR and Compensation Committee of the Board of Directors combines functions prescribed by the Code for the remuneration committee and the nomination committee. The presence of only independent directors on the Committee complies with the recommendations of the Code and international best practices.

During 2019, LUKOIL SECURITIES LIMITED (a wholly-owned subsidiary of the Company) held quasi-treasury shares issued by PJSC "LUKOIL", which were acquired under the buy-back programme. In line with the requirements of the Code, quasi-treasury shares did not participate in the voting at the Annual and Extraordinary General Shareholders Meetings held in 2019. Previously, quasi-treasury shares participated in the voting.

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

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 the 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 2019.

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 shareholders meeting 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, email 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None  Criterion 3 is partially not complied with.  In 2019, the materials provided to shareholders to prepare for the Company's Annual General Shareholders Meeting included information on nominees to the Board of Directors proposed by the Board of Directors at its discretion, as well as nominees to the Board of Directors proposed by shareholders holding at least 2% of voting shares in PJSC "LUKOIL". At the same time, the information on shareholders who proposed nominees to the Board of Directors and Audit Commission was shared in the reports of the Corporate Secretary at the 2019 Annual General Shareholders Meeting of PJSC "LUKOIL" on the agenda items related to electing members of the Company's Board of Directors and Audit Commission.  In the future, the Company plans to meet these recommendations when preparing for its General Shareholders Meetings.

<p>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.</p>	<p>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.</p> <p>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 shareholders meeting.</p> <p>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.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>
<p>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.</p>	<p>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.</p> <p>2. In the reporting period, the company did not reject proposals for the agenda or candidates to governance bodies due to misprints or other insignificant flaws in the shareholder's proposal.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>
<p>1.1.5 Each shareholder shall be enabled to freely exercise his/her voting right in the simplest and most convenient way.</p>	<p>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.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>

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.	<p>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.</p> <p>2. Nominees to the company's governance and control bodies were available to answer shareholders' questions during the meeting at which their nominations were put to vote.</p> <p>3. When passing resolutions on the preparation and holding of general shareholders meetings, the board of directors considered the use of telecommunications means to provide shareholders with remote access to general meetings in the reporting period.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 2 is partially not complied with.</p> <p>Under the version of the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting of PJSC "LUKOIL" effective in 2019, the Company's Board of Directors distributed invitations to attend the General Shareholders Meeting to nominees when the General Shareholders Meeting was supposed to consider election of members of the Company's Board of Directors and Audit Commission.</p> <p>As a rule, all nominees (with limited exceptions) are present at the General Shareholders Meeting and available to answer questions of shareholders. The Company may not guarantee that each and all nominees would be present at the General Shareholders Meeting and recognizes that certain nominees may be absent for a good reason.</p> <p>In 2019, not all nominees were present at the General Shareholders Meeting.</p>
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.	<p>1. The company's dividend policy is developed, approved by the board of directors and disclosed.</p> <p>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.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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's significant 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.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially not complied with.</p> <p>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.</p> <p>The Company's internal documents, however, set additional transaction controls.</p> <p>The Company has in place the Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations, 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 business process and performance of LUKOIL Group entities.</p> <p>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.</p> <p>In accordance with the Federal Law On Joint Stock Companies, members of the Company's governance bodies including significant 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 the Bank of Russia's Directive No. 4338-U dated April 3, 2017.</p>
<b>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.</b>				
1.3.1	The company has created conditions for fair treatment of each shareholder by the governance 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 significant shareholders were efficient, and the board of directors paid due attention to conflicts among shareholders, if such conflicts occurred.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<p>1. The company has developed and put in place the policy (policies) on remuneration and/or reimbursement (compensation) of costs incurred by members of the board of directors, executive bodies, and other key executives, approved by the board of directors.</p> <p>2. In the reporting period, the board of directors reviewed at its meetings matters related to the said policy (policies).</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<p>1. The board of directors plays a key role in preventing, identifying and settling internal conflicts.</p> <p>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.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<p>1. The board of directors has approved the regulations on information policy.</p> <p>2. The company has designated the persons responsible for the implementation of the information policy.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<p>1. In the reporting period, the board of directors considered the matter of the company's corporate governance practices.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<p>1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings.</p> <p>2. The annual report contains key results of assessment of the board of directors' work in the reporting period.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
2.2.2	The chairman of the board of directors shall be available to communicate with the company shareholders.	<p>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.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None

2.3	The board of directors shall manage the company in an efficient and competent manner and make fair and independent judgments 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.	<p>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.</p> <p>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.</p>
2.3.2	The company's board of directors shall be elected as per a transparent procedure enabling shareholders to receive information about nominees which is sufficient to get an idea of their personal and professional qualities.	<p>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.</p>
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.	<p>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.</p>
2.3.4	The company has a sufficient number of directors to organize the board of directors' activities in the most efficient way, including the ability to set up committees of the board of directors and enable the company's significant minority shareholders to elect a nominee to the board of directors for whom they vote.	<p>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.</p>

**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 nominee (elected member of 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 nominees 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 is 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.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially not complied with.</p> <p>The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions.</p> <p>In the context of absence of a uniform approach to defining "material corporate actions" in the Russian legislation, the Company intends to amend its internal documents alongside with amendments to the applicable laws.</p>
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.	<p>1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors.</p> <p>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.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is not complied with.</p> <p>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.</p> <p>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.</p> <p>The Company admits that all Directors have equal rights and that independent directors have not appointed a senior independent director.</p>
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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.**

<p>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.</p>	<p>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 item on the agenda of the board meeting or the board's committee meeting, prior to the discussion of the relevant agenda item.</p> <p>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.</p> <p>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.</p>	<p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p>	<p>Criterion 3 is partially not complied with.</p> <p>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.</p> <p>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".</p> <p>Regulations on Committees of the Board of Directors also entitle Committees to accept professional services from third-party organizations within the Committee's budget.</p>
<p>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.</p>	<p>1. The company has adopted and published an internal document clearly defining the rights and obligations of members of the board of directors.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>	
<p>2.6.3 Members of the board of directors shall have sufficient time to perform their duties.</p>	<p>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.</p> <p>2. In accordance with the company's internal documents, members of the board of directors shall inform the board of their intentions to join governance bodies of other organizations (except for entities controlled by, or affiliated to, the company), or of the relevant appointment made.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>	

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.	<p>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.</p> <p>2. The company has in place a formalized induction program for newly elected members of the board of directors.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
2.7	Meetings of the board of directors, preparation for such meetings and participation of 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.	<p>1. The board of directors held at least six meetings in the reporting year.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<p>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.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<p>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 discussed at in-person meetings of the board of directors.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially not complied with.</p> <p>The Regulations on the Board of Directors of PJSC "LUKOIL" list matters to be discussed only at in-person meetings of the Board of Directors.</p> <p>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.</p> <p>For instance, due to the large number of the Company subsidiaries, coordination of their operations, including approvals of material transactions, are referred to the jurisdiction of the Management Committee in order to increase the efficiency of the decision-making process.</p> <p>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).</p>

<p>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.</p>	<p>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.</p>	<p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p>	<p>Criterion 1 is partially not complied with.</p> <p>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 unanimately by all Directors.</p> <p>The most essential matters brought up for approval by 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.</p> <p>In 2019, resolutions on the matters set out in paragraphs 1, 2, 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 in 2019 any matters set out in paragraphs 3, 5, 8, 9 of Recommendation 170.</p>
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**2.8 The board of directors shall set up committees for preliminary consideration of the most important matters related to the business of the company.**

<p>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.</p>	<p>1. The board of directors has set up an audit committee comprised solely of independent directors.</p> <p>2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code.</p> <p>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.</p> <p>4. Meetings of the audit committee were held at least once a quarter during the reporting period.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>	
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<p>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.</p>	<ol style="list-style-type: none"> <li>1. The board of directors has set up a remuneration committee comprised solely of independent directors.</li> <li>2. The remuneration committee is chaired by an independent director who is not the chairman of the board of directors.</li> <li>3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.</li> </ol>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 3 is partially not complied with.</p> <p>The Company combines the functions of the remuneration committee and the nomination committee within the HR and Compensation Committee of the Board of Directors.</p> <p>The functions and tasks of the HR and Compensation Committee of the Board of Directors, 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 employees.</p> <p>This is due to the fact that until now the Company has never engaged an independent advisor for such purposes and does not intend to do so in the short term.</p> <p>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 significant shareholders express their interest.</p> <p>The HR and Compensation Committee of the Board of Directors regularly considers at its meetings matters related to remuneration of members of executive bodies and other key employees, which enables the Committee to oversee the introduction and implementation of the Company's policy on remuneration of members of executive bodies and other key employees.</p>
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<p>2.8.3 To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (appointments, HR) committee shall be set up, predominantly comprised of independent directors.</p>	<p>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.</p> <p>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.</p>	<p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p>	<p>Criterion 2 is partially not complied with.</p> <p>The Company combines the functions of the remuneration committee and the nomination committee within the HR and Compensation Committee of the Board of Directors.</p> <p>The functions and tasks of the HR and Compensation Committee of the Board of Directors, 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).</p> <p>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).</p> <p>The Board of Directors' responsibilities and Committees' tasks have also been enhanced in recent years 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.</p>
<p>2.8.4 Taking into account the company's scale of operations and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with the 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.).</p>	<p>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.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>	

2.8.5	Committees shall be composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.	<ol style="list-style-type: none"> <li>1. Committees of the board of directors are headed by independent directors.</li> <li>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.</li> </ol>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<ol style="list-style-type: none"> <li>1. During the reporting period, committee chairmen reported to the board of directors on the work of committees on a regular basis.</li> </ol>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially not complied with.</p> <p>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).</p> <p>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.</p>
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.	<ol style="list-style-type: none"> <li>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.</li> </ol>	<input type="checkbox"/> Full <input type="checkbox"/> Partial <input checked="" type="checkbox"/> None	<p>Criterion 1 is not complied with.</p> <p>For the last three years, the Company did not engage an external entity to conduct an independent assessment of the Board of Directors' performance; at the same time, the effective internal procedure for assessment of the Board of Directors' performance applied in the Company was developed with the help of an internationally recognized independent advisor.</p> <p>The Company may engage an independent advisor in the future to conduct such an assessment.</p>

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.	<p>1. The company has adopted and published an internal document – regulations on the corporate secretary.</p> <p>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.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<p>1. The board of directors approves the appointment, dismissal and additional remuneration of the corporate secretary.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
			<p><u>Note.</u></p> <p><i>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.</i></p>
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 members of the board of directors, executive bodies and other key executives 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 employees.	<p>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.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<p>1. During the 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.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
4.1.4	The company shall define a policy on reimbursement (compensation) of expenses 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
4.2 The system of remuneration of members of the board of directors shall ensure alignment of financial interests of directors with long term financial interests of 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	<p><i>Note.</i></p> <p><i>Internal documents of PJSC "LUKOIL" do not stipulate any share options for its Directors.</i></p>
4.2.3	The company shall not provide for any extra payments or compensations in the event of early termination of powers of members of the board of directors resulting from the change of control or any other reasons whatsoever.	1. The company does not provide for any extra payments or compensations in the event of early termination of powers of members of the board of directors resulting from the change of control or any other reasons whatsoever.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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 remuneration payable to members of executive bodies and other key executives 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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p> <p>Criterion 3 is not complied with.</p> <p>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.</p> <p>Should any such situations arise, the Company will solve these issues in compliance with the applicable law.</p>
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 shares (options and other derivative instruments where the company shares are the underlying asset).	<ol style="list-style-type: none"> <li>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 shares (financial instruments based on the company shares).</li> <li>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.</li> </ol>	<p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p> <p>Criterion 2 is partially not complied with.</p> <p>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 distributed to members of the Program during its term.</p> <p>The Company believes, however, that the terms of the above Program more efficiently support the interest of the Program members in achieving long-term goals.</p>

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 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, did not exceed the double amount of the fixed part of their annual remuneration.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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.	<p>1. The company has in place the anti-corruption policy.</p> <p>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.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is not complied with.</p> <p>The Company has in place the 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 corruption. It also contains standards preventing conflicts of interest.</p> <p>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.</p> <p>In accordance with the resolution passed by the Board of Directors, the Company plans to develop in 2020 a local regulation of PJSC "LUKOIL" to define unified anti-corruption principles, goals and objectives.</p>

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 organization 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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 system 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
5.2.2	The internal audit unit 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
6.1	The company and its business shall be transparent for shareholders, investors, and other stakeholders.		
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 stakeholders.	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 matters related to the company's compliance with its information policy at least once in the reporting period.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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 the 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.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> 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 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 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	<p>The company shall provide information and documents as per the requests of shareholders in compliance with principles of fairness and ease of access.</p>	<p>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.</p>	<p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p>	<p>Criterion 1 is partially not complied with.</p> <p>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'".</p> <p>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.</p> <p>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.</p> <p>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 PJSC "LUKOIL"'s official website</p>
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6.3.2	<p>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.</p>	<p>1. In the reporting period, the company did not refuse shareholders' requests for information, or such refusals were justified.</p> <p>2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>	
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7.1	<p>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 the rights and interests of shareholders and other stakeholders.</p>			
7.1.1	<p>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 delisting of the company 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.</p>	<p>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 competence of the board of directors. When execution of such corporate actions is expressly referred by law to the competence of the general shareholders meeting, the board of directors presents relevant recommendations to shareholders.</p> <p>2. Under the charter, material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (takeover), entering in significant transactions, increase or reduction of the company's charter capital, listing or delisting of the company shares.</p>	<p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p>	<p>Criterion 1 is partially not complied with.                  Criterion 2 is not complied with.</p> <p>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).</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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 acquisition and disposal of equity interests in other entities are referred by the Charter to the competence of the Management Committee.</p> <p>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 competence of the Board of Directors.</p>

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.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially not complied with.</p> <p>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).</p> <p>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.</p>
7.1.3	When taking material corporate actions affecting the rights and legitimate 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 legitimate interests of the company 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.	<p>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.</p> <p>2. In the reporting period, all material corporate actions were subject to the approval procedure prior to execution.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially not complied with.</p> <p>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).</p> <p>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.</p>

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.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None
			<p>Criterion 1 is partially not complied with.</p> <p>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).</p> <p>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.</p> <p>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 detailed disclosures of all relevant information.</p> <p>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.</p>

<p>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.</p>	<p>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.</p> <p>2. The company's internal documents provide for the procedure for engaging an independent appraiser to assess the value of the company shares at their repurchase or redemption.</p> <p>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.</p>	<p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p>	<p>Criterion 3 is not complied with.</p> <p>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.</p> <p>The Company duly notes that in 2017 provisions of the Federal Law On Joint Stock Companies regarding interested party transactions 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 interested but not subject to the rules on interested party transactions was expanded.</p> <p>The above amendments to the Federal Law On Joint Stock Companies 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:</p> <ul style="list-style-type: none"> <li>- 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; and</li> <li>- abstain from voting on any item in connection with which they have a conflict of interest.</li> </ul> <p>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 law.</p>
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# APPENDIX 2.

Risks



1. Macroeconomic risks	
Risk description	Risk management
<p>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.</p>	<p>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.</p>
2. Country risks	
Risk description	Risk management
<p>LUKOIL Group operates in a number of countries with a high level of risks (Iraq, Egypt, Uzbekistan, and West African countries) which, should they materialize, could adversely impact and even halt our operations.</p> <p>Key factors that could have an adverse effect on the business of LUKOIL Group in these countries:</p> <ul style="list-style-type: none"> <li>• Political disruption;</li> <li>• Escalation of armed conflicts;</li> <li>• Macroeconomic instability;</li> <li>• Expropriation of the Company's assets;</li> <li>• Inefficiencies in the judicial system and flawed legal framework.</li> </ul>	<p>Most of our production and refining assets are located within Russia, which limits our exposure to the risk. We also seek to further diversify our international operations.</p> <p>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 the regions 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.</p>
3. Price risks	
Risk description	Risk management
<p>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.</p>	<p>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.</p> <p>Additionally, we implement a range of measures to mitigate price risks:</p> <ul style="list-style-type: none"> <li>• A scenario-based approach when designing strategic development programs;</li> <li>• Managing our investment project portfolio according to each project's price sensitivity;</li> <li>• Commodity supply management, ensuring prompt responses to market changes and the ability to make arbitrage shipments;</li> <li>• Hedging transactions in international operations.</li> </ul>
4. Industry risks	
4.1. Risks related to well construction and development of fields with hard-to-recover hydrocarbon reserves	
Risk description	Risk management
<p>Group entities and their contractors purchase the majority of well construction equipment and materials from suppliers in the EU and USA. The ban on imports of equipment and materials could have an adverse effect on our operations.</p>	<p>We currently have a one-year supply of spare parts, equipment, and materials for use in the Group's projects, and we have developed a set of measures which allow to substitute chemical 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 countries.</p> <p>We actively deploy Russian technologies and consistently substitute imported equipment with Russian equivalents. We are conducting pilot tests of Russian equipment and gradually deploying Russian multi-zone fracturing systems.</p>

<b>4.2. Risks of tariff and vendor price hikes</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>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.</p> <p>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.</p> <p>We are also exposed to the risk of higher prices for other products and services, such as vehicle transportation, customs brokerage, warehousing, etc.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• diversifying transportation channels, including the development of alternative routes;</li> <li>• cooperating with other consumers to prevent accelerated growth of tariffs charged by monopolies;</li> <li>• using tender procedures to enter into long-term contracts with vendors; and</li> <li>• entering into long-term transportation agreements.</li> </ul> <p>To mitigate the risk of higher prices for products and services, we enhance our tender procedures and encourage competition by broadening our list of suppliers of products and services.</p>
<b>4.3. Risk of non-discovery of reserves or unmet projections</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>Non-discovery of commercially productive oil and gas reserves and/or discovery of 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.</p>	<p>We have been consistently improving our exploration technologies and phase our operations when plans for the next phase are based on results of the one prior.</p> <p>By working with leading global oil and gas players, we can study and successfully implement their best exploration practices at the Group's assets.</p>
<b>4.4. Risk of underperformance in projected technological effect of well intervention and production drilling programs</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>Well intervention and production drilling programs may not result in their projected technological effect, which could lead to the downgrading of hydrocarbon production targets and adversely affect the Company's financial performance.</p>	<p>PJSC LUKOIL takes a range of measures to allow it to promptly respond to this risk in case it occurs, such as by preemptively preparing an additional set of effective well interventions, and by maintaining a reserve pool of potential production wells. We make appropriate adjustments to current well intervention and production drilling programs based on actual monthly and quarterly performance.</p>
<b>4.5. Subsoil use and licensing risks</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>We face certain risks associated with the Russian legislation on subsoil use and licensing of exploration and mining operations. The key risks include:</p> <ul style="list-style-type: none"> <li>• early termination of subsoil licenses or administrative fines due to a breach of license agreements;</li> <li>• 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 legal entities with participation of foreign investors; and</li> <li>• non-acceptance of application documents for tenders or auctions for subsoil use licenses.</li> </ul>	<p>We mitigate subsoil use and licensing risks by:</p> <ul style="list-style-type: none"> <li>• monitoring changes in legislation on subsoil use and licensing while making proposals to update the existing legal framework;</li> <li>• updating our list of open acreage areas that are of interest to the Group;</li> <li>• preparing applications for tenders and auctions for subsoil use licenses, and license renewal documents;</li> <li>• running annual professional development training courses for licensing and subsoil use experts and sending experts to key subsoil use and licensing workshops;</li> <li>• employing a dedicated information system to monitor subsoil use; and</li> <li>• liaising with regulatory authorities to mitigate risks of early termination of subsoil licenses.</li> </ul>

<b>5. Financial risks</b>	
<b>5.1. Liquidity risks</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>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.</p>	<p>Our Group-wide, centralized and efficient liquidity management uses a rolling liquidity forecast as the main tool for the operational and strategic management of LUKOIL Group's consolidated cash position. We have put in place an efficient global liquidity management system comprising automatic cash concentration and disbursement, and corporate dealing. We regularly forecast consolidated cash flows and cash position in the mid- and long-term, and continuously monitor liquidity ratios, assessing the sensitivity of the figures laid out in our plans, budgets, and investment programs in relation to macroeconomic changes. If necessary, we adjust plans, reduce spending in transitioning to the stress scenario, shift payment and project implementation dates, include optional projects in the current plan if the macroeconomic situation improves, as well as ensure timely financing of our business activities.</p> <p>At the end of 2019, PJSC LUKOIL had investment-grade ratings from three major international rating agencies – S&amp;P (BBB), Fitch (BBB+), and Moody's (Baa2).</p> <p>We regularly monitor our financials to ensure they meet the requirements of rating agencies.</p>
<b>5.2. FX risks</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>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.</p> <p>Therefore, FX fluctuations could have a significant effect on our financial performance.</p>	<p>We manage FX risks using a comprehensive approach, including natural hedging techniques, managing currency balances of monetary assets and obligations.</p>
<b>5.3. Counterparty default and non-payment risks</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>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.</p>	<p>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.</p> <p>We conduct regular end-to-end analyses and use tools for rating banks and financial institutions to prepare a list of approved banking counterparties.</p>
<b>6. Legal risks</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>Legislative changes in tax, subsoil use, power generation sector and corporate governance could have an adverse effect on our financial performance.</p>	<p>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.</p> <p>Our representatives are involved in expert panels that discuss and develop effective means of applying new laws.</p>

## 7. Reputational risks

Risk description	Risk management
<p>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.</p>	<p>To mitigate this risk, we make efforts to:</p> <ul style="list-style-type: none"> <li>maintain regular communication with our stakeholders;</li> <li>provide unbiased information on financial and operational performance of PJSC LUKOIL in a timely manner;</li> <li>ensure continuous monitoring of PJSC LUKOIL compliance with statutory requirements and effective agreements; and</li> <li>effect timely payments to counterparties.</li> </ul> <p>The company controls the quality of its products and services. For instance, the Filling Stations Hotline has been set up to promptly address any comments and suggestions regarding filling stations' operation.</p> <p>We pay close attention to safety and environmental protection, and operate in line with the best HSE standards.</p> <p>We place a great emphasis on social responsibility and working conditions, maintaining and improving our effective occupational health and social security framework through targeted programs.</p>

## 8. Strategic risks

Risk description	Risk management
<p>At 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.</p>	<p>We regularly identify strategic risks when developing 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.</p> <p>To mitigate strategic risks, our management closely monitors the macroeconomic situation and industry trends, as well as analyzes the performance of our business units and peers. When developing the strategy and investment program, we actively use scenario and probabilistic modeling tools to assess various risks.</p>

## 9. Other risks

### 9.1. Risk of terrorism and unlawful acts of third parties

Risk description	Risk management
<p>LUKOIL Group operates in several countries with a high risk of terrorism and other criminal acts made against the Group's assets.</p> <p>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.</p>	<p>We minimize these risks by:</p> <ul style="list-style-type: none"> <li>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;</li> <li>identifying employees who intentionally damage interests of PJSC LUKOIL in favor of third parties;</li> <li>planning and hosting events aimed at strengthening information security; and</li> <li>using data encryption tools.</li> </ul>

<b>9.2. HSE risks</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>The Group's facilities are exposed to risks of process disruptions, hazardous releases, environmental damage, accidents, fires, and incidents that may result in unscheduled idle time at these facilities.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• target corporate HSE programs;</li> <li>• industrial control over the operation of hazardous production facilities;</li> <li>• diagnostics (non-destructive testing) and monitoring of equipment performance;</li> <li>• repair and timely replacement of equipment;</li> <li>• a process ensuring contractors' end-to-end compliance with mandatory HSE requirements;</li> <li>• development of leadership and safety culture;</li> <li>• the appointment of qualified staff across various business levels of the Group;</li> <li>• special assessments and improvements of working conditions;</li> <li>• 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; and</li> <li>• other measures aimed at reducing accident and injury rates at production sites of LUKOIL Group entities.</li> </ul>

<b>9.3. Climate change risk</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>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.</p> <p>Additionally, LUKOIL Group operates in various regions with hard-to-predict potential climate change impacts that may result in a significant adverse effect.</p>	<p>We minimize this risk by:</p> <ul style="list-style-type: none"> <li>• recording greenhouse gas emissions and planning initiatives aimed at their control;</li> <li>• carrying out constant monitoring of relevant 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; and</li> <li>• taking climate change risk into account when designing and constructing facilities in environmentally sensitive areas (the Far North, offshore facilities).</li> </ul>

<b>9.4. Risk of investment program non-delivery</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>When implementing our investment projects, we face risks of cost overruns and delays in commissioning production facilities.</p> <p>Project delays including 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.</p>	<p>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.</p>

### 9.5. Risks related to competition

Risk description	Risk management
<p>The oil and gas industry is a highly competitive space. We compete with other major Russian and international companies in:</p> <ul style="list-style-type: none"> <li>obtaining exploration and production licenses in auctions and tenders for subsoil use licenses;</li> <li>purchasing assets, equipment, and stakes in new projects;</li> <li>engaging specialized third-party organizations to perform services;</li> <li>recruiting qualified and experienced staff;</li> <li>gaining access to key transportation infrastructure;</li> <li>developing, seeking out, purchasing, and deploying technologies;</li> <li>distributing finished products; and</li> <li>gaining access to capital.</li> </ul> <p>Additionally, PJSC LUKOIL may be faced with the challenge of competing against alternative and green renewable energy providers.</p>	<p>PJSC LUKOIL is one of the largest vertically integrated oil companies in Russia and the world. Many years of robust performance have 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.</p> <p>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.</p>

### 9.6. Risk of shortages in qualified personnel

Risk description	Risk management
<p>Insufficient skills or qualifications of personnel may have an adverse effect on our financial performance.</p>	<p>To mitigate this risk, we focus on the comprehensive development of our talent pool. LUKOIL's talent management strategy is aligned with its development strategy 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</p>

### 9.7. Cyber risks

Risk description	Risk management
<p>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 operate in a shared information environment and are inevitably exposed to external and internal cyber-attack risks threatening the confidentiality, integrity, and availability of the information in our IT systems.</p> <p>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.</p>	<p>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 cyberattacks, helping to prevent or minimize their consequences.</p>

<b>9.8. IT risks</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>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 the building and upgrading of IT systems, faults and failures in IT systems, an inability to obtain IT services from external suppliers (due to extended international sanctions as well), and the loss of our market share caused by a lag in deploying innovative digital technology.</p>	<p>In addressing risks related to running projects that build and upgrade IT systems, we apply and improve modern development management practices and focus on proven technical solutions with reliable technical support.</p> <p>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.</p> <p>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.</p> <p>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.</p>

<b>9.9. Securities trading risks</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>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 to be downgraded to lower listing grades or to be delisted, potentially having an adverse effect on their liquidity and value.</p>	<p>We keep track of changes made to listing rules and other requirements of 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 implement international best practices of corporate governance.</p>

<b>9.10. Risks related to disclosure obligations</b>	
<b>Risk description</b>	<b>Risk management</b>
<p>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 to 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 cyberattacks, 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.</p>	<p>We mitigate these risks by signing agreements with several information disclosure agencies at once, and by providing information disclosures ahead of established timelines to have ample time to fix potential technical problems; and, if necessary, the Company's authorized employees promptly interact with employees of information disclosure agencies.</p>

# APPENDIX 3.

Major and Interested Party  
Transactions



## LIST OF TRANSACTIONS MADE BY PJSC "LUKOIL" IN 2019 AND RECOGNISED AS MAJOR TRANSACTIONS IN ACCORDANCE WITH THE FEDERAL LAW ON JOINT STOCK COMPANIES

In 2019 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 2019, WHERE DECISIONS ON CONSENT TO PERFORM THE TRANSACTIONS IN ACCORDANCE WITH THE FEDERAL LAW «ON JOINT STOCK COMPANIES» WAS TAKEN BY THE ANNUAL GENERAL SHAREHOLDERS MEETING OF PJSC "LUKOIL" ON 20 JUNE 2019

1. Reference Number of the transaction	1
2. Price	Not more than USD 470,000 – Insurance premium for coverage A, B and C
3. Names of parties	PJSC "LUKOIL" (Policyholder) Ingosstrakh Insurance Company (Insurer)
4. Names of beneficiaries	Under Cover A – the sole executive body, members of governing 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 governing 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 governing 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 Party.
5. Name of the transaction	Contract (Policy) on Directors, Officers and Companies Liability Insurance (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) the respective Insured Party 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 recognised as such	The President, members of the Board of Directors and Management Committee of PJSC "LUKOIL" are simultaneously beneficiaries under the transaction.
8. Other material terms of the transaction	<p>The policy is effective from 19 July 2019 through 18 July 2020.</p> <p>The insurance premium (liability limit) is at least USD 150,000,000 (total aggregate limit for coverage A, B and C, including legal defence costs).</p> <p>The insurance premium will be paid in roubles at the exchange rate determined by the Parties as of the date the Policy is signed, pursuant to the terms of the Policy.</p>

## LIST OF INTERESTED PARTY TRANSACTIONS ENTERED INTO BY PJSC "LUKOIL" IN 2019, 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. Reference Number of the transaction	1
2.1. Price (amount in US dollars)	The estimated amount of the transaction is USD 2,200,712,225.49 (loan amount of USD 2,058,602,554.47 plus interest of USD 142,109,671.02).
2.2. Price (amount in roubles)	The estimated amount of the transaction is RUB 146,457,398,606.07 (loan amount of RUB 137,000,000,000 plus interest of RUB 9,457,398,606.07).
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 Agreements 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 87,000,000,000 (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 137,000,000,000.
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 <sup>1</sup>	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" – 0.008%, 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. Reference Number of the transaction	2
2.1. Price (amount in US dollars)	Credit line of USD 300,000,000, plus interest of no more than USD 29,100,000.
2.2. Price (amount in roubles)	Credit line of RUB 19,440,000,000, plus interest of no more than RUB 1,885,680,000.
3. Names of parties	PJSC "LUKOIL" (Guarantor) ING BANK N.V., DUBLIN BRANCH (Lender)
4. Names of beneficiary	LUKINTER FINANCE B.V. (Borrower)
5. Name of transaction	Amendment Agreement No.4 (hereinafter the Amendment Agreement) to Suretyship Agreement No.1510442 of 09 September 2015 (hereinafter the Surety).
6. Subject of the transaction	According to the Surety and Amendment Agreements 1,2 and 3 thereto the Guarantor shall, along with the Borrower, be accountable to the Lender for full, proper and timely fulfillment of all of the Borrower's obligations under the Agreement on Granting the Approved Revolving Credit Line in the amount of USD 300,000,000 of September 9, 2015, signed between the Borrower and the Lender (hereinafter, the Credit Agreement), including the costs, expenses and losses to be reimbursed to the Lender under the Credit Agreement; should the Borrower fail to settle any amount of the secured obligations to the Lender within the agreed period, the Guarantor shall transfer the said amount to the Lender upon request within five (5) business days following the request issued by the Lender to the Guarantor.  Under the Amendment Agreement to the Surety, the Credit Agreement definition shall be revised to change the credit line term to 24 months from the date of signing Amendment Agreement No.4.

<sup>1</sup> 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, basis 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 <sup>2</sup> , 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	All other terms of the Surety shall remain unaltered and in force. The Amendment Agreement shall come into effect the day it is signed by the Parties.
<b>1. Reference Number of the transaction</b>	<b>3</b>
2.1. Price (amount in US dollars)	Loan facility in the amount of USD 300,000,000, interest in the amount of USD 29,100,000 at most and the fee of USD 6,000,000 at most.
2.2. Price (amount in roubles)	Loan facility in the amount of RUB 19,440,000,000, interest in the amount of RUB 1,885,680,000 at most and the fee of RUB 388,800,000 at most.
3. Names of parties	PJSC "LUKOIL" (Guarantor) LUKINTER FINANCE B.V. (Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Reimbursement Agreement No.1510417 of 09 September 2015 (hereinafter the Agreement)
6. Subject of the transaction	The Parties concluded the Agreement and Supplemental Agreements Nos.1-4 in relation to the Suretyship Agreement No.1510442 of 09 September 2015 between the Surety and ING BANK N.V., DUBLIN BRANCH (the Bank), done as guarantee of the Borrower's performance of obligations to the Bank under the Loan Agreement on the extension of committed revolving facility in the amount of USD 300,000,000 (hereinafter the Loan Agreement), as well as interests, forfeits, penalties, fines and other guaranteed payments. The Parties agreed to regard the amount paid by the Guarantor to the Bank to perform its obligations under the Suretyship Agreement as the amount subject for repayment by the Borrower to the Guarantor with interest payable for its use on the terms, at the time and in the manner established by the Agreement. According to the Supplemental Agreement to the Agreement and in view of the extension of the Suretyship Agreement by virtue of Supplemental Agreement No.4 thereto, Item 3.2 of the Agreement shall be amended to read that the service charge for providing surety for the Borrower's liabilities shall be 1% per annum of the liabilities to the Bank covered by the surety of the Borrower's obligations to the Bank under the Loan Agreement, calculated for each day of the settlement period. The rate specified above shall remain unchanged throughout the term of the Agreement, unless otherwise duly agreed in writing by the Parties. The actual number of days in a year (365/366) shall be used to calculate the amount of payment for the surety of the Borrower's performance.
7. Interested party, basis 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	Supplemental Agreement shall enter into force the day it is signed by the Parties.
<b>1. Reference Number of the transaction</b>	<b>4</b>
2.1. Price (amount in US dollars)	Credit line of USD 200,000,000, plus interest of no more than USD 17,880,000.
2.2. Price (amount in roubles)	Credit line of RUB 13,088,000,000, plus interest of no more than RUB 1,170,067,200.
3. Names of the parties	PJSC "LUKOIL" (Guarantor) ABN AMRO BANK N.V. (Lender)
4. Name of the beneficiary	LUKINTER FINANCE B.V. (Borrower)
5. Name of the transaction	Confirmation and Amendment Deed to Deed of Guarantee No.1510168 dated 01.04.2015 (the Guarantee).

<sup>2</sup> Powers of S.G. Nikitin as member of the Management Committee of PJSC "LUKOIL" were terminate early by decision of the Board of the of Directors of PJSC "LUKOIL" on 12 December 2019 (Minutes No.19).

6. Subject of the transaction	<p>Pursuant to Guarantee and Confirmation and Amendment Deed to the Guarantee, the Guarantor irrevocably and unconditionally guarantees to the Lender the due and punctual performance by the Borrower of all the Borrower's obligations totalling USD 200,000,000 under the Facility Agreement signed between the Borrower and the Lender (Facility Agreement), plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable (or stated to be payable) to the Lender under or in connection with the Facility Agreement.</p> <p>Pursuant to the Confirmation and Amendment Deed to the Guarantee the Guarantor confirms its obligations under the Guarantee in connection with Supplemental Agreement No. 3 to the Facility Agreement, providing for the extension of the validity of the Facility Agreement for two years from the date the said Supplemental Agreement is signed.</p>
7. Interested parties, basis for being recognised as such	<p>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. Liubov 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.</p>
8. Other material terms of the transaction	<p>This Confirmation and Amendment Deed to Deed of Guarantee and all non-contractual obligations arising out of or in connection with it are governed by English law.</p>
1. Reference Number of the transaction	5
2.1. Price (amount in US dollars)	Credit line of USD 200,000,000, plus interest of no more than USD 17,880,000; the fee of no more than USD 4,000,000.
2.2. Price (amount in roubles)	Credit line of RUB 13,088,000,000, plus interest of no more than RUB 1,170,067,200 the fee of no more than RUB 261,760,000.
3. Names of the parties	PJSC "LUKOIL" (Guarantor) LUKINTER FINANCE B.V. (Debtor)
4. Name of the beneficiaries	-
5. Name of the transaction	Supplemental Agreement to Contract of Indemnification No.1510147 of 01.04.2015 (hereinafter the "Contract").
6. Subject of the transaction	<p>The Parties signed the Contract in connection with the Deed of Guarantee No.1510168 dated 01.04.2015 issued by the Guarantor as a guarantee to ABN AMRO BANK N.V. (the "Bank") for meeting the Debtor's liabilities worth USD 200,000,000 under the Facility Agreement, plus interest, penalties, forfeits, fines and other amounts due and payable (Facility Agreement).</p> <p>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 Contract.</p> <p>Under the Supplemental Agreement to the Contract and in connection with the extension of the validity of the Deed of Guarantee by Confirmation and Amendment Deed to the Guarantee Clause 3.2 of the Contract is being revised to stipulate that the cost of the Guarantee Service for the Debtor's obligation amounts to 1% 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. The said rate shall not change during the validity of the Contract unless duly stipulated by the Parties in writing. In calculating the amount payable for the Guarantee Service provided the actual number of days in a year shall be used (365/366).</p>
7. Interested parties, basis for being recognised as such	<p>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. Liubov 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.</p>
8. Other material terms of the transaction	<p>The Agreement shall enter into force from the date of signing by the Parties.</p>

1. Reference Number of the transaction	6
2.1. Price (amount in US dollars)	Credit line of USD 250,000,000, plus interest of no more than USD 23,050,000.
2.2. Price (amount in roubles)	Credit line of RUB 16,360,000,000, plus interest of no more than RUB 1,508,392,000.
3. Names of the parties	PJSC "LUKOIL" (Guarantor) SOCIETE GENERALE (Lender)
4. Name of the beneficiary	LUKINTER FINANCE B.V. (Borrower)
5. Name of the transaction	THE CONFIRMATION AND AMENDMENT DEED 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, 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 to the Lender under the Facility Agreement or in connection with it. Pursuant to the Confirmation and Amendment Deed to the Guarantee the Guarantor confirms its obligations under the Deed of Guarantee in connection with Supplemental Agreement No. 4 to the Facility Agreement, providing for the extension of the validity of the Facility Agreement for two years from the date the said Supplemental Agreement is signed.
7. Interested parties, basis 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. Liubov 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 to the Deed of Guarantee and any non-contractual obligations arising out of or in connection with it are governed by English law.
1. Reference Number of the transaction	7
2.1. Price (amount in US dollars)	Credit line of USD 250,000,000, plus interest of no more than USD 23,050,000; the fee of no more than USD 5,000,000.
2.2. Price (amount in roubles)	Credit line of RUB 16,360,000,000, plus interest of no more than RUB 1,508,392,000; the fee of no more than RUB 327,200,000.
3. Names of the parties	PJSC "LUKOIL" (Guarantor) LUKINTER FINANCE B.V. (Debtor)
4. Name of the beneficiaries	-
5. Name of the transaction	Supplemental Agreement to Contract of Indemnification No.1510189 of 22.04.2015 (hereinafter the "Contract").
6 Subject of the transaction	The Parties signed the Contract in connection with the Deed of Guarantee No.1510236 dated 22.04.2015 (Deed of Guarantee) issued by the Guarantor as a guarantee to SOCIETE GENERALE (the "Bank") for meeting the Borrower's liabilities worth USD 250,000,000 under the Facility Agreement, 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 Contract. Under the Supplemental Agreement to the Contract and in connection with the extension of the validity of the Deed of Guarantee by Confirmation and Amendment Deed to the Guarantee Clause 3.2 of the Contract is being revised to stipulate that the cost of the Guarantee Service for the Debtor's obligation amounts to 1% 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. The said rate shall not change during the validity of the Contract unless duly stipulated by the Parties in writing. In calculating the amount payable for the Guarantee Service provided the actual number of days in a year shall be used (365/366).
7. Interested parties, basis 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. Liubov 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 Agreement shall enter into force from the date of signing 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 2019

BoD/Management Committee member	Type of transaction	Date of transaction	Number of shares/DRs
Vagit Alekperov	purchase	25.03.2019	10,000
	purchase	29.08.2019	25,000
Vyacheslav Verkhov	purchase	29.08.2019	5,000
Vadim Vorobyov	purchase	29.08.2019	11,875
Denis Dolgov	purchase	29.08.2019	10,000
Ravil Maganov	purchase	29.08.2019	15,000
Ilya Mandrik	purchase	29.08.2019	10,000
	sale	24.10.2019	20,892
Ivan Maslyaev	purchase	29.08.2019	10,000
	purchase	22.01.2019	75
	purchase	22.01.2019	35
Alexander Matytsyn	purchase	22.01.2019	156
	purchase	22.01.2019	4,153
	purchase	29.08.2019	12,500
Anatoly Moskalenko	purchase	29.08.2019	10,000
Stanislav Nikitin *	purchase	29.08.2019	10,000
Oleg Pashaev	purchase	29.08.2019	10,000
Denis Rogachev	purchase	29.08.2019	10,000
	purchase	29.08.2019	10,000
Gennady Fedotov	purchase	27.09.2019	6,352
	purchase	30.09.2019	5,438
Leonid Fedun	purchase	29.08.2019	10,000
Evgeny Khavkin	purchase	29.08.2019	10,000
	sale	27.09.2019	5,000
Lyubov Khoba	purchase	22.01.2019	3,605
Azat Shamsuarov	purchase	29.08.2019	10,000

\* Management Committee member until December 12, 2019.

# 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 2019**



# 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 2019, 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.



**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 separate opinion on these matters.

**Recoverability of Property, plant and equipment (PP&E) in exploration and production segment**

Please refer to the Note 13 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Due to continuing volatility in commodity prices, there is a risk of irrecoverability of the Group's PP&amp;E balance in exploration and production segment, which is material to the financial statements as at 31 December 2019. 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.</p>	<p>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.</p> <p>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&amp;E in exploration and production segment.</p>



### 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
<p>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&amp;A) charges. The principal risk is in relation to management's assessment of future cash flows, which are used to project the recoverability of property, plant and equipment as described above.</p>	<p>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 checking that assumptions used to estimate reserves and resources were made in compliance with relevant regulations.</p> <p>We compared the volumes of reserves and resources to the information used for the impairment test and accounting for depreciation, depletion and amortization.</p>

### 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, the Annual Report and the Quarterly report of the issuer of securities, which are 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

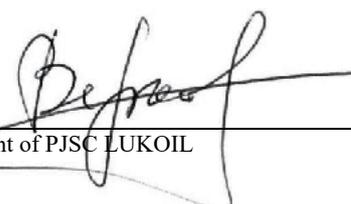


A.I. Oussov  
JSC "KPMG"  
Moscow, Russia  
10 March 2020

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

	Note	31 December 2019	31 December 2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	516,032	492,650
Accounts receivable, net	7	437,052	429,945
Other current financial assets	8	49,706	26,200
Inventories	9	413,910	381,737
Prepaid taxes	10	95,075	95,611
Other current assets	11	42,412	52,336
<b>Total current assets</b>		<b>1,554,187</b>	<b>1,478,479</b>
Property, plant and equipment	13	4,026,007	3,829,164
Investments in associates and joint ventures	12	220,004	228,053
Other non-current financial assets	14	38,231	82,568
Deferred income tax assets	29	28,673	31,041
Goodwill and other intangible assets	16	43,108	41,765
Other non-current assets		36,840	41,312
<b>Total non-current assets</b>		<b>4,392,863</b>	<b>4,253,903</b>
<b>Total assets</b>		<b>5,947,050</b>	<b>5,732,382</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable	17	607,734	547,128
Short-term borrowings and current portion of long-term debt	18	130,300	99,625
Taxes payable	20	142,471	123,974
Provisions	22, 23	37,232	38,266
Other current liabilities	21	168,952	105,567
Obligation to repurchase common shares	24	120,988	-
<b>Total current liabilities</b>		<b>1,207,677</b>	<b>914,560</b>
Long-term debt	19	422,932	435,422
Deferred income tax liabilities	29	264,159	258,836
Provisions	22, 23	77,045	47,923
Other non-current liabilities		1,788	2,115
<b>Total non-current liabilities</b>		<b>765,924</b>	<b>744,296</b>
<b>Total liabilities</b>		<b>1,973,601</b>	<b>1,658,856</b>
<b>Equity</b>	24		
Share capital		968	1,015
Treasury shares (including obligation to repurchase common shares)		(308,160)	(134,810)
Additional paid-in capital		39,277	39,173
Other reserves		30,141	196,554
Retained earnings		4,203,138	3,963,628
<b>Total equity attributable to PJSC LUKOIL shareholders</b>		<b>3,965,364</b>	<b>4,065,560</b>
Non-controlling interests		8,085	7,966
<b>Total equity</b>		<b>3,973,449</b>	<b>4,073,526</b>
<b>Total liabilities and equity</b>		<b>5,947,050</b>	<b>5,732,382</b>

  
 \_\_\_\_\_  
 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	2019	2018
<b>Revenues</b>			
Sales (including excise and export tariffs)	33	7,841,246	8,035,889
<b>Costs and other deductions</b>			
Operating expenses		(457,710)	(464,467)
Cost of purchased crude oil, gas and products		(4,308,073)	(4,534,244)
Transportation expenses		(278,798)	(270,153)
Selling, general and administrative expenses		(197,172)	(192,433)
Depreciation, depletion and amortisation		(415,094)	(343,085)
Taxes other than income taxes		(928,190)	(899,383)
Excise and export tariffs		(425,763)	(556,827)
Exploration expenses		(9,348)	(3,582)
<b>Profit from operating activities</b>		<b>821,098</b>	<b>771,715</b>
Finance income	26	25,134	19,530
Finance costs	26	(44,356)	(38,298)
Equity share in income of affiliates	12	18,246	25,243
Foreign exchange gain		923	33,763
Other expenses	27	(27,691)	(38,934)
<b>Profit before income taxes</b>		<b>793,354</b>	<b>773,019</b>
Current income taxes		(144,615)	(137,062)
Deferred income taxes		(6,518)	(14,855)
<b>Total income tax expense</b>	29	<b>(151,133)</b>	<b>(151,917)</b>
<b>Profit for the year</b>		<b>642,221</b>	<b>621,102</b>
Profit for the year attributable to non-controlling interests		(2,043)	(1,928)
<b>Profit for the year attributable to PJSC LUKOIL shareholders</b>		<b>640,178</b>	<b>619,174</b>
<b>Other comprehensive income (loss), net of income taxes</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translation differences for foreign operations		(164,117)	172,037
Change in fair value of equity investments at fair value through other comprehensive income		(348)	(2,393)
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability / asset of pension plan	23	(1,976)	(196)
<b>Other comprehensive (loss) income</b>		<b>(166,441)</b>	<b>169,448</b>
<b>Total comprehensive income for the year</b>		<b>475,780</b>	<b>790,550</b>
Total comprehensive income for the year attributable to non-controlling interests		(2,015)	(1,912)
<b>Total comprehensive income for the year attributable to PJSC LUKOIL shareholders</b>		<b>473,765</b>	<b>788,638</b>
<b>Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):</b>			
	24		
Basic		963.28	874.47
Diluted		934.73	865.19

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 (including obligation to repurchase)	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2018	1,015	(134,810)	39,173	196,554	3,963,628	<b>4,065,560</b>	7,966	<b>4,073,526</b>
Profit for the year	-	-	-	-	640,178	<b>640,178</b>	2,043	<b>642,221</b>
Other comprehensive loss	-	-	-	(166,413)	-	<b>(166,413)</b>	(28)	<b>(166,441)</b>
<b>Total comprehensive (loss) income</b>				<b>(166,413)</b>	<b>640,178</b>	<b>473,765</b>	<b>2,015</b>	<b>475,780</b>
Dividends on common stock	-	-	-	-	(229,669)	<b>(229,669)</b>	-	<b>(229,669)</b>
Stock purchased	-	(240,767)	-	-	-	<b>(240,767)</b>	-	<b>(240,767)</b>
Equity-settled share-based compensation plan	-	-	-	-	17,359	<b>17,359</b>	-	<b>17,359</b>
Obligation to repurchase common shares	-	(120,988)	-	-	-	<b>(120,988)</b>	-	<b>(120,988)</b>
Share capital reduction	(47)	188,405	-	-	(188,358)	-	-	-
Changes in non-controlling interests	-	-	104	-	-	<b>104</b>	(1,896)	<b>(1,792)</b>
<b>31 December 2019</b>	<b>968</b>	<b>(308,160)</b>	<b>39,277</b>	<b>30,141</b>	<b>4,203,138</b>	<b>3,965,364</b>	<b>8,085</b>	<b>3,973,449</b>
31 December 2017	1,151	(251,089)	129,641	27,090	3,576,158	<b>3,482,951</b>	7,448	<b>3,490,399</b>
Adjustment on adoption of IFRS 9, net of tax	-	-	-	-	(6,831)	<b>(6,831)</b>	-	<b>(6,831)</b>
1 January 2018	1,151	(251,089)	129,641	27,090	3,569,327	<b>3,476,120</b>	7,448	<b>3,483,568</b>
Profit for the year	-	-	-	-	619,174	<b>619,174</b>	1,928	<b>621,102</b>
Other comprehensive income	-	-	-	169,464	-	<b>169,464</b>	(16)	<b>169,448</b>
<b>Total comprehensive income</b>				<b>169,464</b>	<b>619,174</b>	<b>788,638</b>	<b>1,912</b>	<b>790,550</b>
Dividends on common stock	-	-	-	-	(158,635)	<b>(158,635)</b>	-	<b>(158,635)</b>
Stock purchased	-	(62,916)	-	-	-	<b>(62,916)</b>	-	<b>(62,916)</b>
Equity-settled share-based compensation plan	-	-	-	-	22,284	<b>22,284</b>	-	<b>22,284</b>
Share capital reduction	(136)	179,195	(90,537)	-	(88,522)	-	-	-
Changes in non-controlling interests	-	-	69	-	-	<b>69</b>	(1,394)	<b>(1,325)</b>
<b>31 December 2018</b>	<b>1,015</b>	<b>(134,810)</b>	<b>39,173</b>	<b>196,554</b>	<b>3,963,628</b>	<b>4,065,560</b>	<b>7,966</b>	<b>4,073,526</b>

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

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

	Note	2019	2018
<b>Cash flows from operating activities</b>			
<b>Profit for the year attributable to PJSC LUKOIL shareholders</b>		<b>640,178</b>	<b>619,174</b>
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		415,094	343,085
Equity share in income of affiliates, net of dividends received		(11,387)	(17,956)
Dry hole write-offs		7,694	1,667
Loss on disposals and impairments of assets		16,975	26,061
Income tax expense		151,133	151,917
Non-cash foreign exchange gain		(1,120)	(33,041)
Finance income		(25,134)	(19,530)
Finance costs		44,356	38,298
Allowance for expected credit losses		9,340	(949)
Equity-settled share-based compensation plan		31,366	31,366
All other items – net		1,823	6,076
Changes in operating assets and liabilities:			
Trade accounts receivable		(48,023)	23,877
Inventories		(69,171)	71,565
Accounts payable		88,977	(92,508)
Other taxes		24,053	(8,460)
Other current assets and liabilities		(2,617)	(28,066)
Income tax paid		(148,314)	(133,064)
Dividends received		6,636	7,527
Interests received		19,985	19,612
<b>Net cash provided by operating activities</b>		<b>1,151,844</b>	<b>1,006,651</b>
<b>Cash flows from investing activities</b>			
Acquisition of licenses		(8,925)	(153)
Capital expenditures		(449,975)	(451,526)
Proceeds from sale of property, plant and equipment		1,759	4,765
Purchases of financial assets		(7,198)	(7,535)
Proceeds from sale of financial assets		17,774	36,309
Sale of subsidiaries, net of cash disposed		9,261	-
Sale of equity method affiliates		259	-
Acquisitions of interests in the projects and subsidiaries, net of cash acquired		(71,693)	-
Acquisitions of equity method affiliates		(1,388)	(2,252)
<b>Net cash used in investing activities</b>		<b>(510,126)</b>	<b>(420,392)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of short-term borrowings		264	19,502
Principal repayments of short-term borrowings		(6,186)	(10,909)
Proceeds from issuance of long-term debt		-	39,786
Principal repayments of long-term debt		(106,625)	(256,771)
Interest paid		(41,589)	(39,921)
Dividends paid on Company common shares		(180,747)	(158,370)
Dividends paid to non-controlling interest shareholders		(4,040)	(1,995)
Financing received from non-controlling interest shareholders		297	118
Purchase of Company's stock		(243,691)	(59,993)
Sale of non-controlling interest		-	4
Purchases of non-controlling interest		(27)	-
<b>Net cash used in financing activities</b>		<b>(582,344)</b>	<b>(468,549)</b>
Effect of exchange rate changes on cash and cash equivalents		(35,992)	44,550
<b>Net increase in cash and cash equivalents</b>		<b>23,382</b>	<b>162,260</b>
Cash and cash equivalents at beginning of year		492,650	330,390
<b>Cash and cash equivalents at end of year</b>	6	<b>516,032</b>	<b>492,650</b>

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)**

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**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 10 March 2020.

***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.

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

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**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. A 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 controlled 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.

Certain of Group's unincorporated joint exploration and production activities are conducted through arrangements that are not jointly controlled, either because unanimous consent is not required among all parties involved, or no single group of parties has joint control over the activity. Such activities where control can be achieved through agreement between more than one combination of involved parties are considered to be outside the scope of IFRS 11 *Joint Arrangements*. In relation to its interests in these arrangements, the Group recognises its share of any assets, liabilities, income and expenses.

*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 acquiree; 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.

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

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**Note 3. Summary of significant accounting policies (continued)**

*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.

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.

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

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**Note 3. Summary of significant accounting policies (continued)**

***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.

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.

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

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**Note 3. Summary of significant accounting policies (continued)**

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. 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.

**PJSC LUKOIL****Notes to Consolidated Financial Statements****(Millions of Russian rubles, unless otherwise noted)****Note 3. Summary of significant accounting policies (continued)**

Depreciation, depletion and amortisation of the capitalised costs of oil and gas properties related to risk service contract 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.

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.

**PJSC LUKOIL**  
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**Note 3. Summary of significant accounting policies (continued)**

*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.

*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 unrecognized) should be reassessed. In case of existence of previously unrecognized 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*

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.

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

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**Note 3. Summary of significant accounting policies (continued)**

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.

***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.

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**Note 3. Summary of significant accounting policies (continued)**

***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 standard IFRS 16 *Leases* effective as of 1 January 2019.

IFRS 16, issued in January 2016, replaced 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*.

IFRS 16 introduced a single, on-balance sheet lease accounting model for lessees. Under IFRS 16, a contract is, or contains, a lease if it conveys a right to control the use of an identified asset for a period of time in exchange for consideration. A lessee 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. The Company has elected not to apply exemptions for short-term leases and leases for which the underlying asset is of low value. 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 changed because the Group recognises a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously the Group recognised lease expenses 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 applied IFRS 16 using the modified retrospective approach by one-off recognition of non-current assets and financial liabilities of 162 billion RUB at 1 January 2019 measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

***Lease liabilities reconciliation***

<b>Operating lease commitments at 31 December 2018</b>	<b>182,742</b>
Payments for the rent of land related to exploration and evaluation	(30,417)
Leases not yet commenced	(22,835)
Effect of discounting using incremental borrowing rate as of the date of initial application	(33,754)
Other	(847)
<b>Discounted using incremental borrowing rate</b>	<b>94,889</b>
Extension and termination options reasonably certain to be exercised	10,721
Service agreements classified as lease	56,585
Other	(144)
<b>Additional lease liabilities at 1 January 2019</b>	<b>162,051</b>
Finance lease liabilities at 31 December 2018	25,973
<b>Total lease liabilities at 1 January 2019</b>	<b>188,024</b>

For further disclosures please refer to Note 28 "Lease".

**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.

**PJSC LUKOIL****Notes to Consolidated Financial Statements****(Millions of Russian rubles, unless otherwise noted)****Note 4. Use of estimates and judgments (continued)**

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;
- definition of leases.

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**

The following amendments to the standards and clarifications are effective for annual periods beginning on 1 January 2020, available for early adoption:

- amendments to references to Conceptual Framework in IFRS Standards;
- definition of a business (amendments to IFRS 3 *Business Combinations*);
- definition of a material (amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

However, the Group did not make an early adoption of the amended standards in the preparation of these consolidated financial statements, which are not expected to have a significant impact on the Group's consolidated financial statements.

**Note 6. Cash and cash equivalents**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Cash held in RUB	189,055	201,073
Cash held in US dollars	303,046	264,538
Cash held in EUR	14,909	18,350
Cash held in other currencies	9,022	8,689
<b>Total cash and cash equivalents</b>	<b>516,032</b>	<b>492,650</b>

**Note 7. Accounts receivables, net**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Trade accounts receivable (net of allowances of 26,593 million RUB and 23,031 million RUB at 31 December 2019 and 2018, respectively)	428,415	411,247
Other current accounts receivable (net of allowances of 4,694 million RUB and 4,767 million RUB at 31 December 2019 and 2018, respectively)	8,637	18,698
<b>Total accounts receivable, net</b>	<b>437,052</b>	<b>429,945</b>

**Note 8. Other current financial assets**

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Financial assets measured at amortised cost</b>		
Short-term loans	6,814	19,008
Other financial assets	-	295
<b>Financial assets measured at fair value through profit or loss</b>		
Short-term loans	42,892	6,897
<b>Total other current financial assets</b>	<b>49,706</b>	<b>26,200</b>

**PJSC LUKOIL**  
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**Note 9. Inventories**

	31 December 2019	31 December 2018
Crude oil and petroleum products	358,372	325,563
Materials for extraction and drilling	22,811	23,128
Materials and supplies for refining	4,449	4,084
Other goods, materials and supplies	28,278	28,962
<b>Total inventories</b>	<b>413,910</b>	<b>381,737</b>

**Note 10. Prepaid taxes**

	31 December 2019	31 December 2018
Income tax prepaid	17,120	12,165
VAT and excise tax recoverable	30,660	37,832
Export duties prepaid	11,968	23,093
VAT prepaid	30,199	18,498
Other taxes prepaid	5,128	4,023
<b>Total prepaid taxes</b>	<b>95,075</b>	<b>95,611</b>

**Note 11. Other current assets**

	31 December 2019	31 December 2018
Advance payments	10,246	19,851
Prepaid expenses	23,673	22,139
Other assets	8,493	10,346
<b>Total other current assets</b>	<b>42,412</b>	<b>52,336</b>

**Note 12. Investments in associates and joint ventures**

Carrying value of investments in associates and joint ventures:

Name of the company	Country	Ownership		31 December 2019	31 December 2018
		31 December 2019	31 December 2018		
<i>Joint ventures:</i>					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	119,924	121,204
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	40,670	39,346
South Caucasus Pipeline Holding Company (SCPC)	Azerbaijan	10.0%	10.0%	30,241	34,789
Others				655	623
<i>Associates:</i>					
Associates				28,514	32,091
<b>Total</b>				<b>220,004</b>	<b>228,053</b>

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 2019	TCO	CPC	SCPC	Others	Associates	Total
Current assets	127,066	21,376	10,196	3,183	36,785	<b>198,606</b>
Non-current assets	2,641,370	410,517	315,987	1,770	193,540	<b>3,563,184</b>
Current liabilities	195,807	88,698	9,311	568	136,443	<b>430,827</b>
Non-current liabilities	825,320	17,838	14,467	3,076	31,737	<b>892,438</b>
Net assets (100%)	1,747,309	325,357	302,405	1,309	62,145	<b>2,438,525</b>
Share in net assets	119,924	40,670	30,241	655	28,514	<b>220,004</b>

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**Note 12. Investments in associates and joint ventures (continued)**

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

<b>2019</b>	<b>TCO</b>	<b>CPC</b>	<b>SCPC</b>	<b>Others</b>	<b>Associates</b>	<b>Total</b>
Revenues	1,055,783	146,646	37,944	6,988	122,041	<b>1,369,402</b>
Net income (100%)	296,060	46,918	18,234	167	(8,219)	<b>353,160</b>
Share in net income	12,474	5,865	1,823	84	(2,000)	<b>18,246</b>

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

**Note 13. Property, plant and equipment**

	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>				
31 December 2018	4,476,824	1,373,743	75,882	<b>5,926,449</b>
Adjustment on adoption of IFRS 16	54,335	102,189	5,527	<b>162,051</b>
1 January 2019	4,531,159	1,475,932	81,409	<b>6,088,500</b>
Additions	397,031	120,221	2,133	<b>519,385</b>
Acquisitions	72,171	529	-	<b>72,700</b>
Disposals	(55,461)	(19,197)	(2,833)	<b>(77,491)</b>
Foreign currency translation differences	(165,027)	(71,067)	(1,804)	<b>(237,898)</b>
Other	15,801	4,097	(2,659)	<b>17,239</b>
<b>31 December 2019</b>	<b>4,795,674</b>	<b>1,510,515</b>	<b>76,246</b>	<b>6,382,435</b>
<b>Depreciation and impairment</b>				
31 December 2018	(1,586,508)	(513,668)	(19,380)	<b>(2,119,556)</b>
Depreciation for the period	(288,349)	(121,721)	(4,064)	<b>(414,134)</b>
Impairment loss	(21,559)	(1,324)	-	<b>(22,883)</b>
Impairment reversal	9,797	-	-	<b>9,797</b>
Disposals	36,114	15,289	789	<b>52,192</b>
Foreign currency translation differences	83,848	27,564	723	<b>112,135</b>
Other	82	4,224	779	<b>5,085</b>
<b>31 December 2019</b>	<b>(1,766,575)</b>	<b>(589,636)</b>	<b>(21,153)</b>	<b>(2,377,364)</b>
<b>Advance payments for property, plant and equipment</b>				
31 December 2018	5,916	15,669	686	<b>22,271</b>
<b>31 December 2019</b>	<b>6,791</b>	<b>13,314</b>	<b>831</b>	<b>20,936</b>
<b>Carrying amounts</b>				
31 December 2018	2,896,232	875,744	57,188	<b>3,829,164</b>
<b>31 December 2019</b>	<b>3,035,890</b>	<b>934,193</b>	<b>55,924</b>	<b>4,026,007</b>

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**Note 13. Property, plant and equipment (continued)**

	Exploration and production	Refining, marketing and distribution	Other	Total
<b>Cost</b>				
31 December 2017	3,902,267	1,236,552	72,543	5,211,362
Additions	365,329	91,676	2,189	459,194
Disposals	(37,837)	(14,859)	(1,331)	(54,027)
Foreign currency translation differences	245,644	60,352	2,465	308,461
Other	1,421	22	16	1,459
<b>31 December 2018</b>	<b>4,476,824</b>	<b>1,373,743</b>	<b>75,882</b>	<b>5,926,449</b>
<b>Depreciation and impairment</b>				
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)
<b>31 December 2018</b>	<b>(1,586,508)</b>	<b>(513,668)</b>	<b>(19,380)</b>	<b>(2,119,556)</b>
<b>Advance payments for property, plant and equipment</b>				
31 December 2017	10,732	2,717	133	13,582
<b>31 December 2018</b>	<b>5,916</b>	<b>15,669</b>	<b>686</b>	<b>22,271</b>
<b>Carrying amounts</b>				
31 December 2017	2,682,282	835,824	57,059	3,575,165
<b>31 December 2018</b>	<b>2,896,232</b>	<b>875,744</b>	<b>57,188</b>	<b>3,829,164</b>

The cost of assets under construction included in property, plant and equipment was 369,926 million RUB and 335,312 million RUB at 31 December 2019 and 2018, respectively.

**Exploration and evaluation assets**

	2019	2018
1 January	107,105	86,134
Capitalised expenditures	41,446	31,770
Reclassified to development assets	(8,742)	(3,962)
Charged to expenses	(7,159)	(9,103)
Foreign currency translation differences	(3,537)	3,657
Other movements	838	(1,391)
<b>31 December</b>	<b>129,951</b>	<b>107,105</b>

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 fourth quarter of 2019, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 20,142 million RUB, for its international exploration and production assets in the amount of 1,270 million RUB, for its refining, marketing and distribution assets in Russia in the amount of 476 million RUB and for its international refining, marketing and distribution assets in the amount of 848 million RUB. Also the Group recognised an impairment reversal of 9,651 million RUB, which was mainly a result of improvement of economic parameters of our production projects in Western Siberia and European part of Russia.

**PJSC LUKOIL****Notes to Consolidated Financial Statements****(Millions of Russian rubles, unless otherwise noted)****Note 13. Property, plant and equipment (continued)**

The recoverable amounts of CGUs subject to impairment and impairment reversal in 2019 in the amount of 55,822 million RUB and 100,270 million RUB, respectively, were 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 10% to 13%.

In the second quarter of 2018, the Group recognised 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%.

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 2019 the following Brent Blend price assumptions have been used: \$62.8 per barrel in 2020, \$64.0 per barrel in 2021, \$66.0 per barrel in 2022, \$68.0 per barrel in 2023, and \$70.0 per barrel from 2024.

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.

**Note 14. Other non-current financial assets**

	31 December 2019	31 December 2018
<b>Financial assets measured at fair value through other comprehensive income</b>		
Equity instruments	2,656	3,388
<b>Financial assets measured at amortised cost</b>		
Long-term loans	26,008	19,468
Non-current accounts and notes receivable	1,371	2,469
Other financial assets	34	102
<b>Financial assets measured at fair value through profit or loss</b>		
Long-term loans	8,162	57,064
Other financial assets	-	77
<b>Total other non-current financial assets</b>	<b>38,231</b>	<b>82,568</b>

**Note 15. Acquisitions of interests in the projects**

In October 2019, a Group company acquired a 5% interest in the Ghasha Concession in the United Arab Emirates from the Abu Dhabi National oil company for 13.8 billion RUB (\$214 million).

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**Note 15. Acquisitions of interests in the projects (continued)**

In the second quarter of 2019, a Group company entered into a contract with New Age M12 Holdings Limited to acquire a 25% interest in the Marine XII license in the Republic of Congo (Congo, Brazzaville) developed under the production sharing agreement. In September 2019, the transaction in the amount of 51.4 billion RUB (\$768 million) was closed after all the customary conditions, including approval by the Government of the Republic of Congo, were fulfilled. At 31 December 2019, the Company had not yet completed the fair value estimation of assets and liabilities of its 25% interest in this project. Allocation of the purchase price to the fair value of assets acquired and liabilities assumed is going to be finalized within 12 months from the acquisition date.

After acquisition the Group accounted for these projects similar to accounting for jointly controlled operations.

**Note 16. Goodwill and other intangible assets**

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
<b>Cost</b>					
31 December 2018	17,714	3,538	50,296	35,681	<b>107,229</b>
Additions as result of internal developments	1,678	1,886	-	-	<b>3,564</b>
Acquisitions	-	-	16	-	<b>16</b>
Additions - separately acquired	-	-	6,922	-	<b>6,922</b>
Disposals	(7)	(7)	(1,030)	-	<b>(1,044)</b>
Foreign currency translation differences	(289)	(2)	(3,287)	(3,344)	<b>(6,922)</b>
Other	436	(440)	(135)	-	<b>(139)</b>
<b>31 December 2019</b>	<b>19,532</b>	<b>4,975</b>	<b>52,782</b>	<b>32,337</b>	<b>109,626</b>
<b>Amortisation and impairment</b>					
31 December 2018	(14,242)	(1,001)	(38,503)	(11,718)	<b>(65,464)</b>
Amortisation for the year	(837)	(298)	(5,329)	-	<b>(6,464)</b>
Disposals	7	5	706	-	<b>718</b>
Foreign currency translation differences	274	2	2,398	1,794	<b>4,468</b>
Other	1	(14)	237	-	<b>224</b>
<b>31 December 2019</b>	<b>(14,797)</b>	<b>(1,306)</b>	<b>(40,491)</b>	<b>(9,924)</b>	<b>(66,518)</b>
<b>Carrying amounts</b>					
31 December 2018	3,472	2,537	11,793	23,963	<b>41,765</b>
<b>31 December 2019</b>	<b>4,735</b>	<b>3,669</b>	<b>12,291</b>	<b>22,413</b>	<b>43,108</b>

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

Goodwill was tested for impairment and no impairment was identified.

**Note 17. Accounts payable**

	31 December 2019	31 December 2018
Trade accounts payable	555,823	477,444
Other accounts payable	51,911	69,684
<b>Total accounts payable</b>	<b>607,734</b>	<b>547,128</b>

**Note 18. Short-term borrowings and current portion of long-term debt**

	31 December 2019	31 December 2018
Short-term borrowings from third parties	13,940	20,885
Short-term borrowings from related parties	2,222	7,843
Current portion of long-term debt	114,138	70,897
<b>Total short-term borrowings and current portion of long-term debt</b>	<b>130,300</b>	<b>99,625</b>

Short-term borrowings from third parties include amounts repayable in US dollars of 12,694 million RUB and 15,541 million RUB and amounts repayable in other currencies of 1,246 million RUB and 5,344 million RUB at 31 December 2019 and 2018, respectively. The weighted-average interest rate on short-term borrowings from third parties was 4.00% and 9.83% per annum at 31 December 2019 and 2018, respectively. At 31 December 2019, short-term borrowings from third parties are unsecured.

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**Note 19. Long-term debt**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Long-term loans and borrowings from third parties	117,864	161,314
7.250% non-convertible US dollar bonds, maturing 2019	-	41,584
6.125% non-convertible US dollar bonds, maturing 2020	61,866	69,385
6.656% non-convertible US dollar bonds, maturing 2022	30,905	34,663
4.563% non-convertible US dollar bonds, maturing 2023	92,769	104,079
4.750% non-convertible US dollar bonds, maturing 2026	61,786	69,321
Lease obligations	171,880	25,973
Total long-term debt	537,070	506,319
Current portion of long-term debt	(114,138)	(70,897)
<b>Total non-current portion of long-term debt</b>	<b>422,932</b>	<b>435,422</b>

***Long-term loans and borrowings***

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 104,819 million RUB and 137,439 million RUB and amounts repayable in euros of 13,045 million RUB and 23,875 million RUB at 31 December 2019 and 2018, respectively. This debt has maturity dates from 2020 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.08% and 4.87% per annum at 31 December 2019 and 2018, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 48% of total long-term loans and borrowings from third parties at 31 December 2019 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 (61.9 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 (185.7 billion RUB). The first tranche totaling \$1.5 billion (92.85 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 (92.85 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 (61.9 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling \$800 million (49.5 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 (12.4 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 (92.85 billion RUB). The first tranche totaling \$900 million (55.7 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 (37.1 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 and November 2019, a Group company redeemed all issued bonds of the first and second tranches in accordance with the conditions of the bond issue.

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**Note 19. Long-term debt (continued)**

In June 2007, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (61.9 billion RUB). \$500 million (30.95 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another \$500 million (30.95 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	Lease obligations	Other liabilities	Total
31 December 2018	190,042	319,032	25,973	73,920	<b>608,967</b>
Adjustment on adoption of IFRS 16	-	-	162,051	-	<b>162,051</b>
1 January 2019	190,042	319,032	188,024	73,920	<b>771,018</b>
Changes from financing cash flows:					
Proceeds from issuance of short-term borrowings	264	-	-	-	<b>264</b>
Principal repayments of short-term borrowings	(6,186)	-	-	-	<b>(6,186)</b>
Principal repayments of long-term debt	(26,955)	(38,232)	(41,438)	-	<b>(106,625)</b>
Interest paid	-	-	(11,258)	(30,331)	<b>(41,589)</b>
Dividends paid on Company common stock	-	-	-	(180,747)	<b>(180,747)</b>
Total changes from financing cash flows	(32,877)	(38,232)	(52,696)	(211,078)	<b>(334,883)</b>
Other changes:					
Interest accrued	-	-	11,258	32,018	<b>43,276</b>
Dividends declared on Company common stock	-	-	-	229,669	<b>229,669</b>
Changes arising from obtaining or losing control over subsidiaries	(4,100)	-	-	-	<b>(4,100)</b>
The effect of changes in foreign exchange rates	(19,407)	(33,661)	(14,757)	(555)	<b>(68,380)</b>
Non-cash additions to lease obligations	-	-	42,550	-	<b>42,550</b>
Other changes	368	187	(2,499)	11,946	<b>10,002</b>
Total other changes	(23,139)	(33,474)	36,552	273,078	<b>253,017</b>
<b>31 December 2019</b>	<b>134,026</b>	<b>247,326</b>	<b>171,880</b>	<b>135,920</b>	<b>689,152</b>

**Note 20. Taxes payable**

	31 December 2019	31 December 2018
Income tax	12,031	11,316
Mineral extraction tax	61,464	46,532
Tax on additional income from hydrocarbon production	3,380	-
VAT	38,566	34,823
Excise tax	14,359	18,887
Property tax	5,120	4,985
Other taxes	7,551	7,431
<b>Total taxes payable</b>	<b>142,471</b>	<b>123,974</b>

**Note 21. Other current liabilities**

	31 December 2019	31 December 2018
Advances received	30,868	30,249
Dividends payable	135,034	72,103
Other	3,050	3,215
<b>Total other current liabilities</b>	<b>168,952</b>	<b>105,567</b>

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**Note 22. Provisions**

	Asset retirement obligations	Provision for employee compensations	Provision for environmental liabilities	Pension liabilities	Provision for unused vacations	Other provisions	Total
<b>31 December 2019</b>	<b>63,387</b>	<b>9,762</b>	<b>3,783</b>	<b>12,544</b>	<b>5,861</b>	<b>18,940</b>	<b>114,277</b>
Incl.: Non-current	62,667	263	1,175	10,310	153	2,477	77,045
Current	720	9,499	2,608	2,234	5,708	16,463	37,232
<b>31 December 2018</b>	<b>36,424</b>	<b>9,401</b>	<b>4,014</b>	<b>8,910</b>	<b>5,968</b>	<b>21,472</b>	<b>86,189</b>
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

Asset retirement obligations changed as follows during 2019 and 2018:

	2019	2018
1 January	36,424	36,668
Provisions made during the year	2,158	3,026
Reversal of provisions	(387)	(220)
Provisions used during the year	(119)	(207)
Accretion expense	2,707	2,963
Change in discount rate	23,092	(1,331)
Changes in estimates	1,360	(7,405)
Foreign currency translation differences	(1,882)	2,902
Other	34	28
<b>31 December</b>	<b>63,387</b>	<b>36,424</b>

**Note 23. Pension liabilities**

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 2019 and 2018.

The following table sets out movement in the pension liabilities before taxation during 2019 and 2018.

	2019	2018
1 January	8,910	10,367
Components of defined benefit costs recorded in profit or loss	3,182	518
Components of defined benefit costs recorded in other comprehensive loss	2,510	228
Contributions from employer	(1,385)	(1,451)
Benefits paid	(680)	(785)
Opening balance adjustment	(5)	33
Liability assumed in business combination	12	-
<b>31 December</b>	<b>12,544</b>	<b>8,910</b>

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**Note 24. Equity**

**Common shares**

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>(thousands of shares)</b>	<b>(thousands of shares)</b>
Issued common shares, par value of 0.025 RUB each	715,000	750,000
Treasury shares	(62,119)	(53,107)
<b>Outstanding common shares</b>	<b>652,881</b>	<b>696,893</b>

The Company has the right to issue additional 85,000 thousands of common shares.

On 3 December 2019, at the extraordinary general shareholders' meeting a decision was made to reduce the share capital of the Company by purchase of a portion of issued shares in order to reduce the total number thereof. At 31 December 2019, the Group recognised an obligation to repurchase common shares in the amount of 120,988 million RUB. Share capital reduction to 693 million common shares by purchase and cancellation of 22 million common shares was executed on 10 February 2020. Most of the common shares were purchased from a Group company.

On 20 June 2019, at the annual general shareholders' meeting a decision was made to reduce the share capital of the Company to 715 million common shares by purchase and cancellation of 35 million common shares. Share cancellation and share capital reduction was executed on 28 August 2019. Out of 35 million common shares 15.5 million common shares were purchased from a Group company.

In 2019, a Group company purchased 24.5 million common shares and depositary receipts of the Company as part of the open market buyback programme announced on 30 August 2018.

In 2018, a Group company purchased 12.7 million common shares and depositary receipts of the Company as part of the open market buyback programme.

**Dividends**

At the extraordinary shareholders' meeting on 3 December 2019, interim dividends for 2019 were approved in the amount of 192.00 RUB per common share.

At the annual general shareholders' meeting on 20 June 2019, dividends for 2018 were approved in the amount of 155.00 RUB per common share. At the extraordinary general shareholders' meeting on 3 December 2018, interim dividends for 2018 were approved in the amount of 95.00 RUB per common share. Total dividends for 2018 were approved in the amount of 250.00 RUB per common share.

Dividends on the Company's shares payable of 133,514 million RUB and 70,610 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2019 and 2018, respectively.

**Earnings per share**

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

	<b>2019</b>	<b>2018</b>
Profit for the year attributable to PJSC LUKOIL	640,178	619,174
Weighted average number of common shares (thousands of shares)	664,578	708,059
Dilutive effect of equity-settled share-based compensation plan (thousands of shares)	20,122	7,588
Dilutive effect related to obligation to repurchase common shares (thousands of shares)	180	-
Weighted average number of common shares, assuming dilution (thousands of shares)	684,880	715,647
Earnings per share of common stock attributable to PJSC LUKOIL (in Russian rubles):		
Basic	963.28	874.47
Diluted	934.73	865.19

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**Note 25. Personnel expenses**

Personnel expenses were as follows:

	<b>2019</b>	<b>2018</b>
Salary	143,602	135,671
Statutory insurance contributions	33,417	32,531
Share-based compensation	31,366	31,300
<b>Total personnel expenses</b>	<b>208,385</b>	<b>199,502</b>

**Note 26. Finance income and costs**

Finance income was as follows:

	<b>2019</b>	<b>2018</b>
Interest income from deposits	15,452	10,595
Interest income from loans	4,878	6,484
Other finance income	4,804	2,451
<b>Total finance income</b>	<b>25,134</b>	<b>19,530</b>

Finance costs were as follows:

	<b>2019</b>	<b>2018</b>
Interest expenses	39,145	32,191
Accretion expenses	2,752	2,994
Other finance costs	2,459	3,113
<b>Total finance costs</b>	<b>44,356</b>	<b>38,298</b>

**Note 27. Other income and expenses**

Other income was as follows:

	<b>2019</b>	<b>2018</b>
Gain on disposal of assets	10,496	2,919
Reversal of impairment of assets	13,468	-
Other income	8,837	18,351
<b>Total other income</b>	<b>32,801</b>	<b>21,270</b>

Other expenses were as follows:

	<b>2019</b>	<b>2018</b>
Loss on disposal of assets	18,056	17,253
Impairment loss	22,883	11,727
Charity expenses	9,228	8,785
Other expenses	10,325	22,439
<b>Total other expenses</b>	<b>60,492</b>	<b>60,204</b>

**Note 28. Lease**

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

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**Note 28. Lease (continued)**

	Exploration and production	Refining, marketing and distribution	Other	Total
Property, plant and equipment owned	2,995,944	802,364	51,518	3,849,826
Right-of-use assets	39,946	131,829	4,406	176,181
<b>31 December 2019</b>	<b>3,035,890</b>	<b>934,193</b>	<b>55,924</b>	<b>4,026,007</b>

Right-of-use assets:

	Exploration and production	Refining, marketing and distribution	Other	Total
1 January 2019	54,335	125,657	5,527	185,519
Additions	7,513	35,011	94	42,618
Depreciation for the period	(13,326)	(31,850)	(818)	(45,994)
Other movements	(8,576)	3,011	(397)	(5,962)
<b>31 December 2019</b>	<b>39,946</b>	<b>131,829</b>	<b>4,406</b>	<b>176,181</b>

Lease liabilities:

<b>31 December 2019</b>	<b>171,880</b>
Incl.: Non-current	143,902
Current	27,978

Within the consolidated statement of profit or loss and other comprehensive income for 2019 the following expenses were recognized: interest on lease liabilities in the amount of 9,836 million RUB and variable lease payments not included in the measurement of lease liabilities in the amount of 9,418 million RUB. Income from sub-leasing right-of-use assets was not material.

Within the consolidated statement of cash flows for 2019 the total cash outflow under leases, including variable lease payments attributable to capital expenditure, amounted to 120,755 million RUB.

**Note 29. 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 is set as 17.0%. Regional income tax rate may be reduced for certain categories of taxpayers by the laws of constituent entities of the Russian Federation, however certain restrictions apply on the application of the reduced regional rates.

The 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.

Income tax was as follows:

	2019	2018
Current income tax expense for the year	149,032	136,996
Adjustment for prior periods	(4,417)	66
<b>Current income taxes</b>	<b>144,615</b>	<b>137,062</b>
<b>Deferred income tax</b>	<b>6,518</b>	<b>14,855</b>
<b>Total income tax expense</b>	<b>151,133</b>	<b>151,917</b>

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**Note 29. Income tax (continued)**

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.

	<b>2019</b>	<b>2018</b>
Profit before income taxes	793,354	773,019
Notional income tax at the Russian statutory rate	158,671	154,604
Increase (reduction) in income tax due to:		
Non-deductible items, net	18,056	21,711
Domestic and foreign rate differences	(17,709)	(25,932)
Adjustment for prior periods	(4,417)	66
Change in recognised deductible temporary differences	(3,468)	1,468
<b>Total income tax expense</b>	<b>151,133</b>	<b>151,917</b>

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Property, plant and equipment	5,332	8,251
Investments	60	-
Inventories	4,768	5,972
Accounts receivable	1,583	1,106
Accounts payable and provisions	11,052	11,251
Tax loss carry forward	35,344	32,989
Other	514	532
Total deferred income tax assets	58,653	60,101
Set off of tax	(29,980)	(29,060)
<b>Deferred income tax assets</b>	<b>28,673</b>	<b>31,041</b>
Property, plant and equipment	(276,175)	(267,422)
Investments	(1,517)	(2,326)
Inventories	(4,557)	(4,748)
Accounts receivable	(8,551)	(10,251)
Accounts payable and provisions	(1,518)	(902)
Other	(1,821)	(2,247)
Total deferred income tax liabilities	(294,139)	(287,896)
Set off of tax	29,980	29,060
<b>Deferred income tax liabilities</b>	<b>(264,159)</b>	<b>(258,836)</b>
<b>Net deferred income tax liabilities</b>	<b>(235,486)</b>	<b>(227,795)</b>

	<b>31 December 2018</b>	<b>Recognition in profit or loss</b>	<b>Acquisitions and disposal</b>	<b>Foreign currency translation differences and other</b>	<b>31 December 2019</b>
Property, plant and equipment	(259,171)	(12,358)	(1,477)	2,163	(270,843)
Investments	(2,326)	835	-	34	(1,457)
Inventories	1,224	(1,016)	-	3	211
Accounts and notes receivable	(9,145)	1,742	-	435	(6,968)
Accounts payable and provisions	10,349	(217)	-	(598)	9,534
Tax loss carry forward	32,989	4,264	(4)	(1,905)	35,344
Other	(1,715)	232	-	176	(1,307)
<b>Net deferred income tax liabilities</b>	<b>(227,795)</b>	<b>(6,518)</b>	<b>(1,481)</b>	<b>308</b>	<b>(235,486)</b>

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**Note 29. 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)	502	-	520	(2,326)
Inventories	(177)	1,603	-	(202)	1,224
Accounts and notes receivable	(4,143)	(4,083)	-	(919)	(9,145)
Accounts payable and provisions	10,868	(2,711)	-	2,192	10,349
Tax loss carry forward	33,516	(2,243)	-	1,716	32,989
Other	(1,278)	331	-	(768)	(1,715)
<b>Net deferred income tax liabilities</b>	<b>(212,852)</b>	<b>(14,855)</b>	<b>-</b>	<b>(88)</b>	<b>(227,795)</b>

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

	31 December 2019	31 December 2018
Property, plant and equipment	1,412	2,416
Tax loss carry forward	10,374	12,695
Other	1,043	1,186
<b>Total unrecognised deferred tax assets</b>	<b>12,829</b>	<b>16,297</b>

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 2019:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	(164,117)	-	(164,117)
Change in fair value of financial assets at fair value through other comprehensive income	(348)	-	(348)
Remeasurements of defined benefit liability/asset of pension plan	(2,510)	534	(1,976)
<b>Total</b>	<b>(166,975)</b>	<b>534</b>	<b>(166,441)</b>

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)
<b>Total</b>	<b>169,416</b>	<b>32</b>	<b>169,448</b>

Retained earnings of foreign subsidiaries for which deferred taxation has not been provided included 1,109,000 million RUB and 1,103,660 million RUB at 31 December 2019 and 2018, 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 liabilities.

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**Note 30. Commitments and contingencies**

*Capital commitments*

Capital commitments of the Group relating to construction and acquisition of property, plant and equipment amount to 517,977 million RUB and 473,615 million RUB at 31 December 2019 and 2018, respectively.

*Insurance*

To provide insurance protection, the Group uses the services of Russian and international insurance companies with high ratings. The Group's most significant risks are reinsured at the first-class foreign markets. In respect of liability to third parties for damages to property and the environment resulting from accidents related to the Group's property or activities, the Group has insurance coverage that is generally higher than the limits set by law. Management believes that the Group has sufficient insurance coverage of its core operating assets, as well as 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, which resulted in certain environmental consequences. Environmental regulations are currently in development stage in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their environmental obligations in response to new and changing legislation.

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 material 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 characterised 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.

**PJSC LUKOIL****Notes to Consolidated Financial Statements****(Millions of Russian rubles, unless otherwise noted)****Note 30. Commitments and contingencies (continued)**

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 (136.2 billion RUB) to \$1.5 billion (92.85 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. At the final hearing on the case which was held on 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. themselves. As a result freezing injunction in the amount of approximately \$1.5 billion (92.85 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 to the Ploesti Court of Appeals. On 27 November 2019, the Ploesti Court of Appeals issued a decision to return the case for a new examination in the court of first instance. On 24 December 2019, the defendants appealed the decision in an order of extraordinary appeal to the Ploesti Court of Appeals. Consideration of the complaint is scheduled for 16 March 2020. 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 2010–2015 (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 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 position.

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**Note 30. Commitments and contingencies (continued)**

***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 Department of the Treasury has placed the Company onto the Sectoral Sanctions Identifications List subject to Directive 4 of the Office of foreign assets control (OFAC). Directive 4 prohibits US companies and individuals from providing, exporting, or re-exporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area spreading from the Russian territory and claimed by the Russian Federation.

From January 2018 (based on acts adopted in August – October 2017), the US expanded abovementioned sanctions to include certain categories of international oil projects initiated on or after 29 January 2018 in any part of the world, in which companies placed on the Sectoral Sanctions Identifications List subject to Directive 4 (including the Company) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

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

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.

***Other matters***

The Company and other Group companies have been notified by various counterparties of claims in respect of allegedly off-specification quantities of crude oil volumes delivered through the Druzhba pipeline (owned and operated by the state-owned company, PJSC Transneft) in the second quarter of 2019. The claims assert that the oil had an average organic chlorine content in excess of the contractual specification, which may allegedly cause the purchasers to suffer certain financial losses. According to publicly available information, this situation was caused by unlawful actions of certain third parties that were aimed at concealing thefts of oil from the pipeline. The losses have not been fully defined or evidenced. Currently the consequences of the incident in terms of crude oil delivered by the Group to Hungary and Slovakia have been settled between the Company, PJSC Transneft and Hungarian oil and gas company MOL. The Company is unable to estimate the amount of the remaining claims and the likelihood or prospects of their success but management does not believe that the ultimate resolution of these matters will have a material adverse impact on the Group’s operating results or financial position.

**Note 31. 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 31. Related party transactions (continued)**

Outstanding balances with related parties were as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Accounts receivable	1,079	1,927
Other financial assets	51,053	64,007
<b>Total assets</b>	<b>52,132</b>	<b>65,934</b>
Accounts payable	5,002	13,492
Loans and borrowings	2,222	3,356
<b>Total liabilities</b>	<b>7,224</b>	<b>16,848</b>

Related party transactions were as follows:

	<b>2019</b>	<b>2018</b>
Sales of oil and oil products	31,028	35,325
Other sales	2,356	4,593
Purchases of oil and oil products	84,400	209,599
Other purchases	11,187	9,690
Proceeds from sale of other financial assets, net	10,872	18,749
(Principal repayments) proceeds from issuance of loans, net	(1,094)	23

*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 1,866 million RUB and 1,518 million RUB during 2019 and 2018, respectively.

Also, a provision under the compensation plan (disclosed in Note 32 “Compensation plan”) was accrued in relation to the Company’s key management personnel in the amount of 3,137 million RUB during 2019 and 2018.

**Note 32. Compensation plan**

In late December 2017, the Company announced a 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.

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 this share plan the Group recognised compensation expenses of 31,366 million RUB during 2019 and 2018.

**Note 33. 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.

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**Note 33. Segment information (continued)**

The exploration and production segment explores for, develops and produces crude oil and gas. The refining, marketing and distribution segment 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. 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.

The Group decided to introduce a new key performance indicator in order to evaluate activity of the Group and business segments starting from the three-month period ended 31 March 2019, by changing "operating earnings" measure to "EBITDA" which is not defined under IFRS. The Group defines EBITDA as profit from operating activities before depreciation, depletion and amortisation. EBITDA is an indicator of the strength and performance of business operations of the Group, including ability to finance capital expenditures, acquisitions and other investments and to raise and service debt.

For comparison purposes earlier periods were restated accordingly.

**Operating segments**

<b>2019</b>	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>Corporate and other</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues					
Third parties	270,842	7,548,121	22,283	-	7,841,246
Inter-segment	2,093,342	76,077	45,601	(2,215,020)	-
<b>Total revenues</b>	<b>2,364,184</b>	<b>7,624,198</b>	<b>67,884</b>	<b>(2,215,020)</b>	<b>7,841,246</b>
Operating expenses	274,934	228,576	19,709	(65,509)	457,710
Selling, general and administrative expenses	47,964	121,383	63,515	(35,690)	197,172
Profit (loss) for the year attributable to PJSC LUKOIL shareholders	473,517	190,998	(35,569)	11,232	640,178
EBITDA	893,950	371,642	(39,962)	10,562	1,236,192
Income tax expense					(151,133)
Finance income					25,134
Finance costs					(44,356)
Foreign exchange gain					923
Equity share in income of affiliates					18,246
Other expenses					(27,691)
Depreciation, depletion and amortisation					(415,094)
Profit for the year attributable to non-controlling interests					(2,043)
<b>Profit for the year attributable to PJSC LUKOIL shareholders</b>					<b>640,178</b>

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**Note 33. Segment information (continued)**

<b>2018</b>	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>Corporate and other</b>	<b>Elimination</b>	<b>Consolidated</b>
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)	-
<b>Total revenues</b>	<b>2,391,467</b>	<b>7,834,339</b>	<b>71,061</b>	<b>(2,260,978)</b>	<b>8,035,889</b>
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 attributable to PJSC LUKOIL shareholders	508,401	156,805	(28,401)	(17,631)	619,174
EBITDA	870,287	282,144	(36,154)	(1,477)	1,114,800
Income tax expense					(151,917)
Finance income					19,530
Finance costs					(38,298)
Foreign exchange gain					33,763
Equity share in income of affiliates					25,243
Other expenses					(38,934)
Depreciation, depletion and amortisation					(343,085)
Profit for the year attributable to non-controlling interests					(1,928)
Profit for the year attributable to PJSC LUKOIL shareholders					619,174

**Geographical segments**

	<b>2019</b>	<b>2018</b>
Sales of crude oil within Russia	22,528	47,508
Export of crude oil and sales of crude oil by foreign subsidiaries	2,684,320	2,666,156
Sales of petroleum products within Russia	923,715	938,092
Export of petroleum products and sales of petroleum products by foreign subsidiaries	3,748,364	3,961,784
Sales of chemicals within Russia	40,971	46,085
Export of chemicals and sales of chemicals by foreign subsidiaries	91,687	67,682
Sales of gas within Russia	32,490	33,352
Sales of gas by foreign subsidiaries	138,997	112,990
Sales of energy and related services within Russia	53,276	54,353
Sales of energy and related services by foreign subsidiaries	14,604	15,600
Other sales within Russia	42,270	46,127
Other export sales and other sales of foreign subsidiaries	48,024	46,160
<b>Total sales</b>	<b>7,841,246</b>	<b>8,035,889</b>

<b>2019</b>	<b>Russia</b>	<b>International</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues				
Third parties	1,221,549	6,619,697	-	7,841,246
Inter-segment	1,606,632	2,726	(1,609,358)	-
<b>Total revenues</b>	<b>2,828,181</b>	<b>6,622,423</b>	<b>(1,609,358)</b>	<b>7,841,246</b>
Operating expenses	329,688	118,256	9,766	457,710
Selling, general and administrative expenses	93,963	106,939	(3,730)	197,172
Profit for the year attributable to PJSC LUKOIL shareholders	577,939	52,593	9,646	640,178
EBITDA	1,032,126	199,811	4,255	1,236,192

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**Note 33. Segment information (continued)**

<b>2018</b>	<b>Russia</b>	<b>International</b>	<b>Elimination</b>	<b>Consolidated</b>
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)	-
<b>Total revenues</b>	<b>2,890,234</b>	<b>6,770,112</b>	<b>(1,624,457)</b>	<b>8,035,889</b>
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 attributable to PJSC LUKOIL shareholders	588,479	50,433	(19,738)	619,174
EBITDA	942,254	168,250	4,296	1,114,800

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

	<b>2019</b>	<b>2018</b>
Sales revenues		
in Switzerland	3,503,238	3,739,647
in the USA	1,128,181	922,045
in Singapore	482,132	684,276

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

**Note 34. Subsidiaries**

The most significant subsidiaries of the Group are presented below:

<b>Subsidiary</b>	<b>Country of incorporation</b>	<b>31 December 2019</b>		<b>31 December 2018</b>	
		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%	99.85%	99.85%
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%
LUKOIL Pan Americas LLC	USA	100.00%	100.00%	100.00%	100.00%

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**Note 35. 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.

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 2019 and 2018.

31 December 2019	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Commodity derivative contracts	180	-	180	-	180
Financial assets at fair value through profit or loss	51,053	-	-	51,053	51,053
Financial assets at fair value through other comprehensive income	2,656	2,656	-	-	2,656
<b>Financial liabilities:</b>					
Commodity derivative contracts	550	-	550	-	550
Loans and borrowings	537,070	265,109	-	295,726	560,835

31 December 2018	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
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
<b>Financial liabilities:</b>					
Commodity derivative contracts	8,413	-	8,413	-	8,413
Loans and borrowings	506,319	321,535	-	192,519	514,054

The fair values of cash and cash equivalents (Level 1), accounts receivable and long-term accounts receivable (Level 3), short-term borrowings (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 instruments. 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 2019 and 2018.

**Note 36. 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.

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**Note 36. Capital and risk management (continued)**

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.

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:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Not past due	402,713	381,900
Past due less than 45 days	21,299	14,051
Past due from 46 to 180 days	8,809	14,464
Past due from 181 to 270 days	963	3,129
Past due from 271 to 365 days	587	1,964
Past due more than 365 days	2,681	14,437
<b>Total trade and other receivables</b>	<b>437,052</b>	<b>429,945</b>

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

Allowance for expected credit losses changed as follows during 2019:

31 December 2018	27,798
Increase in allowance charged to profit or loss	9,270
Write-off	(3,381)
Foreign currency translation differences	(2,492)
Other	92
<b>31 December 2019</b>	<b>31,287</b>

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**Note 36. Capital and risk management (continued)**

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
<b>31 December 2018</b>	<b>27,798</b>

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.

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	134,484	174,563	45,260	25,980	49,746	53,577
Bonds, including interest expense	249,274	290,545	71,091	9,225	136,712	73,517
Finance lease obligations	171,880	235,613	37,069	26,742	59,077	112,725
Trade and other payables	606,566	606,566	605,203	932	350	81
Derivative financial liabilities	550	550	550	-	-	-
<b>31 December 2019</b>	<b>1,162,754</b>	<b>1,307,837</b>	<b>759,173</b>	<b>62,879</b>	<b>245,885</b>	<b>239,900</b>

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**Note 36. Capital and risk management (continued)**

	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	-	-	-
<b>31 December 2018</b>	<b>1,084,290</b>	<b>1,180,092</b>	<b>668,016</b>	<b>121,860</b>	<b>249,131</b>	<b>141,085</b>

**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.

The carrying amounts of the Group's assets and liabilities which form currency risk at 31 December 2019 and 2018 are presented in the tables below and contain balances between Group companies whose functional currency is different from the currency of the contract.

<b>31 December 2019</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>
<b>Financial assets:</b>			
Cash and cash equivalents	64,708	12,309	761
Trade and other receivables	144,336	6,699	4,765
Loans	199,764	4,794	-
Other financial assets	2,651	54	124
<b>Financial liabilities:</b>			
Loans and borrowings	(399,921)	(37,104)	(3,651)
Trade and other payables	(51,560)	(14,655)	(11,696)
<b>Net exposure</b>	<b>(40,022)</b>	<b>(27,903)</b>	<b>(9,697)</b>

<b>31 December 2018</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>
<b>Financial assets:</b>			
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
<b>Financial liabilities:</b>			
Loans and borrowings	(364,268)	(15,238)	-
Trade and other payables	(57,641)	(8,605)	(10,645)
<b>Net exposure</b>	<b>(82,516)</b>	<b>(4,257)</b>	<b>(4,697)</b>

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**Note 36. Capital and risk management (continued)**

The following exchange rates applied:

	31 December 2019	31 December 2018
USD	61.91	69.47
EUR	69.34	79.46

*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 2019 and 2018 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)	
	2019	2018
US Dollar (increase by 10%)	(1,952)	(7,726)
Euro (increase by 10%)	222	2,566
Russian ruble (increase by 10%)	1,113	4,937

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.

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 2019	31 December 2018
<i>Fixed rate instruments:</i>		
Financial assets	44,970	92,124
Financial liabilities	(420,239)	(354,566)
<b>Net exposure</b>	<b>(375,269)</b>	<b>(262,442)</b>
<i>Variable rate instruments:</i>		
Financial assets	41,596	14,175
Financial liabilities	(132,993)	(180,481)
<b>Net exposure</b>	<b>(91,397)</b>	<b>(166,306)</b>

*Sensitivity analysis for variable rate instruments*

A reasonably possible change of 100 basis points in interest rates at 31 December 2019 and 2018 would have increased (decreased) profit (loss) before taxes by the amounts shown below. This analysis assumes that all other variables remain constant.

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**Note 36. Capital and risk management (continued)**

	Profit (loss) before taxes	
	100 bp increase	100 bp decrease
<b>2019</b>		
Net financial liabilities	(914)	914
<b>2018</b>		
Net financial liabilities	(1,663)	1,663

**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 equity ratio to ensure it meets the Company's current rating requirements. Equity 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 2019	31 December 2018
Total debt	553,232	535,047
Less cash and cash equivalents	(516,032)	(492,650)
Net debt	37,200	42,397
Equity	3,973,449	4,073,526
<b>Net debt to equity ratio</b>	<b>0.94%</b>	<b>1.04%</b>

**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***

<b>31 December 2019</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
Unproved oil and gas properties	84,203	109,313	193,516	28,692
Proved oil and gas properties	1,305,806	3,296,352	4,602,158	300,337
Accumulated DD&A	(720,304)	(1,046,271)	(1,766,575)	(99,189)
<b>Net capitalised costs</b>	<b>669,705</b>	<b>2,359,394</b>	<b>3,029,099</b>	<b>229,840</b>

<b>31 December 2018</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
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 DD&A	(742,820)	(843,688)	(1,586,508)	(98,981)
<b>Net capitalised costs</b>	<b>712,583</b>	<b>2,177,733</b>	<b>2,890,316</b>	<b>219,383</b>

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

<b>2019</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
Acquisition of properties - Proved	31,393	2,317	33,710	-
Acquisition of properties - Unproved	32,419	14,937	47,356	-
Exploration costs	13,439	17,014	30,453	4,336
Development costs	53,495	309,797	363,292	11,254
<b>Total costs incurred</b>	<b>130,746</b>	<b>344,065</b>	<b>474,811</b>	<b>15,590</b>

<b>2018</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
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
<b>Total costs incurred</b>	<b>64,372</b>	<b>304,611</b>	<b>368,983</b>	<b>11,888</b>

**PJSC LUKOIL**  
**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**  
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**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.

<b>2019</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
Revenue				
Sales	211,230	961,273	1,172,503	60,642
Transfers	-	985,859	985,859	1,420
<b>Total revenues</b>	<b>211,230</b>	<b>1,947,132</b>	<b>2,158,362</b>	<b>62,062</b>
Production costs (excluding production taxes)	(40,277)	(170,590)	(210,867)	(5,899)
Exploration expenses	(7,493)	(1,855)	(9,348)	(33)
Depreciation, depletion and amortisation	(83,726)	(193,696)	(277,422)	(11,144)
Taxes other than income taxes	(531)	(1,035,635)	(1,036,166)	(15,446)
Related income taxes	(11,736)	(104,585)	(116,321)	(11,384)
<b>Total results of operations for producing activities</b>	<b>67,467</b>	<b>440,771</b>	<b>508,238</b>	<b>18,156</b>

<b>2018</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
Revenue				
Sales	192,648	1,023,155	1,215,803	63,318
Transfers	-	951,069	951,069	1,432
<b>Total revenues</b>	<b>192,648</b>	<b>1,974,224</b>	<b>2,166,872</b>	<b>64,750</b>
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)
<b>Total results of operations for producing activities</b>	<b>73,797</b>	<b>451,165</b>	<b>524,962</b>	<b>20,337</b>

**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.

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

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 68% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

Estimated net proved oil and gas reserves and changes thereto for 2019 and 2018 are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
<b>Crude oil</b>				
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
Revisions of previous estimates	43	(55)	(12)	1
Purchase of hydrocarbons in place	29	18	47	-
Extensions and discoveries	26	531	557	2
Production	(30)	(614)	(644)	(18)
<b>31 December 2019</b>	<b>384</b>	<b>11,358</b>	<b>11,742</b>	<b>273</b>
Proved developed reserves				
31 December 2018	204	7,602	7,806	133
<b>31 December 2019</b>	<b>219</b>	<b>7,464</b>	<b>7,683</b>	<b>116</b>

The non-controlling interest share included in the above total proved reserves was 71 million barrels and 73 million barrels at 31 December 2019 and 2018, respectively. The non-controlling interest share included in the above proved developed reserves was 37 million barrels and 39 million barrels at 31 December 2019 and 2018, respectively. All non-controlling interests relate to reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
	International	Russia	Total	
<b>Natural gas</b>				
31 December 2017	7,006	16,476	23,482	167
Revisions of previous estimates	(158)	351	193	98
Purchases 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
Revisions of previous estimates	(106)	124	18	18
Purchases of hydrocarbons in place	138	-	138	-
Extensions and discoveries	70	428	498	-
Production	(586)	(626)	(1,212)	(26)
<b>31 December 2019</b>	<b>5,868</b>	<b>16,426</b>	<b>22,294</b>	<b>233</b>
Proved developed reserves				
31 December 2018	5,072	5,758	10,830	146
<b>31 December 2019</b>	<b>4,504</b>	<b>5,753</b>	<b>10,257</b>	<b>133</b>

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**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
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The non-controlling interest share included in the above total proved reserves was 26 billion cubic feet and 27 billion cubic feet at 31 December 2019 and 2018, respectively. The non-controlling interest share included in the above proved developed reserves was 14 billion cubic feet at 31 December 2019 and 2018. All non-controlling interests relate to reserves in the Russian Federation.

**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.

			<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
<b>31 December 2019</b>	<b>International</b>	<b>Russia</b>		
Future cash inflows	2,567,902	39,282,386	41,850,288	877,924
Future production and development costs	(1,488,826)	(30,022,601)	(31,511,427)	(537,056)
Future income tax expenses	(91,906)	(1,514,998)	(1,606,904)	(105,121)
Future net cash flows	987,170	7,744,787	8,731,957	235,747
Discount for estimated timing of cash flows (10% p.a.)	(375,184)	(4,129,628)	(4,504,812)	(110,174)
<b>Discounted future net cash flows</b>	<b>611,986</b>	<b>3,615,159</b>	<b>4,227,145</b>	<b>125,573</b>
Non-controlling share in discounted future net cash flows	-	26,963	26,963	-
<b>31 December 2018</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
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)
<b>Discounted future net cash flows</b>	<b>737,166</b>	<b>4,899,499</b>	<b>5,636,665</b>	<b>158,208</b>
Non-controlling share in discounted future net cash flows	-	36,032	36,032	-

**PJSC LUKOIL****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***

<b>Consolidated companies</b>	<b>2019</b>	<b>2018</b>
Discounted present value at 1 January	5,636,665	2,859,198
Net changes due to purchases and sales of minerals in place	31,212	1,367
Sales and transfers of oil and gas produced, net of production costs	(901,981)	(876,998)
Net changes in prices and production costs estimates	(4,542,732)	11,583,655
Net changes in mineral extraction taxes	2,640,183	(8,206,395)
Extensions and discoveries, less related costs	210,417	257,337
Previously estimated development cost incurred during the year	308,689	300,233
Revisions of previous quantity estimates	(6,476)	31,469
Net change in income taxes	389,446	(626,197)
Accretion of discount	616,850	312,181
Other changes	(155,128)	815
<b>Discounted present value at 31 December</b>	<b>4,227,145</b>	<b>5,636,665</b>
<b>Group's share in equity companies</b>	<b>2019</b>	<b>2018</b>
Discounted present value at 1 January	158,208	94,786
Sales and transfers of oil and gas produced, net of production costs	(40,684)	(41,773)
Net changes in prices and production costs estimates	(122,290)	227,904
Net changes in mineral extraction taxes	69,049	(131,737)
Extensions and discoveries, less related costs	452	4,258
Previously estimated development cost incurred during the year	38,478	29,688
Revisions of previous quantity estimates	1,254	15,001
Net change in income taxes	18,370	(46,305)
Accretion of discount	22,222	11,273
Other changes	(19,486)	(4,887)
<b>Discounted present value at 31 December</b>	<b>125,573</b>	<b>158,208</b>



**PJSC LUKOIL**

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

**for the three-month periods ended  
31 December and 30 September 2019  
and for the years  
2019 and 2018**

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 December 2019 and the results of its operations for the three-month periods ended 31 December and 30 September 2019 and for the years 2019 and 2018, as well as significant factors that may affect its future performance. It should be read in conjunction with our International Financial Reporting Standards (“IFRS”) 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 42 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 15.8 billion BOE at 31 December 2019 and comprised of 12.0 billion barrels of crude oil and 22.5 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and gas in Russia and internationally. In Russia, our major oil producing regions are West Siberia, Timan-Pechora, Ural and Volga region. Our international upstream segment includes stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria, Mexico, the Republic of Congo and the UAE. Our daily hydrocarbon production in 2019 amounted to 2.4 million BOE, with liquid hydrocarbons representing approximately 76% of our overall production volumes.

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

We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. We also own two petrochemical plants in Russia and have petrochemical facilities at our refineries in Bulgaria and Italy. Along with our own production of refined products, we refine crude oil at third party refineries depending on market conditions and other factors. Throughput at our refineries in 2019 amounted to 1.4 million barrels per day, and we produced 1.1 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 2019 amounted to 14.1 million tonnes of refined products.

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally. In 2019, our total output of electrical energy was 18.3 billion kWh.

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

## Key financial and operational results

	Q4 2019	Q3 2019	Change, %	12 months of 2019	12 months of 2018	Change, %
(millions of rubles)						
Sales.....	1,912,439	1,952,322	(2.0)	7,841,246	8,035,889	(2.4)
EBITDA <sup>1</sup> , including.....	278,160	327,805	(15.1)	1,236,192	1,114,800	10.9
Exploration and production segment.....	211,786	211,958	(0.1)	893,950	870,287	2.7
Refining, marketing and distribution segment.....	82,157	116,380	(29.4)	371,642	282,144	31.7
EBITDA <sup>1</sup> net of West Qurna-2 project.....	276,055	321,126	(14.0)	1,214,502	1,089,370	11.5
Profit for the year attributable to LUKOIL shareholders ...	119,310	190,387	(37.3)	640,178	619,174	3.4
Capital expenditures.....	135,937	109,062	24.6	449,975	451,526	(0.3)
Free cash flow <sup>2</sup> .....	184,744	208,859	(11.5)	701,869	555,125	26.4
Free cash flow before changes in working capital.....	139,784	196,063	(28.7)	708,650	588,717	20.4
(thousand BOE per day)						
Production of hydrocarbons, including our share in equity affiliates.....	2,419	2,339	3.4	2,380	2,347	1.4
crude oil and natural gas liquids.....	1,816	1,811	0.3	1,815	1,806	0.5
gas.....	603	528	14.2	565	541	4.4
Refinery throughput at the Group refineries.....	1,355	1,454	(6.8)	1,381	1,352	2.1

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

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

Compared to the third quarter of 2019, our results were negatively affected by a decrease in refining margins and in profitability of our retail business, as well as by accounting specifics of our international trading operations. However, this was partially offset by positive export duty and mineral extraction tax lag effects, higher international hydrocarbon production volumes, bigger share of high-margin volumes in our domestic crude oil production structure, and better product slate at our refineries.

Compared to 2018, our results improved due to growth in volumes of gas production outside Russia, an increase in share of high-margin volumes in our domestic crude oil production structure, an implementation of a tax on additional income from the hydrocarbon production at certain license areas, higher throughput volumes and better product slate at our refineries, better profitability of our retail and trading businesses, as well as the effect of the ruble devaluation. At the same time, our results dynamics was negatively affected by a decrease in international hydrocarbon prices, benchmark refining margins, and accounting specifics of our trading operations.

From 1 January 2019, the Company adopted IFRS 16 “Leases” that had a positive impact on our EBITDA in 2019 in the amount of 37.0 billion RUB, on our profit for the year in the amount of 5.1 billion RUB, and on our free cash flow in the amount of 46.7 billion RUB.

Our EBITDA amounted to 278 billion RUB in the fourth quarter of 2019, a decrease of 15.1% to the third quarter of 2019, and amounted to 1,236 billion RUB in 2019, an increase of 10.9% to 2018.

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

In the fourth quarter of 2019, profit attributable to LUKOIL shareholders amounted to 119 billion RUB, a decrease of 37.3% to the third quarter of 2019. In 2019, profit attributable to LUKOIL shareholders amounted to 640 billion RUB, an increase of 3.4% to 2018.

Our capital expenditures increased by 27 billion RUB, or by 24.6%, compared to the third quarter of 2019, and did not change significantly compared to 2018.

Our free cash flow amounted to 185 billion RUB in the first quarter of 2019, a decrease of 11.5% compared to the third quarter of 2019, and amounted to 702 billion RUB in 2019, an increase of 26.4% to 2018. A decrease to the third quarter of 2019 was mainly a result of higher capital expenditures and an increase to 2018 was mainly a result of an increase in profitability of our core operations.

The Group’s average daily hydrocarbon production increased by 3.4% compared to the third quarter of 2019 and by 1.4% compared to 2018, driven primarily by an increase in hydrocarbon production volumes outside Russia.

In the fourth quarter of 2019, throughput at our refineries decreased by 6.8% mainly due to scheduled maintenance works at the refineries both in and outside Russia. Compared to 2018, an increase in throughput at our refineries by 2.1% was mainly due to higher utilization rate of the Nizhny Novgorod refinery, as well as maintenance at the refinery in Bulgaria in the first quarter of 2018.

## Changes in accounting policies

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

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

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

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

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

Our operating, transportation and selling, general and administrative expenses decreased by 5.7 billion RUB, 22.4 billion RUB and 8.8 billion RUB, respectively. Our depreciation expenses, finance costs and income tax expenses increased by 33.0 billion RUB, 6.7 billion RUB and 0.5 billion RUB, respectively. The Group also recognized a foreign exchange gain of 7.9 billion RUB related to certain lease liabilities in foreign currencies. As a result, our EBITDA increased by 37.0 billion RUB, our profit for the year attributable to LUKOIL shareholders increased by 5.1 billion RUB and our free cash flow increased by 46.7 billion RUB.

At the same time, our debt at 31 December 2019 increased by 136.9 billion RUB.

## Changes in the Group structure

In October 2019, a Group company acquired a 5% interest in the Ghasha Concession in the United Arab Emirates from the Abu Dhabi National Oil Company for approximately 13.8 billion RUB (\$214 million).

In the second quarter of 2019, a Group company entered into a contract with New Age M12 Holdings Limited to acquire a 25% interest in the Marine XII license in the Republic of Congo (Congo, Brazzaville). In September 2019, the transaction in the amount of 51.4 billion RUB (\$768 million) was closed after all the customary conditions, including approval by the government of the Republic of Congo, were fulfilled.



### Changes in ruble exchange rate and inflation

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

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

	Q4 2019	Q3 2019	12 months of 2019 2018	
Ruble inflation (CPI), % .....	0.8	(0.2)	3.0	4.2
Ruble to US dollar exchange rate				
Average for the period .....	63.7	64.6	64.7	62.7
At the beginning of the period.....	64.4	63.1	69.5	57.6
At the end of the period.....	61.9	64.4	61.9	69.5
Ruble to euro exchange rate				
Average for the period .....	70.5	71.8	72.5	74.0
At the beginning of the period.....	70.3	71.8	79.5	68.9
At the end of the period.....	69.3	70.3	69.3	79.5

Source: CBR, Federal State Statistics Service.

### Taxation

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

	Q4 2019	Q3 2019	Change, %	12 months of 2019 2018		Change, %
	(US dollars per tonne)					
Mineral extraction tax <sup>1</sup> .....	198.31	192.12	3.2	201.40	198.83	1.3
Export duty on crude oil .....	88.67	95.08	(6.8)	93.77	128.52	(27.1)

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

	Q4 2019	Q3 2019	Change, %	12 months of 2019 2018		Change, %
	(rubles per tonne)					
Mineral extraction tax.....	12,636	12,405	1.9	13,038	12,468	4.6
Export duty on crude oil <sup>1</sup> .....	5,650	6,139	(8.0)	6,070	8,059	(24.7)

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

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

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

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

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

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

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

where *Price* is a Urals blend price in US dollars per barrel and *Exchange Rate* is an average ruble exchange rate to US dollar during the period. The *Incentive Factor* represents incentives discussed further in this section. The *Fixed Factor* is presented in the table below. The *Tax Manoeuvre Factor* is derived as Export duty reduction factor multiplied by the base export duty rate. The *Damper Factors* are applicable when the corresponding components of a negative excise formula are positive.

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

	2018	1 January to 30 September 2019	1 October to 31 December 2019	2020	2021	2022	2023	2024 and further
Export duty rate reduction factor .....	-	0.167	0.167	0.333	0.500	0.667	0.833	1
				(rubles)				
Fixed Factor.....	357	428	428	428	428	428	428	428
Damper Factor for gasoline .....	-	125	200	105	105	105	105	105
Damper Factor for diesel fuel .....	-	110	185	92	92	92	92	92

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

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

- A special reducing coefficient is applied to the standard tax rate depending on location, depletion, type of reserves, size and complexity of a particular field. This type of incentive with different coefficients is applied to our highly depleted fields (more than 80% depletion), our Yu. Korchagin field located in the Caspian offshore, the Permian layers of our Usinskoye field in Timan-Pechora producing high-viscous crude oil, our Pyakyakhinskoye field located in the Yamal-Neenets Autonomous region of West Siberia (starting from 2019, the field is subject to the tax on additional income from hydrocarbon production), a number of fields in the Neenets Autonomous region, as well as to our new small-sized fields (recoverable reserves less than 5 million tonnes) and fields and deposits with low permeability like V.N. Vinogradov and Imilorskoye fields and Tyumen deposits;
- A fixed tax rate of 15% of the Urals price is applied to our V. Filanovsky offshore field and other greenfields, located in the Caspian offshore;
- A fixed tax rate of 30% of the Urals price is applied to our offshore greenfields, located in the Baltic Sea;
- A reduced tax rate is applied to our Yaregskoye field producing extra-viscous crude oil, as well as to certain unconventional deposits.

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

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

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

**Tax on additional income.** Starting from 2019, a tax on additional income from the hydrocarbon production (hereinafter TAI) has been implemented for certain license areas. The TAI rate is set at 50% and is applied to the estimated sales revenue less actual and estimated costs, where actual costs include both operating expenses and capital expenditures. Moreover, TAI tax base may be reduced by the historical cumulative losses attributable to the license area. For crude oil production subject to TAI, a special mineral extraction tax rate formula is applied. The special mineral extraction tax rate (in US dollars per barrel) equals to 50% of the difference between Urals oil price and \$15 less the enacted export duty rate.

TAI is implemented for four groups of license areas. In Group 1, LUKOIL has nineteen license areas with greenfields in new regions, including Pyakyakhinskoye field, and a number of fields in Timan-Pechora with total crude oil and gas condensate production of 2,011 thousand tonnes in 2019. In Group 3, LUKOIL has eight license areas with brownfields in West Siberia with total crude oil and gas condensate production of 2,896 thousand tonnes in 2019. In Group 4, LUKOIL has two license areas with greenfields in traditional regions (West Siberia) with total crude oil and gas condensate production of 41 thousand tonnes in 2019.

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

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

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

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024 and further</b>
Adjusting factor .....	-	0.833	0.667	0.500	0.333	0.167	0

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

	<b>Q4 2019</b>	<b>Q3 2019</b>	<b>Change, %</b>	<b>12 months of 2019</b>	<b>2018</b>	<b>Change, %</b>
	(US dollars per barrel)					
Urals price (Argus) .....	62.67	61.26	2.3	63.89	69.75	(8.4)
Export duty on crude oil .....	12.15	13.02	(6.7)	12.85	17.61	(27.0)
Mineral extraction tax on crude oil .....	27.17	26.32	3.2	27.59	27.24	1.3
Net Urals price <sup>1</sup> .....	23.35	21.92	6.5	23.45	24.90	(5.8)
Export duty lag effect .....	0.59	(0.64)	-	0.20	(0.19)	-
Mineral extraction tax lag effect .....	0.10	(0.11)	-	0.03	-	-
Net Urals price <sup>1</sup> assuming no lag .....	22.66	22.67	-	23.22	25.09	(7.5)
	(rubles per barrel) <sup>2</sup>					
Urals price (Argus) .....	3,993	3,955	1.0	4,136	4,374	(5.4)
Export duty on crude oil .....	774	841	(8.0)	832	1,104	(24.6)
Mineral extraction tax on crude oil .....	1,731	1,699	1.9	1,786	1,708	4.6
Net Urals price <sup>1</sup> .....	1,488	1,415	5.2	1,518	1,562	(2.8)
Export duty lag effect .....	38	(41)	-	13	(12)	-
Mineral extraction tax lag effect .....	6	(7)	-	2	-	-
Net Urals price <sup>1</sup> assuming no lag .....	1,444	1,463	(1.3)	1,503	1,574	(4.5)

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

<sup>2</sup> Translated to rubles using average exchange rate for the period.

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

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

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

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

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

	Q4 2019	Q3 2019	Change, %	12 months of 2019	2018	Change, %
	(US dollars per thousand cubic meters) <sup>1</sup>					
Nakhodkinskoye field.....	5.62	5.54	1.4	5.48	4.86	12.9
Pyakyakhinskoye field.....	8.43	8.16	3.3	8.26	8.55	(3.3)

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

	Q4 2019	Q3 2019	Change, %	12 months of 2019	2018	Change, %
	(rubles per thousand cubic meters)					
Nakhodkinskoye field.....	358	358	-	355	305	16.6
Pyakyakhinskoye field.....	537	527	1.9	535	536	(0.2)

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

	2018 and further
Multiplier for:	
Gasolines, diesel fuel and other light and middle distillates .....	0.30
Straight-run gasoline.....	0.55
Fuel oil.....	1.00

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

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

Excise tax expense on straight-run gasoline used as a petrochemical feedstock is reimbursed with a coefficient of 1.7, and excise tax expense on middle distillates processed and bunker fuel marketed is reimbursed in double amount.

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

Excise 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 2019	Q3 2019	Change, % (rubles per tonne)	12 months of 2019	2018	Change, %
Gasoline						
Below Euro-5 .....	13,100	13,100	-	13,100	13,100	-
Euro-5 .....	12,314	12,314	-	12,314	9,454	30.3
Diesel fuel						
All ecological classes .....	8,541	8,541	-	8,541	6,492	31.6
Motor oils .....	5,400	5,400	-	5,400	5,400	-
Middle distillates .....	9,241	9,241	-	9,241	7,491	23.4
Straight-run gasoline.....	13,912	13,912	-	13,912	13,100	6.2

Established excise tax rates are listed below.

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

#### Negative excise tax on refinery feedstock

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

The negative excise tax formula also includes the damper coefficient for gasoline and diesel fuel sold on the domestic market. The damper coefficient is calculated by multiplying *Compensation Coefficient* and a difference between gasoline and diesel fuel export netbacks at North-Western Russia delivery basis and corresponding *Fixed benchmarks*. When the damper coefficient is positive, it is payable by the Government to the refinery, and vice versa.

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

	1 January to 30 June 2019	1 July to 31 December 2019	2020	2021	2022	2023	2024
			(rubles per tonne)				
Fixed benchmark for gasoline.....	56,000	51,000	53,600	56,300	59,000	62,000	65,000
Fixed benchmark for diesel fuel .....	50,000	46,000	48,300	50,700	53,250	56,000	58,700

	1 January to 30 June 2019	1 July to 31 December 2019	2020 and further
Compensation coefficient for gasoline .....	0.60	0.75	0.68
Compensation coefficient for diesel fuel .....	0.60	0.70	0.65

The following table presents the average enacted damper coefficients for the respective periods:

	Q4 2019	Q3 2019	Change, %	12 months of 2019	12 months of 2018	Change, %
	(US dollars per tonne) <sup>1</sup>					
Gasoline.....	47.06	80.64	(41.6)	56.52	-	-
Diesel fuel.....	64.63	65.70	(1.6)	72.93	-	-

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

	Q4 2019	Q3 2019	Change, %	12 months of 2019	12 months of 2018	Change, %
	(rubles per tonne)					
Gasoline.....	2,999	5,207	(42.4)	3,659	-	-
Diesel fuel.....	4,118	4,242	(2.9)	4,721	-	-

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

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

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

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

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

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

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

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

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

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

	Q4 2019 to Q3 2019	12 months of 2019 to 12 months of 2018
Transneft (crude oil) .....	0.0%	3.9%
Russian Railways (crude oil and refined products).....	0.0%	3.6%

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

## Reserves base

The tables below summarize the net proved reserves of our 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 2019 and 2018.

(hydrocarbons, millions of BOE)	Changes in 2019				
	31 December 2019	Production <sup>(1)</sup>	Extensions, discoveries and changes in structure	Revision of previous estimates	31 December 2018
Western Siberia .....	8,185	(353)	336	(102)	8,304
Timan-Pechora .....	2,414	(130)	113	7	2,424
Ural region .....	2,247	(131)	78	39	2,261
Volga region .....	1,173	(98)	92	23	1,156
Other in Russia .....	176	(12)	3	-	185
Outside Russia .....	1,574	(145)	90	28	1,601
<b>Proved oil and gas reserves .....</b>	<b>15,769</b>	<b>(869)</b>	<b>712</b>	<b>(5)</b>	<b>15,931</b>
<b>Probable oil and gas reserves .....</b>	<b>6,217</b>				<b>6,424</b>
<b>Possible oil and gas reserves .....</b>	<b>3,000</b>				<b>3,242</b>

<sup>1</sup> Gas production shown before own consumption.

(crude oil, millions of barrels)	Changes in 2019				
	31 December 2019	Production	Extensions, discoveries and changes in structure	Revision of previous estimates	31 December 2018
Western Siberia .....	6,070	(279)	283	(118)	6,184
Timan-Pechora .....	2,289	(118)	106	10	2,291
Ural region .....	2,112	(122)	74	38	2,122
Volga region .....	810	(88)	85	16	797
Other in Russia .....	174	(12)	3	-	183
Outside Russia .....	560	(43)	55	43	505
<b>Proved oil reserves .....</b>	<b>12,015</b>	<b>(662)</b>	<b>606</b>	<b>(11)</b>	<b>12,082</b>
<b>Probable oil reserves .....</b>	<b>4,671</b>				<b>4,855</b>
<b>Possible oil reserves .....</b>	<b>2,506</b>				<b>2,727</b>

(gas, billions of cubic feet)	Changes in 2019				
	31 December 2019	Production <sup>(1)</sup>	Extensions, discoveries and changes in structure	Revision of previous estimates	31 December 2018
Western Siberia .....	12,688	(441)	319	87	12,723
Timan-Pechora .....	748	(73)	44	(20)	797
Ural region .....	812	(51)	23	8	832
Volga region .....	2,182	(63)	42	50	2,153
Other in Russia .....	14	(1)	-	1	14
Outside Russia .....	6,083	(609)	208	(90)	6,574
<b>Proved gas reserves .....</b>	<b>22,527</b>	<b>(1,238)</b>	<b>636</b>	<b>36</b>	<b>23,093</b>
<b>Probable gas reserves .....</b>	<b>9,275</b>				<b>9,414</b>
<b>Possible gas reserves .....</b>	<b>2,966</b>				<b>3,091</b>

<sup>1</sup> Gas production shown before own consumption.

The Company's proved hydrocarbon reserves at 31 December 2019 amounted to 15.8 billion BOE and comprised of 12.0 billion barrels of crude oil and 22.5 trillion cubic feet of gas.

As a result of geological exploration and production drilling conducted in 2019, LUKOIL added 642 million barrels of oil equivalent to proved reserves, which is 11% higher year-on-year. The largest contribution was from the assets in West Siberia, Timan-Pechora and Russian sector of the Caspian Sea.

A positive revision of the proved reserves in the aggregate of 108 million barrels of oil equivalent was driven by optimization of development systems and wellwork programmes at existing fields, as well as conversion of contingent resources to reserves. Acquisition of assets in Russia and abroad in 2019 added 70 million barrels of oil equivalent to proved reserves.

The reserves dynamics was negatively affected by an 11% decrease in oil price and US dollar to ruble exchange rate used for reserves evaluation.

## Segments highlights

Our operations are divided into three main business segments:

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

Each of our segments is dependent on the others, with a portion of the revenues of one segment being a part of the costs of the others. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the “Domestic crude oil and refined products prices” section on p. 7, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. We present the financial data for each segment in Note 33 “Segment information” to our consolidated financial statements.

### Exploration and production

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

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
				(millions of rubles)		
EBITDA .....	211,786	211,958	(0.1)	893,950	870,287	2.7
in Russia .....	173,108	169,844	1.9	729,077	717,244	1.6
outside Russia and Iraq .....	36,573	35,435	3.2	143,183	127,613	12.2
in Iraq .....	2,105	6,679	(68.5)	21,690	25,430	(14.7)
Hydrocarbon extraction expenses .....	54,010	53,428	1.1	210,867	213,815	(1.4)
in Russia .....	43,285	42,970	0.7	170,590	175,131	(2.6)
outside Russia and Iraq .....	6,592	6,607	(0.2)	23,267	21,096	10.3
in Iraq .....	4,133	3,851	7.3	17,010	17,588	(3.3)
				(rubles per BOE)		
Hydrocarbon extraction expenses (excluding Iraq) .....	233	239	(2.6)	232	238	(2.5)
in Russia .....	239	239	0.2	237	244	(2.7)
outside Russia and Iraq .....	200	245	(18.1)	200	199	0.3
				(US dollars per BOE)		
Hydrocarbon extraction expenses (excluding Iraq) .....	3.66	3.71	(1.3)	3.59	3.81	(5.9)
in Russia .....	3.75	3.70	1.5	3.67	3.90	(6.0)
outside Russia and Iraq .....	3.15	3.79	(17.0)	3.09	3.16	(2.1)

Our upstream EBITDA did not change compared to the third quarter of 2019. In Russia, our EBITDA increased mainly as a result of positive export duty and mineral extraction tax lag effects and bigger share of high-margin volumes in our crude oil production structure, which was partially offset by an increase in extraction tax rate and the effect of the ruble appreciation. Outside Russia, our upstream EBITDA increased mainly owing to an increase in hydrocarbon production volumes. At the same time, results of our international upstream were negatively affected by dry hole write-off in Romania and the ruble appreciation.

Compared to 2018, our upstream EBITDA increased by 2.7% despite a decrease in crude oil prices. In Russia, this decrease in prices was offset by bigger share of high-margin volumes in our production structure, an implementation of a tax on additional income from the hydrocarbon production at certain license areas, lower hydrocarbon extraction expenses, as well as the ruble devaluation and positive export duty and mineral extraction tax lag effects. Outside Russia, our upstream EBITDA was positively impacted by an increase in gas production volumes and gas prices in Uzbekistan, the ruble devaluation that was partially offset by a dry hole write-off in Romania.

EBITDA of the West Qurna-2 project decreased compared to the third quarter of 2019 and the twelve months of 2018 mainly as a result of an accrual of a provision for expected credit losses.

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

The following table summarizes our hydrocarbon production by major regions.

	Q4 2019	Q3 2019	Change, %	12 months of 2019	12 months of 2018	Change, %
	(thousand BOE per day)					
<b>Crude oil and natural gas liquids</b>						
Consolidated subsidiaries						
West Siberia .....	760	768	(1.0)	765	774	(1.2)
Timan-Pechora .....	313	320	(2.2)	317	318	(0.3)
Ural region.....	334	334	-	334	328	1.8
Volga region.....	235	228	3.1	235	229	2.6
Other in Russia.....	31	31	-	32	32	-
<b>Total in Russia .....</b>	<b>1,673</b>	<b>1,681</b>	<b>(0.5)</b>	<b>1,683</b>	<b>1,681</b>	<b>0.1</b>
Iraq <sup>1</sup> .....	31	31	-	30	28	7.1
Other outside Russia.....	61	51	19.6	52	47	10.6
<b>Total outside Russia.....</b>	<b>92</b>	<b>82</b>	<b>12.2</b>	<b>82</b>	<b>75</b>	<b>9.3</b>
<b>Total consolidated subsidiaries .....</b>	<b>1,765</b>	<b>1,763</b>	<b>0.1</b>	<b>1,765</b>	<b>1,756</b>	<b>0.5</b>
Our share in equity affiliates						
in Russia.....	13	13	-	13	13	-
outside Russia.....	38	35	8.6	37	37	-
<b>Total share in equity affiliates.....</b>	<b>51</b>	<b>48</b>	<b>6.3</b>	<b>50</b>	<b>50</b>	<b>-</b>
<b>Total crude oil and natural gas liquids .....</b>	<b>1,816</b>	<b>1,811</b>	<b>0.3</b>	<b>1,815</b>	<b>1,806</b>	<b>0.5</b>
<b>Natural and petroleum gas<sup>2</sup></b>						
Consolidated subsidiaries						
West Siberia.....	205	196	4.6	201	210	(4.3)
Timan-Pechora.....	33	33	-	33	33	-
Ural region .....	25	23	8.7	23	15	53.3
Volga region .....	31	23	34.8	28	27	3.7
Other in Russia.....	-	-	-	1	1	-
<b>Total in Russia.....</b>	<b>294</b>	<b>275</b>	<b>6.9</b>	<b>286</b>	<b>286</b>	<b>-</b>
Uzbekistan .....	248	206	20.4	228	216	5.6
Other outside Russia .....	49	36	36.1	40	27	48.1
<b>Total outside Russia .....</b>	<b>297</b>	<b>242</b>	<b>22.7</b>	<b>268</b>	<b>243</b>	<b>10.3</b>
<b>Total consolidated subsidiaries .....</b>	<b>591</b>	<b>517</b>	<b>14.3</b>	<b>554</b>	<b>529</b>	<b>4.7</b>
Share in equity affiliates						
in Russia.....	1	1	42.2	1	2	(28.6)
outside Russia.....	11	10	13.0	10	10	3.3
<b>Total share in production of equity affiliates.....</b>	<b>12</b>	<b>11</b>	<b>9.1</b>	<b>11</b>	<b>12</b>	<b>(8.3)</b>
<b>Total natural and petroleum gas .....</b>	<b>603</b>	<b>528</b>	<b>14.2</b>	<b>565</b>	<b>541</b>	<b>4.4</b>
<b>Total daily hydrocarbon production .....</b>	<b>2,419</b>	<b>2,339</b>	<b>3.4</b>	<b>2,380</b>	<b>2,347</b>	<b>1.4</b>
Including natural gas liquids produced at the gas processing plants .....	43	41	5.3	44	42	3.6

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

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

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

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
	(thousands of tonnes)					
West Siberia.....	9,261	9,366	(1.1)	36,999	37,471	(1.3)
Timan-Pechora .....	4,005	4,088	(2.0)	16,099	16,124	(0.2)
Ural region.....	3,929	3,933	(0.1)	15,527	15,251	1.8
Volga region.....	2,830	2,737	3.4	11,207	10,969	2.2
Other in Russia .....	400	428	(6.5)	1,626	1,597	1.8
Crude oil produced in Russia.....	20,425	20,552	(0.6)	81,458	81,412	0.1
Iraq <sup>1</sup> .....	424	417	1.7	1,616	1,514	6.7
Other outside Russia .....	616	534	15.4	2,110	1,901	11.0
Crude oil produced outside Russia .....	1,040	951	9.4	3,726	3,415	9.1
<b>Total crude oil produced by consolidated subsidiaries.....</b>	<b>21,465</b>	<b>21,503</b>	<b>(0.2)</b>	<b>85,184</b>	<b>84,827</b>	<b>0.4</b>
<b>Our share in crude oil produced by equity affiliates:</b>						
in Russia.....	152	152	-	610	633	(3.6)
outside Russia.....	441	402	9.7	1,694	1,664	1.8
<b>Total crude oil produced.....</b>	<b>22,058</b>	<b>22,057</b>	<b>-</b>	<b>87,488</b>	<b>87,124</b>	<b>0.4</b>

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

Our main oil producing region is West Siberia where we produced 43.1% of our crude oil in the fourth quarter of 2019 and 43.4% in 2019 (43.6% in the third quarter of 2019 and 44.2% in 2018).

The dynamics of our crude oil production volumes was mainly driven by external limitations due to an agreement of OPEC and some of the non-OPEC countries, including Russia, to cap production levels in order to stabilize the global crude oil market. During the first half of 2018, our production was limited in accordance with the first OPEC+ agreement valid until the end of June 2018. We increased our production in July 2018, when the parameters of the agreement were amended. In December 2018, the OPEC+ countries agreed to decrease crude oil production relative to October 2018 levels until June 2019, which subsequently was prolonged until March 2020. The Group limited production in our traditional regions (West Siberia, Timan-Pechora, and Ural) at the least-productive fields and fields with high water-cuts.

The active development of the priority projects was on track. We produced 6,387 thousand tonnes of crude oil at the V. Filanovsky field in 2019, an increase of 5%, compared to 2018. In November 2019, the third stage of the field was launched.

In 2019, crude oil production at the Yu. Korchagin field increased by 21% year-on-year as a result of drilling programme at the field's second development stage.

The development of the Yaregskoye field and Permian reservoir of the Usinskoye field, including the launch of new steam-generating facilities, led to an increase in the high viscosity crude oil production to 4.9 million tonnes, or by 15%, compared to 2018.

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

In 2019, crude oil production outside Russia increased mainly due to the launch of the second phase of Shah-Deniz project in Azerbaijan in 2018, as well as by an acquisition of a 25% interest in the Marine XII license area in the Republic of Congo (Congo, Brazzaville) in September 2019.

**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 2019	Q3 2019	Change, %	12 months of		Change, %
	(millions of cubic meters)					
	2019	2018		2019	2018	
West Siberia.....	3,202	3,070	4.3	12,492	13,001	(3.9)
Timan-Pechora .....	519	509	2.0	2,050	2,072	(1.1)
Ural region.....	387	358	8.1	1,432	923	55.1
Volga region.....	479	362	32.3	1,711	1,690	1.2
Other in Russia .....	6	5	20.0	24	26	(7.7)
Gas produced in Russia .....	4,593	4,304	6.7	17,709	17,712	-
Uzbekistan .....	3,875	3,225	20.2	14,130	13,262	6.5
Other outside Russia.....	774	562	37.7	2,478	1,834	35.1
Gas produced outside Russia .....	4,649	3,787	22.8	16,608	15,096	10.0
<b>Total gas produced by consolidated subsidiaries ....</b>	<b>9,242</b>	<b>8,091</b>	<b>14.2</b>	<b>34,317</b>	<b>32,808</b>	<b>4.6</b>
<b>Our share in gas produced by equity affiliates:</b>						
in Russia .....	22	22	-	88	92	(4.3)
outside Russia.....	168	149	12.8	641	643	(0.3)
<b>Total gas produced .....</b>	<b>9,432</b>	<b>8,262</b>	<b>14.2</b>	<b>35,046</b>	<b>33,543</b>	<b>4.5</b>

In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where gas is produced from the Nakhodkinskoe and Pyakyakhinskoe fields. Outside Russia, the main gas production region is Uzbekistan where we have shares in two PSAs. In 2019, LUKOIL Group's gas production was 35.0 billion cubic meters, which was 4.5% higher year-on-year. The main driver of gas production growth was the development of projects in Uzbekistan and Azerbaijan. As a result of the launch of the second stage of the Kandym gas processing plant in April 2018, our international gas production (including our share in affiliates' production) increased by 9.6%. In the fourth quarter of 2019, we started pilot production at the Yuzhno-Messoyakhskoye gas condensate field in West Siberia (Bolshekhetskaya depression) and launched a compressor booster station at the Nakhodkinskoye field.

### 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.

(millions of US dollars)	Costs incurred <sup>1</sup>	Remuneration fee	Crude oil received	Crude oil to be received
Cumulative at 31 December 2018.....	8,597	424	8,681	340
Change in 2019.....	632	124	561	195
<b>Cumulative at 31 December 2019.....</b>	<b>9,229</b>	<b>548</b>	<b>9,242</b>	<b>535</b>

<sup>1</sup> Including prepayments.

The West Qurna-2 project summary is presented below:

	Q4 2019		Q3 2019		Change, %	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production .....	37,098	5,423	37,127	5,428	(0.1)	(0.1)
Production related to cost compensation and remuneration.....	2,902	424	2,854	417	1.7	1.7
Shipment of compensation crude oil <sup>1</sup> .....	2,779	406	2,904	425	(4.5)	(4.5)
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation.....	9,077	142	8,553	133	6.1	6.8
Remuneration fee.....	2,035	32	2,066	32	(1.5)	-
	11,112	174	10,619	165	4.6	5.5
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) <sup>1</sup> .....	10,341	162	10,399	161	(0.6)	0.6
Extraction expenses .....	4,133	65	3,851	60	7.3	8.3
Depreciation, depletion and amortization .....	4,988	78	4,735	73	5.3	6.8
EBITDA .....	2,105	33	6,679	103	(68.5)	(68.0)

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

	12 months of				Change, %	
	2019	2018	2018	2018		
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)		
Total production .....	142,684	20,860	139,430	20,385	2.3	2.3
Production related to cost compensation and remuneration.....	11,054	1,616	10,355	1,514	6.7	6.7
Shipment of compensation crude oil <sup>1</sup> .....	9,412	1,376	12,851	1,879	(26.8)	(26.8)
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)		
Cost compensation.....	35,836	554	32,665	523	9.7	5.9
Remuneration fee.....	8,023	124	9,685	153	(17.2)	(19.0)
	43,859	678	42,350	676	3.6	0.3
Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products) <sup>1</sup> .....	36,225	560	52,817	839	(31.4)	(33.3)
Extraction expenses .....	17,010	263	17,588	280	(3.3)	(6.1)
Depreciation, depletion and amortization .....	18,950	293	15,218	246	24.5	19.1
EBITDA .....	21,690	334	25,430	406	(14.7)	(17.7)

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

## Refining, marketing and distribution

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

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
				(millions of rubles)		
EBITDA .....	82,157	116,380	(29.4)	371,642	282,144	31.7
in Russia.....	71,584	87,693	(18.4)	301,136	231,831	29.9
outside Russia .....	10,573	28,687	(63.1)	70,506	50,313	40.1
Refining expenses at the Group refineries .....	24,636	24,942	(1.2)	96,543	104,987	(8.0)
in Russia.....	11,328	11,036	2.6	42,555	45,659	(6.8)
outside Russia .....	13,308	13,906	(4.3)	53,988	59,328	(9.0)
				(rubles per tonne)		
Refining expenses at the Group refineries .....	1,448	1,367	6.0	1,404	1,560	(10.0)
in Russia.....	1,046	951	10.1	964	1,057	(8.8)
outside Russia .....	2,153	2,096	2.7	2,195	2,459	(10.7)
				(US dollars per tonne)		
Refining expenses at the Group refineries .....	22.73	21.17	7.4	21.70	24.82	(12.6)
in Russia.....	16.42	14.72	11.5	14.90	16.80	(11.3)
outside Russia .....	33.79	32.45	4.1	33.91	39.17	(13.4)

In the fourth quarter of 2019, our refining, marketing and distribution EBITDA was 29.4% lower than in the third quarter of 2019.

In Russia, our refining, marketing and distribution EBITDA decreased compared to the third quarter of 2019 largely due to lower benchmark refining margins and throughput volumes at our refineries, seasonally lower results of our retail business and weaker petrochemical results. This was partially offset by higher EBITDA of our energy business and better product slate at our refineries. Outside Russia, our refining, marketing and distribution EBITDA decreased also mainly as a result of lower refining margins and throughput volumes, lower profitability of retail business, as well as accounting specifics of our trading operations. Nevertheless, these negative factors were partially compensated by a positive inventory effect and better product slate at our refineries outside Russia.

In 2019, our refining, marketing and distribution EBITDA was 31.7% higher than in 2018.

Compared to 2018, our refining, marketing and distribution EBITDA in Russia increased despite a decrease in benchmark refining margin largely due to higher throughput volumes, better product slate and positive inventory effect at our refineries, as well as better profitability of our retail business. Outside Russia, our downstream EBITDA increased despite lower benchmark refining margins due to an improvement of trading margins, better product slate and positive inventory effect at our refineries, and the effect of the ruble devaluation.

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

## Refining and petrochemicals

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

	Q4 2019	Q3 2019	Change, %	12 months of 2019	2018	Change, %
	(thousands of tonnes)					
Refinery throughput at the Group refineries .....	17,009	18,246	(6.8)	68,746	67,316	2.1
in Russia.....	10,828	11,610	(6.7)	44,154	43,189	2.2
outside Russia, including .....	6,181	6,636	(6.9)	24,592	24,127	1.9
crude oil.....	5,687	6,208	(8.4)	22,673	21,270	6.6
refined products.....	494	428	15.4	1,919	2,857	(32.8)
Refinery throughput at third party refineries .....	(513)	1,742	(129.4)	4,460	6,547	(31.9)
<b>Total refinery throughput.....</b>	<b>16,496</b>	<b>19,988</b>	<b>(17.5)</b>	<b>73,206</b>	<b>73,863</b>	<b>(0.9)</b>
<b>Production of the Group refineries in Russia<sup>1</sup>.....</b>	<b>10,220</b>	<b>11,032</b>	<b>(7.4)</b>	<b>41,831</b>	<b>40,985</b>	<b>2.1</b>
diesel fuel.....	4,196	4,339	(3.3)	16,532	16,215	2.0
motor gasoline.....	2,009	2,202	(8.8)	7,864	8,022	(2.0)
fuel oil.....	947	1,204	(21.3)	4,657	4,814	(3.3)
jet fuel.....	656	835	(21.4)	2,843	2,760	3.0
lubricants and components.....	242	261	(7.3)	963	961	0.2
straight-run gasoline.....	623	525	18.7	2,655	2,143	23.9
vacuum gas oil .....	51	-	-	332	844	(60.7)
bitumen .....	216	262	(17.6)	908	793	14.5
coke.....	292	276	5.8	1,072	1,106	(3.1)
bunker fuel .....	413	450	(8.2)	1,546	1,591	(2.8)
gas products .....	72	85	(15.3)	317	355	(10.7)
petrochemicals .....	103	98	5.1	392	327	19.9
other products.....	400	495	(19.2)	1,750	1,054	66.0
<b>Production of the Group refineries outside</b>						
<b>Russia.....</b>	<b>5,850</b>	<b>6,209</b>	<b>(5.8)</b>	<b>23,250</b>	<b>22,789</b>	<b>2.0</b>
diesel fuel.....	2,695	2,807	(4.0)	10,570	9,619	9.9
motor gasoline.....	1,309	1,384	(5.4)	5,065	4,545	11.4
fuel oil.....	473	464	1.9	2,121	2,710	(21.7)
jet fuel.....	275	351	(21.7)	1,149	1,191	(3.5)
straight-run gasoline.....	599	663	(9.7)	2,285	2,073	10.2
coke.....	23	25	(8.0)	107	206	(48.1)
gas products .....	144	164	(12.2)	588	498	18.1
petrochemicals .....	9	14	(35.7)	43	51	(15.7)
other products.....	323	337	(4.2)	1,322	1,896	(30.3)
<b>Refined products produced by the Group .....</b>	<b>16,070</b>	<b>17,241</b>	<b>(6.8)</b>	<b>65,081</b>	<b>63,774</b>	<b>2.0</b>
Refined products produced at third party refineries.....	(483)	1,641	(129.4)	4,215	6,414	(34.3)
<b>Total refined products produced .....</b>	<b>15,587</b>	<b>18,882</b>	<b>(17.5)</b>	<b>69,296</b>	<b>70,188</b>	<b>(1.3)</b>
Reference: Net of cross-supplies of refined products between the Group refineries.....	483	380	27.1	1,561	1,589	(1.8)
<b>Products produced at petrochemical plants and facilities.....</b>	<b>253</b>	<b>263</b>	<b>(3.8)</b>	<b>1,137</b>	<b>1,246</b>	<b>(8.7)</b>
in Russia.....	170	170	-	790	934	(15.4)
outside Russia .....	83	93	(10.8)	347	312	11.2

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

Compared to the third quarter of 2019, refinery throughput at the Group refineries decreased by 6.8%. A decrease was due to scheduled maintenance works at our refineries in Volgograd, Nizhny Novgorod and Italy.

In 2019, refinery throughput at the Group refineries was 68.7 million tonnes, which is 2.1% higher year-on-year. In Russia, an increase of 2.2% was mainly due to higher utilization rate of the Nizhny Novgorod refinery. Outside Russia, the growth of 1.9% was explained by the maintenance at the refinery in Bulgaria in the first quarter of 2018. We continued enhancing the product slate with fuel oil production volumes being 10% lower than in 2018.

In the periods considered, we processed our crude oil at third party refineries in Belarus, Kazakhstan and Canada.

In 2016, a Group company entered into a tolling agreement with a Canadian refinery originally valid through 2019. Subsequently, it was prolonged until 31 August 2022 with modification of certain provisions that changed its substance from a tolling agreement to a financial arrangement. Therefore, from September 2019, we ceased to recognize throughput and production cost related to this arrangement. The Group recognizes interest it earns on the financing provided and administrative fee.

As the treatment of the arrangement was amended in our 2019 annual financial statements, our figures for the fourth quarter of 2019 naturally include adjustments related for September 2019 to the following items: throughput volumes, crude oil and refined product revenue, cost of purchased crude oil, operating expenses, inventories, trade accounts receivable and payable.

In 2019, attributable refined products output related to tolling arrangement amounted to 4.0 million tonnes (1.6 million tonnes in the third quarter of 2019 and 6.2 million tonnes in 2018).

## Marketing and trading

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

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

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

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

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
	(thousands of tonnes)					
	2019	2018		2019	2018	
<b>Crude oil purchases</b>						
In Russia .....	229	171	33.9	756	874	(13.5)
For trading internationally .....	13,193	14,265	(7.5)	52,299	46,345	12.8
For refining internationally .....	4,244	5,922	(28.3)	21,686	22,527	(3.7)
Shipment of the West Qurna-2 compensation crude oil .....	406	425	(4.5)	1,376	1,879	(26.8)
<b>Total crude oil purchased .....</b>	<b>18,072</b>	<b>20,783</b>	<b>(13.0)</b>	<b>76,117</b>	<b>71,625</b>	<b>6.3</b>

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

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
	(thousands of tonnes)					
	2019	2018		2019	2018	
Refined products retail sales .....	3,520	3,772	(6.7)	14,129	15,144	(6.7)
Refined products wholesale sales .....	25,957	27,175	(4.5)	106,898	108,397	(1.4)
<b>Total refined products sales .....</b>	<b>29,477</b>	<b>30,947</b>	<b>(4.8)</b>	<b>121,027</b>	<b>123,541</b>	<b>(2.0)</b>
Refined products purchased in Russia .....	235	244	(3.7)	920	1,242	(25.9)
Refined products purchased internationally .....	13,233	13,057	1.3	53,274	54,728	(2.7)
<b>Total refined products purchased .....</b>	<b>13,468</b>	<b>13,301</b>	<b>1.3</b>	<b>54,194</b>	<b>55,970</b>	<b>(3.2)</b>
Petrochemical products purchased in Russia .....	12	8	50.0	39	34	14.7
Petrochemical products purchased internationally .....	180	216	(16.7)	1,049	583	79.9
<b>Total petrochemical products purchased .....</b>	<b>192</b>	<b>224</b>	<b>(14.3)</b>	<b>1,088</b>	<b>617</b>	<b>76.3</b>

**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 2019	Q3 2019	Change, %	12 months of 2019		Change, %
				(millions of rubles)		
Exports of crude oil to Customs Union.....	15,966	16,664	(4.2)	63,879	64,015	(0.2)
Exports of crude oil beyond Customs Union.....	244,240	233,913	4.4	996,096	1,040,747	(4.3)
<b>Total crude oil exports.....</b>	<b>260,206</b>	<b>250,577</b>	<b>3.8</b>	<b>1,059,975</b>	<b>1,104,762</b>	<b>(4.1)</b>
				(thousands of tonnes)		
Exports of crude oil to Customs Union.....	692	747	(7.4)	2,716	2,745	(1.1)
Exports of crude oil beyond Customs Union.....	8,771	8,457	3.7	34,378	33,956	1.2
<b>Total crude oil exports.....</b>	<b>9,463</b>	<b>9,204</b>	<b>2.8</b>	<b>37,094</b>	<b>36,701</b>	<b>1.1</b>
Exports of crude oil through Transneft and other third party infrastructure including:.....	7,279	7,011	3.8	28,274	27,946	1.2
ESPO pipeline.....	480	299	60.5	1,738	1,240	40.2
CPC pipeline.....	1,413	1,239	14.0	5,281	4,783	10.4
Exports of crude oil through the Group's transportation infrastructure.....	2,184	2,193	(0.4)	8,820	8,755	0.7
<b>Total crude oil exports.....</b>	<b>9,463</b>	<b>9,204</b>	<b>2.8</b>	<b>37,094</b>	<b>36,701</b>	<b>1.1</b>
				(millions of rubles)		
<b>Refined and petrochemical products exports .....</b>	<b>150,229</b>	<b>151,543</b>	<b>(0.9)</b>	<b>623,632</b>	<b>594,868</b>	<b>4.8</b>
				(thousands of tonnes)		
<b>Refined products exports</b>						
diesel fuel.....	2,524	2,669	(5.4)	10,205	9,773	4.4
gasoline.....	214	97	120.6	491	232	111.6
fuel oil.....	574	437	31.4	1,962	1,517	29.3
jet fuel.....	2	2	-	10	49	(79.6)
lubricants and components.....	163	161	1.2	629	600	4.8
gas refinery products.....	207	182	13.7	769	650	18.3
other products.....	1,096	1,127	(2.8)	4,663	3,423	36.2
<b>Total refined products exports.....</b>	<b>4,780</b>	<b>4,675</b>	<b>2.2</b>	<b>18,729</b>	<b>16,244</b>	<b>15.3</b>
<b>Total petrochemicals exports .....</b>	<b>62</b>	<b>54</b>	<b>14.8</b>	<b>302</b>	<b>338</b>	<b>(10.7)</b>

The volume of our crude oil exports from Russia increased by 2.8% compared to the third quarter of 2019, and increased by 1.1% compared to 2018. In the fourth quarter and the twelve months of 2019, we exported 46.3% and 45.5% of our domestic crude oil production (44.8% in the third quarter of 2019 and 45.1% in 2018), respectively. Our export volumes included 54 thousand tonnes in the fourth quarter of 2019 and 171 thousand tonnes in 2019 of crude oil purchased from our affiliates and third parties (43 thousand tonnes in the third quarter of 2019 and 185 thousand tonnes in 2018).

The volume of our refined products exports increased by 2.2% compared to the third quarter of 2019 following seasonal decrease in domestic demand, and increased by 15.3% compared to 2018 against the background of relatively low volumes of export in 2018 due to high domestic demand for our products.

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

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

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

In the fourth quarter and the twelve months of 2019, we sold 2.5 million tonnes and 9.9 million tonnes of motor fuels via our domestic retail network, which was 7.2% less compared to the third quarter of 2019 due to seasonality factor, and 9.1% less compared to 2018 due to high demand for our products in the previous year. Outside Russia, retail sales decreased by 5.4% compared to the third quarter of 2019 due to seasonality factor, and did not change significantly compared to 2018.

We also supply jet fuel to airports and bunker fuel to sea and river ports in and outside Russia. In 2019, our jet fuel deliveries without trading amounted to 3.4 million tonnes, and bunkering volume was 4.3 million tonnes.

**Power generation.** We established a vertically integrated chain from generation to transportation and sale of power and heat for third party customers (commercial generation) and own consumption. We own commercial generation facilities in the Southern regions of European Russia, Romania and Italy. We also own renewable energy capacity in Russia and abroad. In the fourth quarter and the twelve months of 2019, our total output of commercial electrical energy was 4.9 billion kWh and 18.3 billion kWh (4.2 billion kWh in the third quarter of 2019 and 19.9 billion kWh in 2018), and our total output of commercial heat energy was approximately 3.4 million Gcal and 10.1 million Gcal (0.8 million Gcal in the third quarter of 2019 and 11.0 million Gcal in 2018), respectively.

## Financial results

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

	Q4 2019	Q3 2019	Change, %	12 months of 2019 2018		Change, %
	(millions of rubles)					
<b>Revenues</b>						
Sales (including excise and export tariffs).....	1,912,439	1,952,322	(2.0)	7,841,246	8,035,889	(2.4)
<b>Costs and other deductions</b>						
Operating expenses.....	(115,565)	(119,286)	(3.1)	(457,710)	(464,467)	(1.5)
Cost of purchased crude oil, gas and products.....	(1,060,155)	(1,050,010)	1.0	(4,308,073)	(4,534,244)	(5.0)
Transportation expenses.....	(74,195)	(67,349)	10.2	(278,798)	(270,153)	3.2
Selling, general and administrative expenses.....	(52,974)	(45,638)	16.1	(197,172)	(192,433)	2.5
Depreciation, depletion and amortization.....	(101,030)	(104,504)	(3.3)	(415,094)	(343,085)	21.0
Taxes other than income taxes.....	(219,676)	(233,001)	(5.7)	(928,190)	(899,383)	3.2
Excise and export tariffs.....	(104,534)	(108,573)	(3.7)	(425,763)	(556,827)	(23.5)
Exploration expenses.....	(7,180)	(660)	>100	(9,348)	(3,582)	>100
<b>Profit from operating activities.....</b>	<b>177,130</b>	<b>223,301</b>	<b>(20.7)</b>	<b>821,098</b>	<b>771,715</b>	<b>6.4</b>
Finance income.....	6,131	6,944	(11.7)	25,134	19,530	28.7
Finance costs.....	(10,774)	(10,872)	(0.9)	(44,356)	(38,298)	15.8
Equity share in income of affiliates.....	1,628	5,496	(70.4)	18,246	25,243	(27.7)
Foreign exchange gain (loss).....	45	(4,630)	-	923	33,763	(97.3)
Other (expenses) income.....	(23,888)	6,529	-	(27,691)	(38,934)	(28.9)
<b>Profit before income taxes.....</b>	<b>150,272</b>	<b>226,768</b>	<b>(33.7)</b>	<b>793,354</b>	<b>773,019</b>	<b>2.6</b>
Current income taxes.....	(25,605)	(36,954)	(30.7)	(144,615)	(137,062)	5.5
Deferred income taxes.....	(4,924)	1,073	-	(6,518)	(14,855)	(56.1)
<b>Total income tax expense.....</b>	<b>(30,529)</b>	<b>(35,881)</b>	<b>(14.9)</b>	<b>(151,133)</b>	<b>(151,917)</b>	<b>(0.5)</b>
<b>Profit for the year.....</b>	<b>119,743</b>	<b>190,887</b>	<b>(37.3)</b>	<b>642,221</b>	<b>621,102</b>	<b>3.4</b>
Profit for the year attributable to non-controlling interests.....	(433)	(500)	(13.4)	(2,043)	(1,928)	6.0
<b>Profit for the year attributable to PJSC LUKOIL shareholders.....</b>	<b>119,310</b>	<b>190,387</b>	<b>(37.3)</b>	<b>640,178</b>	<b>619,174</b>	<b>3.4</b>
Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):						
Basic.....	184.71	294.10	(37.2)	963.28	874.47	10.2
Diluted.....	178.22	285.01	(37.5)	934.73	865.19	8.0

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

**Sales revenues**

<b>Sales breakdown</b>	<b>Q4 2019</b>	<b>Q3 2019</b>	<b>Change, %</b>	<b>12 months of</b>		<b>Change, %</b>
				<b>2019</b>	<b>2018</b>	
	(millions of rubles)					
<b>Crude oil</b>						
Export and sales on international markets other than Customs Union .....	644,015	627,510	2.6	2,575,571	2,559,578	0.6
Export and sales to Customs Union .....	16,221	16,897	(4.0)	64,890	64,228	1.0
Domestic sales .....	7,815	1,115	>100	22,528	47,508	(52.6)
	<b>668,051</b>	<b>645,522</b>	<b>3.5</b>	<b>2,662,989</b>	<b>2,671,314</b>	<b>(0.3)</b>
Cost compensation and remuneration at the West Qurna-2 project .....	11,112	10,619	4.6	43,859	42,350	3.6
	<b>679,163</b>	<b>656,141</b>	<b>3.5</b>	<b>2,706,848</b>	<b>2,713,664</b>	<b>(0.3)</b>
<b>Refined products<sup>1</sup></b>						
Export and sales on international markets						
Wholesale .....	810,817	840,030	(3.5)	3,403,202	3,612,291	(5.8)
Retail .....	84,349	90,417	(6.7)	345,162	349,493	(1.2)
Domestic sales						
Wholesale .....	108,596	122,877	(11.6)	443,667	439,327	1.0
Retail .....	120,340	129,894	(7.4)	480,048	498,765	(3.8)
	<b>1,124,102</b>	<b>1,183,218</b>	<b>(5.0)</b>	<b>4,672,079</b>	<b>4,899,876</b>	<b>(4.6)</b>
<b>Petrochemicals</b>						
Export and sales on international markets .....	14,915	20,863	(28.5)	91,687	67,682	35.5
Domestic sales .....	8,139	10,379	(21.6)	40,971	46,085	(11.1)
	<b>23,054</b>	<b>31,242</b>	<b>(26.2)</b>	<b>132,658</b>	<b>113,767</b>	<b>16.6</b>
<b>Gas</b>						
Sales on international markets .....	36,993	32,790	12.8	138,997	112,990	23.0
Domestic sales .....	8,681	7,685	13.0	32,490	33,352	(2.6)
	<b>45,674</b>	<b>40,475</b>	<b>12.8</b>	<b>171,487</b>	<b>146,342</b>	<b>17.2</b>
<b>Sales of energy and related services</b>						
Sales on international markets .....	2,952	4,451	(33.7)	14,604	15,600	(6.4)
Domestic sales .....	14,443	10,483	37.8	53,276	54,353	(2.0)
	<b>17,395</b>	<b>14,934</b>	<b>16.5</b>	<b>67,880</b>	<b>69,953</b>	<b>(3.0)</b>
<b>Other</b>						
Export and sales on international markets .....	12,899	14,908	(13.5)	48,024	46,160	4.0
Domestic sales .....	10,152	11,404	(11.0)	42,270	46,127	(8.4)
	<b>23,051</b>	<b>26,312</b>	<b>(12.4)</b>	<b>90,294</b>	<b>92,287</b>	<b>(2.2)</b>
<b>Total sales .....</b>	<b>1,912,439</b>	<b>1,952,322</b>	<b>(2.0)</b>	<b>7,841,246</b>	<b>8,035,889</b>	<b>(2.4)</b>

<sup>1</sup> Including revenue from gas refined products sales.

Sales volumes	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
	(thousands of tonnes)					
Crude oil						
Export and sales on international markets other than Customs Union.....	21,788	21,125	3.1	84,281	78,914	6.8
Export and sales to Customs Union .....	702	758	(7.4)	2,753	2,754	-
Domestic sales .....	348	52	>100	947	2,061	(54.1)
	<b>22,838</b>	<b>21,935</b>	<b>4.1</b>	<b>87,981</b>	<b>83,729</b>	<b>5.1</b>
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project.....	424	417	1.7	1,616	1,514	6.7
	<b>23,262</b>	<b>22,352</b>	<b>4.1</b>	<b>89,597</b>	<b>85,243</b>	<b>5.1</b>
Refined products <sup>1</sup>						
Export and sales on international markets						
Wholesale .....	22,422	23,172	(3.2)	92,392	93,676	(1.4)
Retail .....	1,046	1,106	(5.4)	4,194	4,217	(0.5)
Domestic sales						
Wholesale .....	3,535	4,003	(11.7)	14,506	14,721	(1.5)
Retail .....	2,474	2,666	(7.2)	9,935	10,927	(9.1)
	<b>29,477</b>	<b>30,947</b>	<b>(4.8)</b>	<b>121,027</b>	<b>123,541</b>	<b>(2.0)</b>
Petrochemicals						
Export and sales on international markets .....	276	384	(28.1)	1,547	1,004	54.1
Domestic sales .....	146	184	(20.7)	699	754	(7.3)
	<b>422</b>	<b>568</b>	<b>(25.7)</b>	<b>2,246</b>	<b>1,758</b>	<b>27.8</b>
	(millions of cubic meters)					
Gas						
Sales on international markets .....	4,388	3,717	18.1	15,785	14,173	11.4
Domestic sales .....	3,389	3,079	10.1	12,942	13,723	(5.7)
	<b>7,777</b>	<b>6,796</b>	<b>14.4</b>	<b>28,727</b>	<b>27,896</b>	<b>3.0</b>

<sup>1</sup> Including volumes of gas refined products sales.

Realized average sales prices		Q4 2019	Q3 2019	Change, %	12 months of		Change, %
					2019	2018	
Average realized price on international markets							
Crude oil (beyond Customs Union) <sup>1</sup> .... (RUB/barrel)		4,033	4,052	(0.5)	4,169	4,425	(5.8)
Crude oil (Customs Union) .....	(RUB/barrel)	3,152	3,041	3.7	3,216	3,182	1.1
Refined products							
Wholesale..... (RUB/tonne)		36,162	36,252	(0.2)	36,834	38,562	(4.5)
Retail..... (RUB/tonne)		80,640	81,751	(1.4)	82,299	82,877	(0.7)
Petrochemicals..... (RUB/tonne)		54,040	54,331	(0.5)	59,268	67,412	(12.1)
Gas (excluding royalty) .....	(RUB/1,000 m <sup>3</sup> )	8,430	8,822	(4.4)	8,806	7,972	10.5
Crude oil (beyond Customs Union) <sup>1</sup> .... (\$/barrel)		63.29	62.75	0.8	64.40	70.56	(8.7)
Crude oil (Customs Union) .....	(\$/barrel)	49.47	47.09	5.1	49.67	50.74	(2.1)
Refined products							
Wholesale..... (\$/tonne)		568	561	1.1	569	615	(7.5)
Retail..... (\$/tonne)		1,266	1,266	-	1,271	1,322	(3.8)
Petrochemicals..... (\$/tonne)		848	841	0.8	916	1,075	(14.8)
Gas (excluding royalty) .....	(\$/1,000 m <sup>3</sup> )	132	137	(3.2)	136	127	7.0
Average realized price within Russia							
Crude oil..... (RUB/barrel)		3,064	2,925	4.7	3,245	3,145	3.2
Refined products							
Wholesale..... (RUB/tonne)		30,720	30,696	0.1	30,585	29,844	2.5
Retail..... (RUB/tonne)		48,642	48,722	(0.2)	48,319	45,645	5.9
Petrochemicals..... (RUB/tonne)		55,747	56,408	(1.2)	58,614	61,121	(4.1)
Gas <sup>2</sup> ..... (RUB/1,000 m <sup>3</sup> )		2,562	2,496	2.6	2,510	2,430	3.3

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

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

Compared to the third quarter of 2019, our revenues decreased by 2.0% driven mainly by a decrease in refined products output and trading volumes.

Compared to 2018, our revenues decreased by 2.4%, largely as a result of a decrease in hydrocarbon prices and refined products trading volumes, that was partially offset by the effect of the ruble devaluation on our revenues denominated in the US dollars, as well as higher gas sales and petrochemical products trading volumes.

#### *Sales of crude oil*

Compared to the third quarter of 2019, our international crude oil sales revenue increased by 2.6% due to trading volume increase. Our domestic sales revenue increased owing to higher sales volume as a result of a decrease in throughput at our refineries in Russia due to maintenance works.

In 2019, our international crude oil sales revenue did not change significantly compared to 2018. A decrease in crude oil prices was offset by an increase in trading volumes. At the same time, our domestic sales volumes decreased by 54.1% due to an increase in refinery throughput and our sales revenue decreased consequently.

#### *Sales of refined products*

Sales breakdown	Q4	Q3	Change,	12 months of		Change,
	2019	2019	%	2019	2018	%
	(millions of rubles)					
<b>Wholesale outside Russia .....</b>	<b>810,817</b>	<b>840,030</b>	<b>(3.5)</b>	<b>3,403,202</b>	<b>3,612,291</b>	<b>(5.8)</b>
diesel fuel .....	398,753	401,518	(0.7)	1,637,550	1,608,595	1.8
motor gasoline .....	149,404	175,469	(14.9)	637,327	746,274	(14.6)
fuel oil .....	134,541	118,781	13.3	521,882	534,155	(2.3)
jet fuel .....	8,812	31,040	(71.6)	97,202	126,840	(23.4)
lubricants and components .....	15,230	16,330	(6.7)	65,726	73,300	(10.3)
gas products.....	15,024	11,915	26.1	53,515	57,274	(6.6)
others.....	89,053	84,977	4.8	390,000	465,853	(16.3)
<b>Retail outside Russia.....</b>	<b>84,349</b>	<b>90,417</b>	<b>(6.7)</b>	<b>345,162</b>	<b>349,493</b>	<b>(1.2)</b>
<b>Wholesale in Russia .....</b>	<b>108,596</b>	<b>122,877</b>	<b>(11.6)</b>	<b>443,667</b>	<b>439,327</b>	<b>1.0</b>
diesel fuel .....	32,730	28,864	13.4	116,906	99,090	18.0
motor gasoline .....	12,114	15,886	(23.7)	48,539	50,254	(3.4)
fuel oil .....	4,610	8,820	(47.7)	33,124	44,070	(24.8)
jet fuel .....	31,333	37,708	(16.9)	128,672	120,042	7.2
lubricants and components .....	5,429	7,200	(24.6)	25,265	26,236	(3.7)
gas products.....	2,665	2,675	(0.4)	10,903	14,839	(26.5)
others.....	19,715	21,724	(9.2)	80,258	84,796	(5.4)
<b>Retail in Russia.....</b>	<b>120,340</b>	<b>129,894</b>	<b>(7.4)</b>	<b>480,048</b>	<b>498,765</b>	<b>(3.8)</b>
<b>Total refined products sales .....</b>	<b>1,124,102</b>	<b>1,183,218</b>	<b>(5.0)</b>	<b>4,672,079</b>	<b>4,899,876</b>	<b>(4.6)</b>

Sales volumes	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
	(thousands of tonnes)					
<b>Wholesale outside Russia</b> .....	<b>22,422</b>	<b>23,172</b>	<b>(3.2)</b>	<b>92,392</b>	<b>93,676</b>	<b>(1.4)</b>
diesel fuel.....	9,637	9,759	(1.3)	39,002	36,455	7.0
motor gasoline.....	3,538	4,160	(15.0)	15,015	16,806	(10.7)
fuel oil.....	5,203	4,840	7.5	20,121	20,733	(3.0)
jet fuel.....	207	748	(72.3)	2,323	2,846	(18.4)
lubricants and components.....	228	258	(11.6)	997	1,147	(13.1)
gas products .....	521	475	9.7	1,902	1,720	10.6
others .....	3,088	2,932	5.3	13,032	13,969	(6.7)
<b>Retail outside Russia</b> .....	<b>1,046</b>	<b>1,106</b>	<b>(5.4)</b>	<b>4,194</b>	<b>4,217</b>	<b>(0.5)</b>
diesel fuel.....	707	738	(4.2)	2,814	2,831	(0.6)
motor gasoline.....	294	317	(7.3)	1,195	1,202	(0.6)
gas products .....	45	51	(11.8)	185	184	0.5
<b>Wholesale in Russia</b> .....	<b>3,535</b>	<b>4,003</b>	<b>(11.7)</b>	<b>14,506</b>	<b>14,721</b>	<b>(1.5)</b>
diesel fuel.....	758	691	9.7	2,733	2,396	14.1
motor gasoline.....	310	392	(20.9)	1,257	1,242	1.2
fuel oil.....	423	602	(29.7)	2,184	2,746	(20.5)
jet fuel.....	753	919	(18.1)	3,138	2,936	6.9
lubricants and components.....	86	100	(14.0)	361	359	0.6
gas products .....	137	170	(19.4)	648	756	(14.3)
others .....	1,068	1,129	(5.4)	4,185	4,286	(2.4)
<b>Retail in Russia</b> .....	<b>2,474</b>	<b>2,666</b>	<b>(7.2)</b>	<b>9,935</b>	<b>10,927</b>	<b>(9.1)</b>
diesel fuel.....	938	981	(4.4)	3,715	4,128	(10.0)
motor gasoline.....	1,516	1,674	(9.4)	6,161	6,734	(8.5)
gas products .....	20	11	81.8	59	65	(9.2)
<b>Total refined products volumes</b> .....	<b>29,477</b>	<b>30,947</b>	<b>(4.8)</b>	<b>121,027</b>	<b>123,541</b>	<b>(2.0)</b>

#### The fourth quarter vs. the third quarter of 2019

- Our revenue from the wholesale of refined products outside Russia decreased by 3.5% due to a decrease in trading volumes.
- International retail revenue decreased by 6.7% due to a seasonal decrease in sales volumes.
- Revenue from the wholesale and retail sales of refined products on the domestic market decreased by 11.6% and 7.4%, respectively, as a result of a decrease in sales volumes due to a seasonal decline in domestic demand.

#### 2019 vs. 2018

- Our revenue from the wholesale of refined products outside Russia decreased by 5.8% that was mainly due to a decrease in sales volumes and prices in dollar terms that was partially offset by the effect of the ruble devaluation.
- Our international retail revenue decreased by 1.2% mainly as a result of a decrease in sales volumes and our realized prices.
- Despite a decrease in sales volumes, our revenue from the wholesale of refined products on the domestic market increased by 1.0% as a result of growth of our realized prices.
- Our revenue from refined products retail sales in Russia decreased by 3.8%, as a result of a decrease in sales volumes against a background of high demand for our products in 2018, that was partially offset by an increase in our realized prices.

#### Sales of petrochemical products

Compared to the third quarter of 2019, our revenue from sales of petrochemical products decreased by 26.2%, as a result of a decrease in trading volumes and average realized sales prices both in and outside Russia.

Compared to 2018, our revenue from sales of petrochemical products increased by 16.6%, as a result of growth of trading volumes outside Russia. At the same time, our average realized sales prices decreased.

### Sales of gas

Compared to the third quarter of 2019, our revenue from gas sales increased by 12.8%, as a result of an increase in gas production outside Russia.

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

### Sales of energy and related services

Compared to the third quarter of 2019, our revenue from sales of energy and related services increased by 16.5% mainly due to seasonal factor in Russia.

Compared to 2018, our revenue from sales of energy and related services decreased by 3.0%.

### 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 2019, revenue from other sales decreased by 12.4%, compared to the third quarter of 2019, largely as a result of seasonal decrease in non-petrol revenue of our retail network.

Compared to 2018, revenue from other sales decreased by 2.2%. This was largely a result of a discontinuing of a non-core car sales business in Russia.

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

## Operating expenses

Operating expenses include the following:

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
	(millions of rubles)					
Hydrocarbon extraction expenses <sup>1</sup> .....	49,877	49,577	0.6	193,857	196,227	(1.2)
Extraction expenses at the West Qurna-2 field .....	4,133	3,851	7.3	17,010	17,588	(3.3)
Own refining expenses .....	24,636	24,942	(1.2)	96,543	104,987	(8.0)
Refining expenses at third-party refineries .....	(1,516)	4,523	-	7,175	8,020	(10.5)
Expenses for crude oil transportation to refineries .....	13,268	13,570	(2.2)	52,884	50,264	5.2
Power generation and distribution expenses .....	8,517	7,310	16.5	30,432	30,045	1.3
Petrochemical expenses .....	3,379	2,904	16.4	12,463	12,075	3.2
Other operating expenses .....	13,271	12,609	5.3	47,346	45,261	4.6
<b>Total operating expenses .....</b>	<b>115,565</b>	<b>119,286</b>	<b>(3.1)</b>	<b>457,710</b>	<b>464,467</b>	<b>(1.5)</b>

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

The method of allocation of operating expenses above differs from the approach used in preparing data for Note 33 “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.

### 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 2019	Q3 2019	Change, %	12 months of 2019	2018	Change, %
	(millions of rubles)					
Hydrocarbon extraction expenses <sup>1</sup> .....	49,877	49,577	0.6	193,857	196,227	(1.2)
in Russia .....	43,285	42,970	0.7	170,590	175,131	(2.6)
outside Russia <sup>1</sup> .....	6,592	6,607	(0.2)	23,267	21,096	10.3
	(rubles per BOE)					
Hydrocarbon extraction expenses <sup>1</sup> .....	233	239	(2.6)	232	238	(2.5)
in Russia .....	239	239	0.2	237	244	(2.7)
outside Russia <sup>1</sup> .....	200	245	(18.1)	200	199	0.3

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

Compared to the previous quarter, per BOE hydrocarbon extraction expenses and our total extraction expenses in Russia did not change significantly. Our extraction expenses outside Russia were also flat compared to the third quarter of 2019, while our per BOE hydrocarbon extraction expenses decreased by 18.1%, mainly as a result of an increase in gas production outside Russia.

In Russia, hydrocarbon extraction expenses decreased by 2.6% compared to 2018. A decrease in workover operations and overhauls was partially offset by higher electricity costs. A decrease in our extraction expenses was also driven by the adoption of IFRS 16. In 2019, our domestic per BOE hydrocarbon extraction expenses decreased by 2.7%.

In 2019, outside Russia, our hydrocarbon extraction expenses increased by 10.3% as a result of substantial gas production growth in Uzbekistan and Azerbaijan, maintenance works in Kazakhstan, as well as the ruble devaluation. Despite the ruble devaluation, our per BOE hydrocarbon extraction expenses outside Russia did not change due to an increase in gas share in our production structure.

### Own refining expenses

	Q4 2019	Q3 2019	Change, %	12 months of 2019	2018	Change, %
	(millions of rubles)					
Refining expenses at the Group refineries .....	24,636	24,942	(1.2)	96,543	104,987	(8.0)
in Russia .....	11,328	11,036	2.6	42,555	45,659	(6.8)
outside Russia .....	13,308	13,906	(4.3)	53,988	59,328	(9.0)
	(rubles per tonne)					
Refining expenses at the Group refineries .....	1,448	1,367	6.0	1,404	1,560	(10.0)
in Russia .....	1,046	951	10.1	964	1,057	(8.8)
outside Russia .....	2,153	2,096	2.7	2,195	2,459	(10.7)

Compared to the third quarter of 2019, refining expenses at our domestic refineries increased by 2.6%, mainly due to an increase in electricity and fuel costs, maintenance works, as well as an increase in consumption of purchased additives. Outside Russia, our expenses decreased by 4.3% largely due to lower refinery throughput as a result of scheduled maintenance works at the refinery in Italy.

Compared to 2018, expenses at our domestic refineries decreased by 6.8%, mainly due to a decrease in consumption of purchased additives in gasoline production, despite higher throughput volumes. Outside Russia, our expenses decreased by 9.0% due to a decline in fuel, electricity and maintenance costs, despite higher throughput volumes.

### Refining expenses at third-party refineries

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

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

In August 2019, the agreement was extended till 2022 with modification of certain provisions. As a result, the agreement is now treated as a financing arrangement with recognizing only interest on financing provided and administrative fee in the profit or loss statement. Thus, we do not recognize the tolling fee starting from September 2019

In the fourth quarter of 2019, this tolling fee was a negative amount of 1.7 billion RUB as a result of a change of arrangement from September 2019, compared to 4.4 billion RUB in the previous quarter.

In 2019, tolling fee amounted to 6.6 billion RUB compared to 7.4 billion RUB in 2018.

#### *Expenses for crude oil transportation to refineries*

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

Compared to the third quarter of 2019, our expenses for crude oil transportation to refineries decreased by 2.2% due to changes in structure of crude oil supplies to the Group refineries.

Compared to 2018, our expenses for crude oil transportation to refineries increased by 5.2% mainly due to an increase in volumes of supplies of own crude oil and tariffs.

#### *Power generation and distribution expenses*

Compared to the third quarter of 2019 and the twelve months of 2018, power generation and distribution expenses increased by 16.5% and by 1.3%, respectively. The increase compared to the third quarter of 2019 was due to seasonality.

#### *Petrochemical expenses*

Our petrochemical expenses increased by 16.4% quarter-on-quarter as a result of an increase in maintenance costs at our petrochemical plants in Russia.

Our petrochemical expenses increased by 3.2% year-on-year as a result of an increase in production volumes against the background of suspension of production at petrochemical facilities at our Bulgarian refinery in 2018.

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

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

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
	(millions of rubles)					
Cost of purchased crude oil in Russia.....	5,292	3,846	37.6	18,123	21,458	(15.5)
Cost of purchased crude oil outside Russia .....	507,554	586,976	(13.5)	2,229,352	2,213,464	0.7
Compensation crude oil related to West Qurna-2 project.....	10,341	10,399	(0.6)	36,225	52,817	(31.4)
<b>Cost of purchased crude oil.....</b>	<b>523,187</b>	<b>601,221</b>	<b>(13.0)</b>	<b>2,283,700</b>	<b>2,287,739</b>	<b>(0.2)</b>
Cost of purchased refined products in Russia.....	9,100	10,101	(9.9)	37,146	50,176	(26.0)
Cost of purchased refined products outside Russia.....	470,717	466,206	1.0	1,930,711	2,067,726	(6.6)
<b>Cost of purchased refined products .....</b>	<b>479,817</b>	<b>476,307</b>	<b>0.7</b>	<b>1,967,857</b>	<b>2,117,902</b>	<b>(7.1)</b>
Other purchases .....	15,606	15,871	(1.7)	82,157	60,898	34.9
Net loss/(gain) from hedging of trading operations .....	28,418	(11,370)	-	61,333	(21,908)	-
Change in crude oil and petroleum products inventory.....	13,127	(32,019)	-	(86,974)	89,613	-
<b>Total cost of purchased crude oil, gas and products.....</b>	<b>1,060,155</b>	<b>1,050,010</b>	<b>1.0</b>	<b>4,308,073</b>	<b>4,534,244</b>	<b>(5.0)</b>

Compared to the third quarter of 2019, cost of purchased crude oil, gas and products increased by 1.0%.

Compared to 2018, cost of purchased crude oil, gas and products decreased by 5.0% largely as a result of a decrease in hydrocarbon prices.

**Transportation expenses**

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
	(millions of rubles)					
Crude oil transportation expenses.....	25,133	23,633	6.3	98,406	95,913	2.6
in Russia.....	11,922	10,261	16.2	46,946	46,881	0.1
outside Russia.....	13,211	13,372	(1.2)	51,460	49,032	5.0
Refined products transportation expenses.....	43,873	38,942	12.7	162,648	160,972	1.0
in Russia.....	23,018	22,429	2.6	89,842	90,293	(0.5)
outside Russia.....	20,855	16,513	26.3	72,806	70,679	3.0
Other transportation expenses.....	5,189	4,774	8.7	17,744	13,268	33.7
in Russia.....	456	736	(38.0)	2,200	2,696	(18.4)
outside Russia.....	4,733	4,038	17.2	15,544	10,572	47.0
<b>Total transportation expenses.....</b>	<b>74,195</b>	<b>67,349</b>	<b>10.2</b>	<b>278,798</b>	<b>270,153</b>	<b>3.2</b>

Compared to the third quarter of 2019, our expenses for transportation of crude oil and refined products increased by 6.3% and 12.7%, respectively. Outside Russia, our expenses for transportation of crude oil did not change significantly, while our expenses for transportation of refined products increased by 26.3% due to higher freight rates. In Russia, our expenses for transportation of crude oil increased due to higher sales volumes and changes in delivery directions. Our expenses for transportation of refined products also increased due to changes in delivery directions and an increase in export sales volumes that was partially offset by a decrease in domestic sales volumes.

Compared to 2018, our expenses for transportation of crude oil and refined products increased by 2.6% and 1.0%, respectively. Outside Russia, our expenses increased mainly as a result of the ruble devaluation and higher freight rates that was partially offset by the effect of IFRS 16 adoption. In Russia, our transportation expenses did not change significantly. Indexation of tariffs and an increase in export sales volumes were offset by a decrease in domestic sales volumes and the effect of IFRS 16 adoption.

Compared to 2018, the dynamics of other transportation expenses outside Russia was due to one-off adjustments of the fourth quarter of 2018, related to the Group's PSA projects in Uzbekistan.

**Selling, general and administrative expenses**

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

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
	(millions of rubles)					
Labor costs included in selling, general and administrative expenses.....	15,909	17,957	(11.4)	68,380	62,959	8.6
Other selling, general and administrative expenses.....	25,454	20,686	23.0	88,086	99,123	(11.1)
Share-based compensation.....	7,841	7,841	-	31,366	31,300	0.2
Expenses (income) on allowance for expected credit losses.....	3,770	(846)	-	9,340	(949)	-
<b>Total selling, general and administrative expenses.....</b>	<b>52,974</b>	<b>45,638</b>	<b>16.1</b>	<b>197,172</b>	<b>192,433</b>	<b>2.5</b>

Compared to the third quarter of 2019, an increase in selling, general and administrative expenses was largely a result of changes in allowances for expected credit losses. A decrease in labor costs was mainly a result of lower expenses for bonuses outside Russia. Other selling, general and administrative expenses increased mainly due to an increase in advertising, consulting and other expenses.

In 2019, our selling, general and administrative expenses increased by 2.5% compared to 2018 mainly as a result of changes in allowance for expected credit losses. Our labor costs increased due to salary indexation and bonus payments. At the same time, the dynamics of our selling, general and administrative expenses was positively impacted by the effect of IFRS 16 adoption.

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.

### Depreciation, depletion and amortization

Compared to the third quarter of 2019, our depreciation, depletion and amortization expenses decreased by 3.3%. Positive effect of an increase in proved developed hydrocarbon reserves at Group's certain fields as of the end of 2019 and consequent recalculation of depletion of respective fixed assets for the full year was partially offset by an increase in depletion expenses in Uzbekistan following the growth in gas production volumes.

Compared to 2018, depreciation, depletion and amortization expenses increased by 72 billion RUB, or by 21.0%, mostly as a result of amortization of the right-of-use assets in the amount of 33.0 billion RUB under the newly adopted IFRS 16 and an increase in depletion expenses as a result of higher gas production volumes after launching new production facilities as part of the Kandym project in Uzbekistan.

### 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 decreased by 3.9 billion RUB, or by 70.4%, compared to the third quarter of 2019, and decreased by 7 billion RUB, or by 27.7% compared to 2018 mainly due to a partial impairment of fixed assets of our upstream affiliates.

### Taxes other than income taxes

	Q4 2019	Q3 2019	Change, %	12 months of 2019	12 months of 2018	Change, %
(millions of rubles)						
<b>In Russia</b>						
Mineral extraction taxes .....	200,682	214,115	(6.3)	849,445	836,820	1.5
Tax on additional income .....	3,401	3,367	1.0	16,229	-	-
Social security taxes and contributions .....	6,163	6,798	(9.3)	27,308	26,506	3.0
Property tax .....	5,943	5,652	5.1	22,663	24,273	(6.6)
Other taxes .....	668	729	(8.4)	2,515	2,063	21.9
<b>Total in Russia .....</b>	<b>216,857</b>	<b>230,661</b>	<b>(6.0)</b>	<b>918,160</b>	<b>889,662</b>	<b>3.2</b>
<b>International</b>						
Mineral extraction taxes .....	22	-	-	22	-	-
Social security taxes and contributions .....	1,797	1,317	36.4	6,109	6,025	1.4
Property tax .....	237	222	6.8	906	904	0.2
Other taxes .....	763	801	(4.7)	2,993	2,792	7.2
<b>Total internationally .....</b>	<b>2,819</b>	<b>2,340</b>	<b>20.5</b>	<b>10,030</b>	<b>9,721</b>	<b>3.2</b>
<b>Total taxes other than income taxes .....</b>	<b>219,676</b>	<b>233,001</b>	<b>(5.7)</b>	<b>928,190</b>	<b>899,383</b>	<b>3.2</b>

In the fourth quarter of 2019, our taxes other than income taxes decreased by 5.7% compared to the previous quarter. This was a result of a decrease in mineral extraction tax expense due to inventory effect, as well as due to adjustments of mineral extraction tax expense for prior periods.

An increase in our taxes other than income taxes compared to 2018 by 3.2% was largely driven by a growth in mineral extraction tax expense on the back of an increase in the tax rate by 4.6%, as well as an application of new tax on additional income from the hydrocarbon production.

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

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
	(millions of rubles)					
Decrease in extraction taxes from application of reduced and zero rates for crude oil production.....	30,970	31,688	(2.3)	127,018	133,300	(4.7)
	(thousands of tonnes)					
Volume of crude oil production subject to:						
zero rates (ultra-high viscosity).....	557	577	(3.5)	2,157	1,630	32.3
reduced rates (tax holidays for specific regions and high viscosity oil).....	1,076	1,037	3.8	4,221	5,672	(25.6)
reduced rates (low permeability deposits).....	395	548	(27.9)	1,422	517	175.0
reduced rates (Tyumen deposits).....	181	225	(19.6)	725	835	(13.2)
reduced rates (depleted fields).....	4,703	4,786	(1.7)	19,050	15,631	21.9
reduced rates (other).....	632	664	(4.8)	2,503	2,310	8.4
<b>Total volume of production subject to reduced or zero rates .....</b>	<b>7,544</b>	<b>7,837</b>	<b>(3.7)</b>	<b>30,078</b>	<b>26,595</b>	<b>13.1</b>

From 1 January 2019, the Group also applies special tax regime at certain license areas with reduced mineral extraction tax for crude oil and gas condensate along with newly-implemented TAI. In the fourth quarter and the twelve months of 2019, the total volume of crude oil and gas condensate production subject to TAI amounted to 1,273 thousand tonnes and 4,948 thousand tonnes, respectively. The mineral extraction tax on crude oil and gas condensate produced at the license areas subject to TAI totaled 6,418 million RUB and 25,429 million RUB in the fourth quarter and the twelve months of 2019, respectively.

The Group also applies special tax regime for offshore crude oil production at certain fields and deposits. In the fourth quarter and the twelve months of 2019, volumes of production subject to such regimes amounted to 1,657 thousand tonnes and 6,436 thousand tonnes, respectively (compared to 1,554 thousand tonnes in the third quarter of 2019 and 6,074 thousand tonnes in 2018).

#### Excise and export tariffs

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
				2019	2018	
	(millions of rubles)					
<b>In Russia</b>						
Excise tax on refined products .....	35,499	39,133	(9.3)	140,659	113,479	24.0
Excise tax on oil feedstock (excluding damper).....	(7,381)	(7,932)	(6.9)	(31,212)	-	-
Damper .....	(12,359)	(17,927)	(31.1)	(57,237)	-	-
Crude oil export tariffs .....	32,612	33,498	(2.6)	141,622	203,310	(30.3)
Refined products export tariffs.....	10,813	11,686	(7.5)	46,058	55,453	(16.9)
<b>Total in Russia .....</b>	<b>59,184</b>	<b>58,458</b>	<b>1.2</b>	<b>239,890</b>	<b>372,242</b>	<b>(35.6)</b>
<b>International</b>						
Excise tax and sales taxes on refined products.....	45,347	50,158	(9.6)	186,078	184,249	1.0
Crude oil export tariffs .....	7	15	(53.3)	51	35	45.7
Refined products export and import tariffs, net.....	(4)	(58)	(93.1)	(256)	301	(185.0)
<b>Total internationally .....</b>	<b>45,350</b>	<b>50,115</b>	<b>(9.5)</b>	<b>185,873</b>	<b>184,585</b>	<b>0.7</b>
<b>Total excise and export tariffs .....</b>	<b>104,534</b>	<b>108,573</b>	<b>(3.7)</b>	<b>425,763</b>	<b>556,827</b>	<b>(23.5)</b>

Compared to the third quarter of 2019, crude oil and refined products export tariffs decreased due to export duty lag effect.

In the fourth quarter of 2019, excise tax on refined products decreased both in Russia and internationally compared to the previous quarter mainly due to a seasonal decrease in sales volumes subject to excise taxes.

In the fourth quarter of 2019, our proceeds from negative excise tax on refinery feedstock decreased to 20 billion RUB from 26 billion RUB in the third quarter of 2019 primarily due to lower damper as a result of a decrease in export netbacks for gasoline.

Compared to 2018, crude oil export tariffs declined mainly as a result of a decrease in export duty rate by 24.7% and increased share of crude oil from fields with special export duty rates in export volumes structure. Refined products export tariffs also decreased, as a result of lower export duty rate, despite higher refined products export volumes.

Compared to 2018, excise tax in Russia increased due to higher excise tax rates and internationally due to an increase in sales volumes subject to excise taxes.

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

### **Exploration expenses**

In the fourth quarter of 2019, we charged to expense approximately 5.8 billion RUB related to dry exploratory well in Romania.

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

Foreign exchange gains or losses are mostly related to revaluation of US dollar and euro net monetary position of the Group entities that largely consists of accounts receivables and loans, mostly intra-group, given or received in currencies other than the entities' functional currencies. In the end of 2018, the Company's net monetary position in foreign currencies significantly changed as a result of a change in the structure of intra-group financing. Moreover, starting from 1 January 2019, the Group recognized certain lease liabilities in foreign currencies in accordance with IFRS 16.

In 2019, foreign exchange gain amounted to 0.9 billion RUB, of which 45 million RUB related to the fourth quarter of 2019, compared to a foreign exchange loss of 4.6 billion RUB in the third quarter of 2019 and a gain of 33.8 billion RUB in 2018. Implementation of IFRS 16 resulted in a foreign exchange gain of 7.9 billion RUB in 2019, of which 2.0 billion RUB related to the fourth quarter results.

### **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 2019, the Group recognized an impairment loss for its exploration and production assets in Russia and abroad in the amount of 21.4 billion RUB, as well as for its refining, marketing and distribution assets in Russia and abroad in the amount of 1.3 billion RUB. At the same time, the Group recognized an impairment reversal of 9.7 billion RUB in 2019, which was mainly a result of improvement of economic parameters of our production projects in West Siberia and European part of Russia.

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.

### **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 2019, our total income tax expense decreased by 5 billion RUB, or by 14.9%. At the same time, our profit before income tax decreased by 76 billion RUB, or by 33.7%. In the fourth quarter of 2019, our effective income tax rate was 20.3%, compared to 15.8% in the third quarter of 2019. An increase in our effective income tax rate was a result of tax adjustments related to prior periods in the third quarter of 2019.

Compared to 2018, our total income tax expense did not change significantly. Our profit before income tax increased by 20 billion RUB, or by 2.6%. In 2019, our effective income tax rate was 19.0%, compared to 19.7% in 2018. The decrease in the effective income tax rate in 2019 was also a result of tax adjustments related to prior periods and changes in income tax incentives for certain Russian subsidiaries.

## Non-GAAP items reconciliation

### Reconciliation of profit for the year attributable to PJSC LUKOIL shareholders to EBITDA

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

	Q4 2019	Q3 2019	12 months of 2019 2018	
	(millions of rubles)			
<b>Profit for the year attributable to PJSC LUKOIL shareholders</b> .....	<b>119,310</b>	<b>190,387</b>	<b>640,178</b>	<b>619,174</b>
Add back				
Profit for the year attributable to non-controlling interests.....	433	500	2,043	1,928
Income tax expense .....	30,529	35,881	151,133	151,917
Financial income .....	(6,131)	(6,944)	(25,134)	(19,530)
Financial costs.....	10,774	10,872	44,356	38,298
Foreign exchange (gain) loss .....	(45)	4,630	(923)	(33,763)
Equity share in income of affiliates .....	(1,628)	(5,496)	(18,246)	(25,243)
Other expenses (income) .....	23,888	(6,529)	27,691	38,934
Depreciation, depletion and amortization.....	101,030	104,504	415,094	343,085
<b>EBITDA</b> .....	<b>278,160</b>	<b>327,805</b>	<b>1,236,192</b>	<b>1,114,800</b>
<b>EBITDA by operating segments</b>				
<b>Exploration and production segment</b>				
Sales (including excise and export tariffs).....	579,500	570,432	2,364,184	2,391,467
Operating expenses .....	(70,069)	(70,479)	(274,934)	(273,012)
Cost of purchased crude oil, gas and products.....	(10,326)	(14,282)	(40,350)	(58,053)
Transportation expenses .....	(18,846)	(16,925)	(69,589)	(63,713)
Selling, general and administrative expenses .....	(13,303)	(8,585)	(47,964)	(38,559)
Taxes other than income taxes .....	(214,657)	(213,331)	(891,051)	(875,172)
Excise and export tariffs.....	(33,333)	(34,211)	(136,998)	(209,089)
Exploration expenses.....	(7,180)	(661)	(9,348)	(3,582)
<b>EBITDA of Exploration and production segment</b> .....	<b>211,786</b>	<b>211,958</b>	<b>893,950</b>	<b>870,287</b>
<b>Refining, marketing and distribution segment</b>				
Sales (including excise and export tariffs).....	1,851,598	1,902,350	7,624,198	7,834,339
Operating expenses .....	(56,644)	(60,148)	(228,576)	(243,214)
Cost of purchased crude oil, gas and products.....	(1,541,297)	(1,557,851)	(6,362,401)	(6,584,719)
Transportation expenses .....	(61,385)	(55,798)	(229,007)	(218,851)
Selling, general and administrative expenses .....	(31,439)	(30,016)	(121,383)	(127,089)
Taxes other than income taxes .....	(6,242)	(6,607)	(25,323)	(24,480)
Excise and export tariffs.....	(72,434)	(75,550)	(285,866)	(353,842)
<b>EBITDA of Refining, marketing and distribution segment</b> .....	<b>82,157</b>	<b>116,380</b>	<b>371,642</b>	<b>282,144</b>
<b>EBITDA of Corporate and other segment</b> .....	<b>(13,679)</b>	<b>(10,544)</b>	<b>(39,962)</b>	<b>(36,154)</b>
<b>Elimination</b> .....	<b>(2,104)</b>	<b>10,011</b>	<b>10,562</b>	<b>(1,477)</b>
<b>EBITDA</b> .....	<b>278,160</b>	<b>327,805</b>	<b>1,236,192</b>	<b>1,114,800</b>

### Reconciliation of Cash provided by operating activities to Free cash flow

	Q4 2019	Q3 2019	12 months of 2019 2018	
	(millions of rubles)			
Net cash provided by operating activities .....	320,681	317,921	1,151,844	1,006,651
Capital expenditures .....	(135,937)	(109,062)	(449,975)	(451,526)
<b>Free cash flow</b> .....	<b>184,744</b>	<b>208,859</b>	<b>701,869</b>	<b>555,125</b>

## Liquidity and capital resources

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
	(millions of rubles)					
	2019	2018		2019	2018	
Net cash provided by operating activities .....	320,681	317,921	0.9	1,151,844	1,006,651	14.4
including decrease (increase) in working capital ....	44,960	12,796	>100	(6,781)	(33,592)	(79.8)
Net cash used in investing activities .....	(157,725)	(143,238)	10.1	(510,126)	(420,392)	21.3
Net cash used in financing activities.....	(79,980)	(240,489)	(66.7)	(582,344)	(468,549)	24.3

Changes in operating assets and liabilities:

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
	(millions of rubles)					
	2019	2018		2019	2018	
(Increase) decrease in accounts receivable .....	(29,162)	84,710	-	(48,023)	23,877	-
Decrease (increase) in inventory.....	10,798	(17,428)	-	(69,171)	71,565	-
Increase (decrease) in accounts payable .....	54,345	(37,056)	-	88,977	(92,508)	-
Increase (decrease) in net taxes other than on income payable .....	1,525	(4,287)	-	24,053	(8,460)	-
Change in other current assets and liabilities.....	7,454	(13,143)	-	(2,617)	(28,066)	(90.7)
<b>Total decrease (increase) in working capital .....</b>	<b>44,960</b>	<b>12,796</b>	<b>-</b>	<b>(6,781)</b>	<b>(33,592)</b>	<b>(79.8)</b>

### Operating activities

Our primary source of cash flow is funds generated from our operations. Our cash generated from operations did not change significantly compared to the third quarter of 2019, and increased by 14.4% compared to 2018 as a result of higher profitability of our core operations and changes in working capital.

The positive impact of IFRS 16 adoption on our cash provided by operating activities in 2019 amounted to 37.2 billion RUB.

### Investing activities

Our cash used in investing activities increased by 10.1% compared to the previous quarter, and by 21.3% compared to 2018.

Our capital expenditures increased by 27 billion RUB, or by 24.6%, compared to the third quarter of 2019, and did not change significantly compared to 2018.

The adoption of IFRS 16 resulted in a decrease in capital expenditures by 9.5 billion RUB that had a positive impact on our cash used in investing activities in 2019.

	Q4 2019	Q3 2019	Change, %	12 months of		Change, %
	(millions of rubles)					
<b>Capital expenditures</b>						
<b>Exploration and production</b>						
West Siberia .....	35,922	37,868	(5.1)	141,266	129,050	9.5
Timan-Pechora .....	16,203	14,964	8.3	66,808	69,770	(4.2)
Ural region .....	10,567	9,773	8.1	37,243	35,374	5.3
Volga region .....	14,542	12,767	13.9	43,798	53,481	(18.1)
Other in Russia.....	3,700	2,367	56.3	10,778	11,429	(5.7)
<b>Total in Russia.....</b>	<b>80,934</b>	<b>77,739</b>	<b>4.1</b>	<b>299,893</b>	<b>299,104</b>	<b>0.3</b>
Iraq.....	7,101	5,153	37.8	22,833	18,849	21.1
Other outside Russia .....	14,527	7,894	84.0	42,214	45,903	(8.0)
<b>Total outside Russia.....</b>	<b>21,628</b>	<b>13,047</b>	<b>65.8</b>	<b>65,047</b>	<b>64,752</b>	<b>0.5</b>
<b>Total exploration and production.....</b>	<b>102,562</b>	<b>90,786</b>	<b>13.0</b>	<b>364,940</b>	<b>363,856</b>	<b>0.3</b>
<b>Refining, marketing and distribution</b>						
Russia.....	26,540	13,972	90.0	62,740	65,326	(4.0)
refining .....	16,228	9,264	75.2	39,912	44,621	(10.6)
retail.....	1,634	601	171.9	4,189	7,433	(43.6)
other.....	8,678	4,107	111.3	18,639	13,272	40.4
International .....	5,356	3,551	50.8	18,400	18,616	(1.2)
refining .....	2,849	2,308	23.4	12,327	12,381	(0.4)
retail.....	2,159	880	145.3	4,318	4,222	2.3
other.....	348	363	(4.1)	1,755	2,013	(12.8)
<b>Total refining, marketing and distribution.....</b>	<b>31,896</b>	<b>17,523</b>	<b>82.0</b>	<b>81,140</b>	<b>83,942</b>	<b>(3.3)</b>
Corporate and other .....	1,479	753	96.4	3,895	3,728	4.5
<b>Total capital expenditures.....</b>	<b>135,937</b>	<b>109,062</b>	<b>24.6</b>	<b>449,975</b>	<b>451,526</b>	<b>(0.3)</b>

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

An increase in our international capital expenditures quarter-on-quarter was as a result of uneven payments schedule in Uzbekistan.

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

Compared to 2018, the dynamics in our domestic capital expenditures in the exploration and production segment was due to the completion of the next stages of development works at the Yu. Korchagin and V. Filanovsky fields in the Caspian Sea. Higher capital expenditures in West Siberia were a result of an increase in production drilling footage.

A decrease in our domestic capital expenditures in the refining, marketing and distribution segment year-on-year was due to prepayments in 2018 related to the commencement of construction of a delayed coker complex at Nizhny Novgorod refinery.

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

	Q4 2019	Q3 2019	Change, % (millions of rubles)	12 months of 2019	2018	Change, %
West Siberia (Yamal) .....	5,110	4,537	12.6	21,383	22,007	(2.8)
Caspian region (Projects in Russia) .....	11,726	10,731	9.3	36,362	47,913	(24.1)
Timan-Pechora (Yaregskoye field) .....	1,169	2,440	(52.1)	7,756	10,304	(24.7)
Iraq (West Qurna-2 project) .....	6,210	4,580	35.6	19,967	16,366	22.0
Iraq (Block-10) .....	891	573	55.5	2,866	2,483	15.4
Uzbekistan .....	3,547	744	>100	11,605	20,932	(44.6)
<b>Total</b> .....	<b>28,653</b>	<b>23,605</b>	<b>21.4</b>	<b>99,939</b>	<b>120,005</b>	<b>(16.7)</b>

### Financing activities

In the fourth quarter of 2019, net movements of short-term and long-term debt generated an outflow of 65 billion RUB, compared to an outflow of 13 billion RUB in the third quarter of 2019. In 2019, net movements of short-term and long-term debt generated an outflow of 113 billion RUB, including 38.6 billion RUB related to the newly adopted IFRS 16, compared to an outflow of 208 billion RUB in 2018.

In 2019, we also recognized additional 8.1 billion RUB of interest payments under IFRS 16.

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

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

### Credit rating

Standard & Poor's Ratings Services set the Company's issuer credit rating to BBB.

Moody's set the Company's 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	2020	2021	2022	2023	2024	After
	(millions of rubles)						
Short term debt .....	16,162	16,162	-	-	-	-	-
Long-term bank loans and borrowings....	117,864	24,294	22,177	17,092	12,943	12,881	28,477
6.125% Non-convertible US dollar bonds, maturing 2020 .....	61,866	61,866	-	-	-	-	-
6.656% Non-convertible US dollar bonds, maturing 2022 .....	30,905	-	-	30,905	-	-	-
4.563% Non-convertible US dollar bonds, maturing 2023 .....	92,769	-	-	-	92,769	-	-
4.750% Non-convertible US dollar bonds, maturing 2026 .....	61,786	-	-	-	-	-	61,786
Lease obligation <sup>1</sup> .....	171,880	27,978	21,977	13,417	13,335	13,543	81,630
<b>Total</b> .....	<b>553,232</b>	<b>130,300</b>	<b>44,154</b>	<b>61,414</b>	<b>119,047</b>	<b>26,424</b>	<b>171,893</b>

<sup>1</sup> Discounted amounts. Undiscounted cash flows are presented in Note 36 «Capital and risk management» to our consolidated financial statements.

### 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 30 «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 Department of the Treasury has placed the Company onto the Sectoral Sanctions Identifications List subject to Directive 4 of the Office of foreign assets control (OFAC). Directive 4 prohibits US companies and individuals from providing, exporting, or re-exporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects that have the potential to produce oil in the Russian Federation, or in maritime area spreading from the Russian territory and claimed by the Russian Federation.

From January 2018 (based on acts adopted in August–October 2017), the US expanded abovementioned sanctions to include certain categories of international oil projects initiated on or after 29 January 2018 in any part of the world, in which companies placed on the Sectoral Sanctions Identifications List subject to Directive 4 (including the Company) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

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

### Operations in Iraq

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

## 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.*

## Reference Information

### About the Company

Public Joint Stock Company "Oil Company 'LUKOIL'" (hereinafter, 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, 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 Blvd, Moscow, 101000, Russia  
 Website: [www.lukoil.ru](http://www.lukoil.ru) (Russian),  
[www.lukoil.com](http://www.lukoil.com) (English)  
 Central Information Service  
 Tel.: +7 495 627 4444, +7 495 628 9841  
 Fax: +7 495 625 7016

### Shareholder Relations

Tel.: +7 495 981 7320  
 Fax: +7 495 627 4564  
 Email: [shareholder@lukoil.com](mailto:shareholder@lukoil.com)

### Investor Relations

Tel.: +7 495 627 1696  
 Email: [ir@lukoil.com](mailto:ir@lukoil.com)

### Press Service

Tel.: +7 495 627 1677  
 Email: [media@lukoil.com](mailto:media@lukoil.com)

### Filing Stations Hotline

Tel.: +7 800 100 0911  
 Email: [hotline@lukoil.com](mailto:hotline@lukoil.com)

### Business Ethics Commission

Tel.: +7 495 627 8259  
 Email: [ethics@lukoil.com](mailto:ethics@lukoil.com)

### Lukoil Stock Consulting Center

PJSC LUKOIL  
 11, Sretensky Blvd, Moscow, 101000, Russia  
 Tel.: +7 495 780 1943, +7 800 200 9402  
 Email: [fkclukoil.com](mailto:fkclukoil.com)

### Registrar

LLC Registrar "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](mailto:mail@reggarant.ru)

### Depository in the depository receipt program

Citibank, N.A.  
 Russian office: 6, Gasheka St., 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](mailto:michael.klochkov@citi.com),  
[drdividends@citi.com](mailto:drdividends@citi.com)

### Auditor

JSC KPMG (Joint Stock Company KPMG)  
 16, Olimpiyskiy Ave., Bld. 5, 3d floor, premises 1, office 24e, Moscow, 129110, Russia  
 Tel.: +7 495 937 4477  
 Fax: +7 495 937 4499  
 Email: [moscow@kpmg.ru](mailto:moscow@kpmg.ru)

### Self-Regulatory Organization of Auditors

Russian Union of Auditors (Association)  
 8, Petrovskiy Side St., Bld. 2, Moscow, 107031, Russia  
 Tel.: +7 495 694 0156  
 Fax: +7 495 694 0108

## Business proposals

Postal address: 11, Sretensky Blvd,  
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 (hereinafter, the "Report") presents key information on LUKOIL Group's overall performance in 2019 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 is based on the Group's consolidated financial statements under IFRS.

## The Company's other reports

- Analyst Databook (operating 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 in the Investors section.



You can order a free printed version of this Annual Report via request on IR@lukoil.com

## Feedback

You are welcome to send any comments and/or suggestions as regards the Group's reports to our IR email [ir@lukoil.com](mailto: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 2019 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 2019 (RUB 64.7 per USD) is used for converting figures in rubles into US dollars, unless otherwise indicated.

1 barrel of oil equivalent = 6 thousand cubic feet of gas.

## Other information

The segment split used in the Report is in line with the information in the Group's IFRS consolidated financial statements.

Largest international oil & gas companies include Royal Dutch Shell, Total, Chevron and 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.