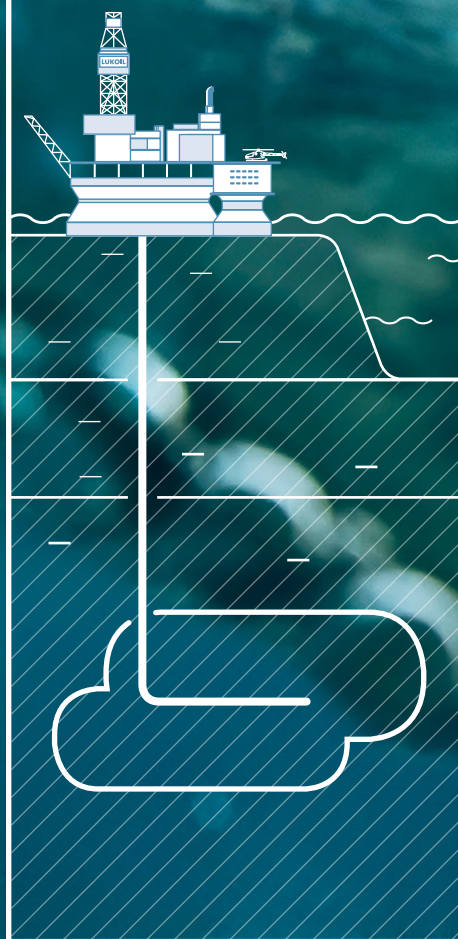




**LUKOIL**

**ANNUAL  
REPORT 2016**



**THE SEA  
OF OPPORTUNITIES**

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



## LUKOIL

is one of the largest publicly traded, vertically integrated oil and gas companies in the world.

Each and every day, we supply our products to millions of consumers in more than 100 countries around the globe to improve their quality of life. We employ over 100,000 people who join their efforts and talents to secure the Company's efficient development and market leadership.

Through our high-quality resource base, diversified assets portfolio, strong governance and new high-margin projects, we achieve high business resilience and consistently improve operational performance and strengthen our market position.



**16.4**

billion boe  
SEC proved reserves,  
mainly conventional



**2.2**

million boe per day  
production, including  
85% of crude oil and  
liquid hydrocarbons



**1.3**

million barrels per day  
refinery throughput



**0.3**

million boe per day  
retail sales of  
petroleum products

## OUR VALUES

- PEOPLE
- ENVIRONMENT
- TECHNOLOGY
- RESPONSIBILITY
- TRANSPARENCY
- PARTNERSHIP AND INTEGRITY

# THE SEA OF OPPORTUNITIES

In 2016, we launched our flagship fields in the Caspian Sea and in the north of West Siberia, completed our major refinery upgrade program, generated substantial free cash flow and adopted a new progressive dividend policy.

## CREATING SYNERGIES



See page 6

## INCREASING LIGHT PRODUCT YIELD



See page 26

## THINKING FORWARD



See page 28

## EXCELLENT CORPORATE GOVERNANCE



See page 30

Throughout this document, words such as "LUKOIL," the "Company," the "Group," "we" and its derivatives mean PJSC LUKOIL and its subsidiaries and affiliates.

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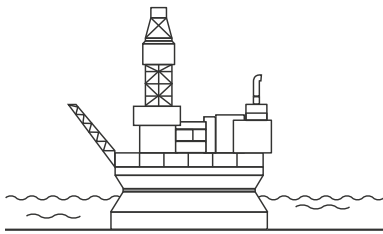
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# DELIVERING HIGH-MARGIN PROJECTS

## KEY EVENTS AND ACHIEVEMENTS

### FLAGSHIP FIELDS LAUNCHED



#### V. Filanovsky and Pyakyakhinskoye fields

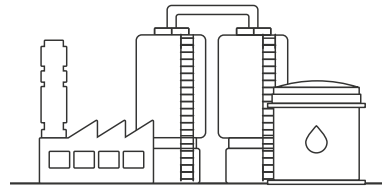
The V. Filanovsky field in the Caspian Sea and the Pyakyakhinskoye field in the Bolshekhetskaya Depression (north of West Siberia) were launched in October 2016. Their combined annual production at the plateau is estimated at approximately 8 million tonnes of liquid hydrocarbons and approximately 6 billion cubic meters of gas. Given their high-quality reserve base and special tax treatment, these fields will substantially improve the Group's production profile and financial performance.

# >3,000

**tonnes per day**  
initial flow rate per well  
at the V. Filanovsky field

See pages 6–9, 18

### MAJOR REFINERY UPGRADE PROGRAM COMPLETED



#### Vacuum gasoil deep conversion complex launched at the Volgograd Refinery

In May 2016, the construction of Russia's largest hydrocracking unit was completed at our Volgograd Refinery, the last milestone in the Group's major refinery upgrade program. The program resulted in substantial improvements to the product mix, which shifted towards higher value-added products. The benefits from the successful timely completion of the refinery upgrade program include robust financial performance and significant competitive advantages of our Refining, Marketing and Distribution segment.

# 66.5%

average light product yield at the Group's refineries (63.2% in 2015)

See page 26

“In a tough year, we delivered excellent financial results, largely driven by our efforts to improve the efficiency of our operations and costs optimization”

VAGIT ALEKPEROV  
President and Chairman of the Management  
Committee of PJSC LUKOIL

### STRONG FREE CASH FLOW



Effective governance,  
flexibility, cost discipline

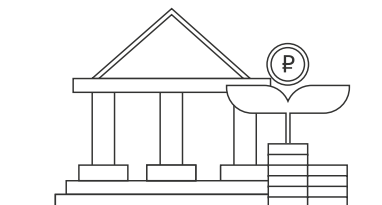
Despite a challenging macroeconomic environment, the Company delivered excellent financial results, largely driven by tight cost control and operational flexibility. The Company's EBITDA amounted to RUB 731 billion. In terms of free cash flow per barrel of production LUKOIL outperformed both Russian peers and international oil and gas majors. The Group has maintained strong financial position and remained one of the least leveraged companies in the industry.

**255**

billion RUB  
free cash flow in 2016

See page 40

### NEW PROGRESSIVE DIVIDEND POLICY



Prioritizing dividends

In April 2016, the Company presented to the investment community the key principles of its new progressive dividend policy. In October 2016, new Regulations on the Dividend Policy of PJSC LUKOIL were approved by the Board of Directors. The Policy prioritizes dividend payments in distribution of cash flows subject to maintaining financial stability and provides for an annual increase in dividends at least by Russian inflation rate.

**195**

RUB per share  
total dividend for 2016 recommended  
by the Board of Directors

See page 124

# PRESIDENT'S LETTER



“Thanks to our diversified asset portfolio and vertical integration, we maintained a strong financial position and once again confirmed our flexibility and ability to set right priorities in a volatile and uncertain environment”

## Dear Shareholders,

In **2016** we celebrated the 25<sup>th</sup> anniversary of our successful business development and sharpening our competitive edge in Russia and internationally. For LUKOIL, it was a year of great achievements despite the challenging macroeconomic environment as twelve-year low oil prices did not undermine our strategic plans.

Thanks to our diversified asset portfolio and vertical integration, we maintained a **strong financial position** and once again confirmed our flexibility and ability to set right priorities in the volatile and uncertain environment.

In a tough year, we delivered **excellent financial results**, due to our consistent efforts to improve the efficiency of our operations and cost optimization. The main result was the achievement of a leading position among Russian and global majors in terms of free cash flow per barrel of production with our total free cash flow generation reaching RUB 255 billion.

Adoption of the new **progressive dividend policy** was a milestone which, we hope, was appreciated by our shareholders. The pillars of the new Policy are the Company's resilience towards low oil price environment and excellent development prospects given the changes in our output and sales mix towards a bigger share of high-margin barrels. Based on the 2016 results, the Board of Directors recommended total dividends of RUB 195 per share, 10.2% up from the 2015 level.

The successful delivery of our **flagship projects** in the Upstream and Downstream

segments considerably improves our business structure and supports further growth in operating and financial indicators.

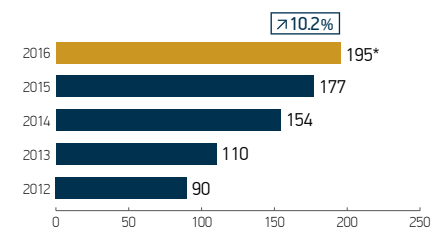
We are particularly proud of the progress with our offshore projects. Our efforts have helped us build up a significant resource potential in the Russian sector of the Caspian Sea. In 2016, we launched the **Vladimir Filanovsky field**, the 'pearl' of the Caspian Sea.

The field's unique geology and use of state-of-the-art technologies enabled us to achieve record high initial daily flow rates of more than three thousand tonnes per each well. At the production plateau, the field will account for over 7% of our total liquid hydrocarbon output in Russia. The field's infrastructure provides a platform to tap further the reserves of the Caspian region and generates **considerable synergies** in developing new fields.

The high environmental sensitivity of the Caspian Sea is fully taken into account during the field development. The technologies and standards used for the environmental protection and industrial safety in some cases **exceed the best international practice**. In particular, we apply the 'zero discharge' principle, with all waste is treated, neutralized, and recycled onshore. In addition, our operations in the Caspian Sea were workforce incidents and accidents free during the past five years.

We also achieved remarkable results in the development of the resource base in the northern part of West Siberia. The

## Dividend per share, RUB



Pyakyakhinskoye field, commissioned during the reporting year, is a complex multilayer field, which required the application of the most advanced drilling and well completion technologies. For instance, we drill **multilateral horizontal wells**, which provide for high flow rates and minimize geological risks. The field is particularly valuable since, along with liquid hydrocarbons, it will produce a considerable amount of natural gas.

Our **great expertise** in developing complex reserves supports the efficient ramp-up of heavy oil production in Timan-Pechora. Given that the unit costs of developing and extracting such reserves are significantly higher than those for the conventional oil, development of these reserves would not be commercially viable in the absence of state support in the form of relevant tax incentives. This is also the case for our projects in the Caspian Sea and a number of fields in other regions.

The development of such capital intensive projects provides for higher financial results per barrel at the production stage, offsetting the higher initial investments. The share of such **high-margin barrels** in our overall

\* Total dividend per share for 2016 recommended by the Board of Directors.

production volumes will continue to grow, representing an important structural shift in our business.

We maintain our commitment to the **efficient production management** at our mature fields, along with our particular focus on the high-margin projects. In particular, in 2016, we took the decision to increase the production drilling volumes in West Siberia to considerably improve the production profile in the region. We put a special emphasis on growing the share of hi-tech drilling as well as other geological and technical activities.

One of the **key drivers for production growth** going forward is our gas projects in Uzbekistan. In 2017, we intend to increase the production in this country on the back of the Gissar project. In addition, in 2016 we performed a significant amount of construction work on the Kandym gas processing plant, which will further boost our gas production once launched.

We are proud of our achievements in the Downstream segment, which supports the Company's strong resilience in a highly volatile price environment and enables us to **maximize profits** within our vertically integrated production chain.

In the reporting year, we completed the construction of Russia's largest vacuum gasoil deep conversion complex at the Volgograd Refinery. The project marked the completion of our major refinery upgrade program launched eight years ago. The successful implementation of this program made us the first company in Russia to fully switch production to Euro-5 standard motor fuels. We also significantly increased the share of **high value-added** products, in particular the light product yield at the Group's refineries in Russia increased by 14 percentage points since 2010.

We continued to actively develop the **priority distribution channels**. Bunker fuel sales saw a year-on-year increase of 31% and strong growth was also achieved in the sales of branded fuels and premium lubricants. Driven by marketing efforts, our

retail business in Russia has demonstrated moderate growth against the backdrop of overall market stagnation.

Further sustainable development of the global oil and gas industry requires **higher oil prices** as compared to those prevailing in 2016. We expect that the global demand for oil will continue to grow due to the population and global GDP growth, while the supply side of the market will be influenced by, but not limited to, the reduction in the base production and a negative impact of the underinvestment in new projects over the recent years. Coordinating efforts within OPEC along with independent producers will play a major role.

We intend to continue to **actively develop projects**, primarily in the Upstream segment. In order to minimize risks we will continue to follow a balanced approach when selecting new projects and investment areas in this highly volatile price environment.

**Our mission** to produce energy products in the interests of mankind remains unchanged, as do our core values: the protection of the lives and health of our employees, responsibility, transparency, partnership and integrity. Launching new projects and developing promising assets along with application of advanced technologies, will allow us to further enhance our competitive advantages while maintaining our leadership as a socially responsible business, a major tax payer and an employer of choice in the regions where we operate.

Despite the challenging environment we face, we relentlessly focus on business fundamentals and factors we can control. We have every ingredient to deliver successfully on our plans to **continue to create value for our shareholders**.

I am pleased to present to you the Annual Report of PJSC LUKOIL for 2016 and would like to thank you for your continued trust in the Company.

**731**  
billion RUB

EBITDA in 2016



Vagit Alekperov  
President and Chairman  
of the Management Committee  
of PJSC LUKOIL

# CREATING SYNERGIES

## V. FILANOVSKY FIELD – CORE ELEMENT OF THE CASPIAN SEA OIL AND GAS PROVINCE

Largest oil discovery in the Russian sector of the Caspian Sea. A highly sophisticated mega-project independently carried out by LUKOIL with engagement of mostly Russian suppliers and contractors. Unique geology and technical solutions. Top-scale industrial and environmental safety. Light sweet crude oil. The project's infrastructure drives considerable synergies for other Caspian fields.

**6**  
million tonnes per year  
production of crude oil at the plateau

**30**  
billion cubic meters  
recoverable gas reserves

**129**  
million tonnes  
recoverable oil reserves







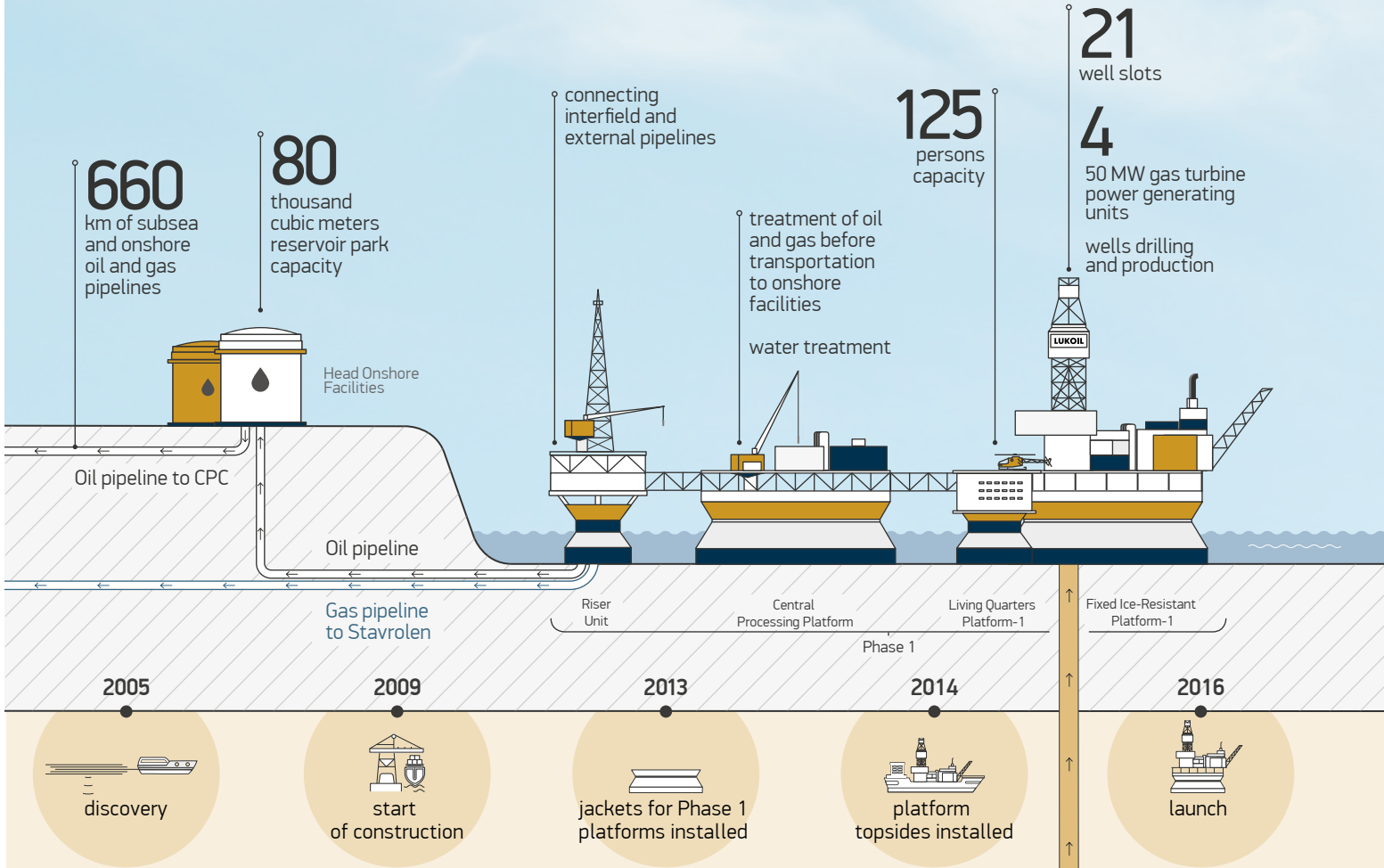
**150**  
billion RUB  
total investment  
as of the end of 2016

**DRIVERS OF THE PROJECT'S ECONOMIC PERFORMANCE**

- Accumulated expertise from developing the Yu. Korchagin field to optimize technical solutions and double drilling speed
- Unique geology and advanced technologies to drive record high flow rates and low lifting costs per barrel of production
- Beneficial location with access to the Caspian Pipeline Consortium (CPC) pipeline system to save on transportation costs
- The quality bank within the CPC ensures fair selling prices that reflect the high quality of the field's crude oil
- Associated petroleum gas supplies to Stavrolen to drive full vertical integration and create high added value
- Government support through special tax regime provides for higher margins per barrel at the production stage

# ACHIEVING RECORD HIGH FLOW RATES

## V. FILANOVSKY FIELD



### OIL AND GAS TRANSPORTATION ROUTES

**The Caspian Pipeline Consortium (CPC)** pipeline system is the key transportation route.

Oil quality bank  
Capacity – up to 1.3 million barrels per day  
Length – 1,500 km

**Baku-Tbilisi-Ceyhan pipeline (BTC)** – oil quality bank, shipments to Mediterranean countries.  
Capacity – 1.2 million barrels per day  
Length – 1,800 km

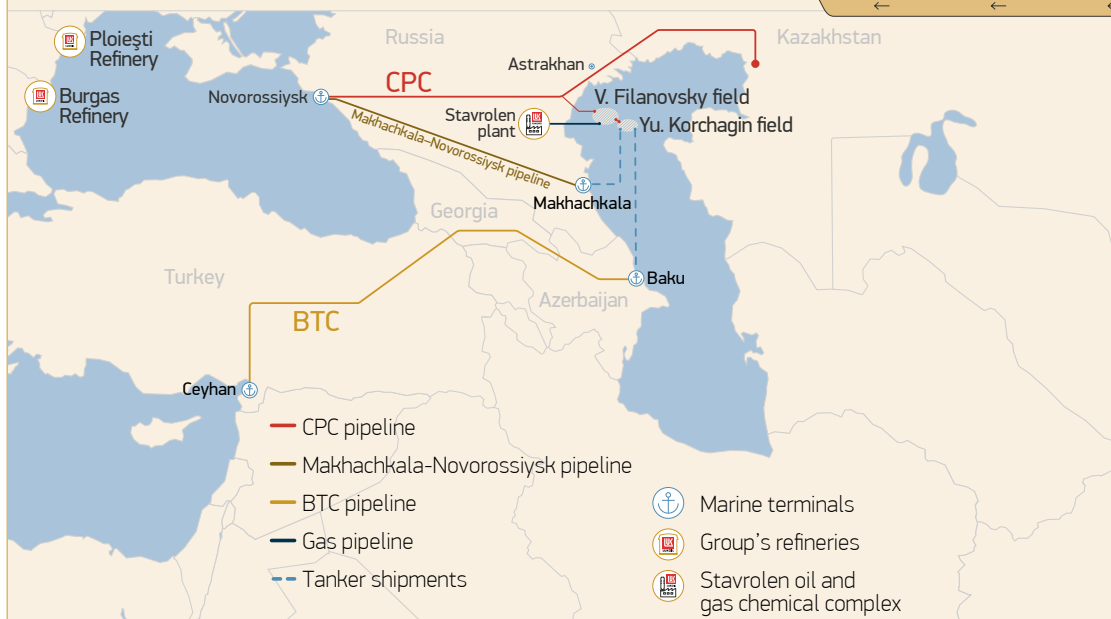
**Makhachkala-Novorossiysk pipeline**  
Length – 800 km

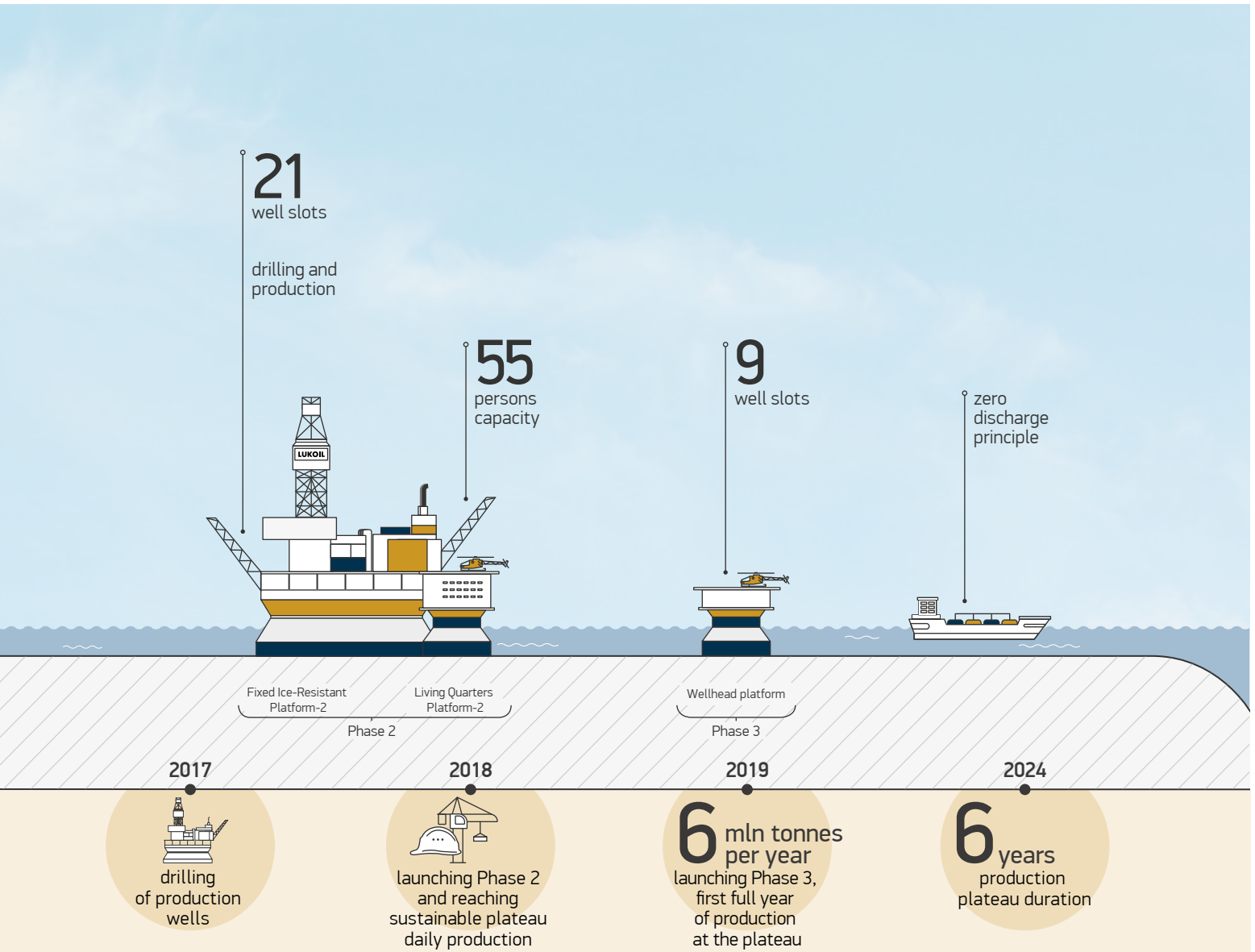
Crude oil can be refined at own refineries in Romania and Bulgaria with the combined capacity of 12.2 million tonnes per year.

**Gas** is supplied to the gas processing unit of the Stavrolen oil and gas chemical complex.

### FLEXIBLE LOGISTICS

Synergies with other projects in the Caspian Sea and savings on transportation costs





HIGH FLOW RATE

**>3,000**  
tonnes per day  
initial flow rate per well

DEVELOPMENT CONDITIONS AND GEOLOGY

**4-10 m** sea depth  
**23%** porosity  
**1,400 m** depth to deposit

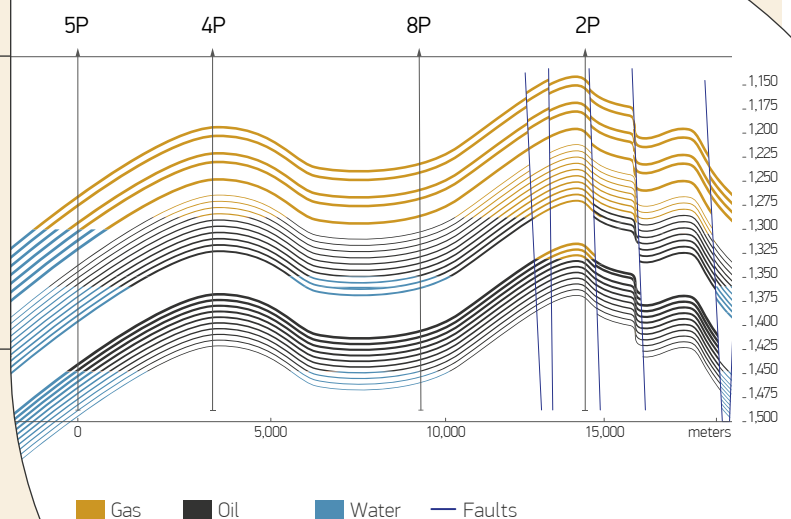
challenging ice conditions

**1.4** square micrometers permeability

LIGHT SWEET CRUDE OIL

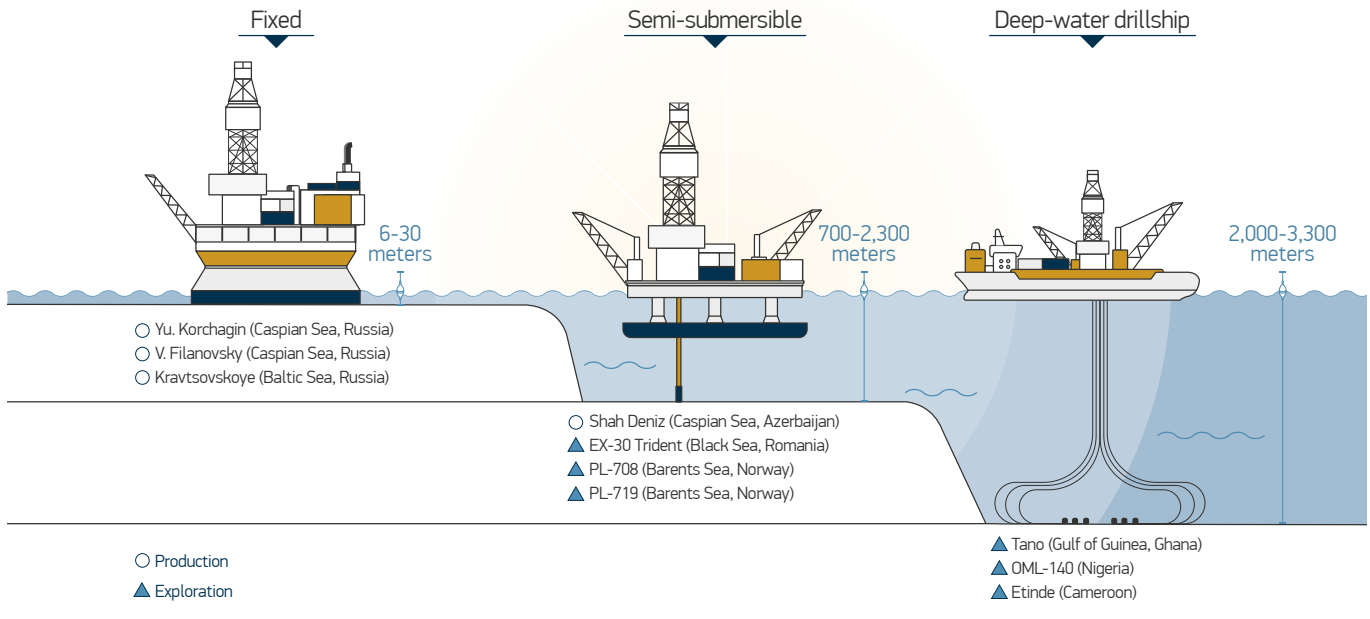
**42.7** API  
**7.7** conversion ratio from tonnes to barrels  
**0.1%** sulphur content

HIGH-QUALITY CRUDE OIL AND EXCELLENT GEOLOGY



# LEADERSHIP IN OFFSHORE DEVELOPMENT IN RUSSIA

## TYPES OF OFFSHORE PLATFORMS USED BY THE COMPANY

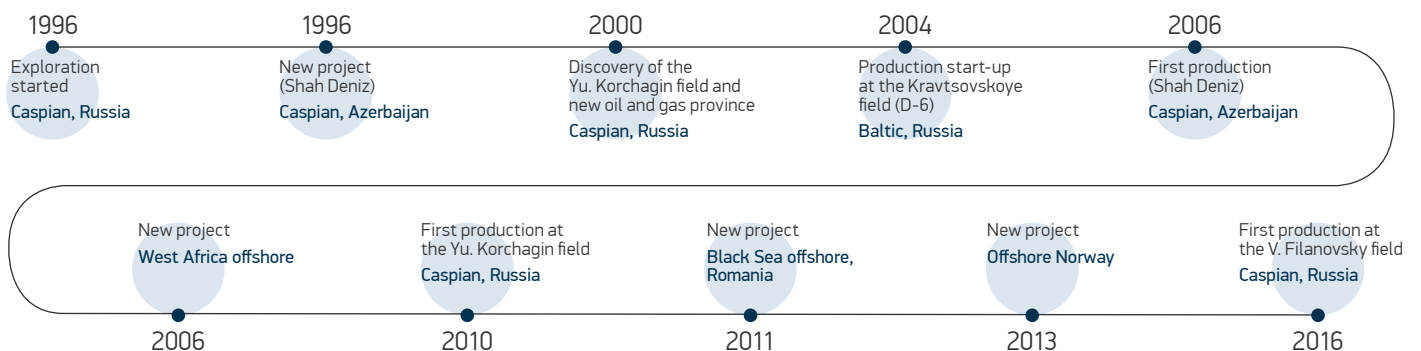


We operate offshore for over 20 years. During this period, we have gained vast technological expertise and experience in delivering ambitious offshore projects. We are the leader in Russia in this segment and have all the necessary competencies to successfully operate overseas along with international oil and gas majors. We produce hydrocarbons in the Caspian, Baltic and Azov Seas, explore for hydrocarbons in the deep-waters of the Barents and Black Seas and the Gulf of Guinea (West Africa).

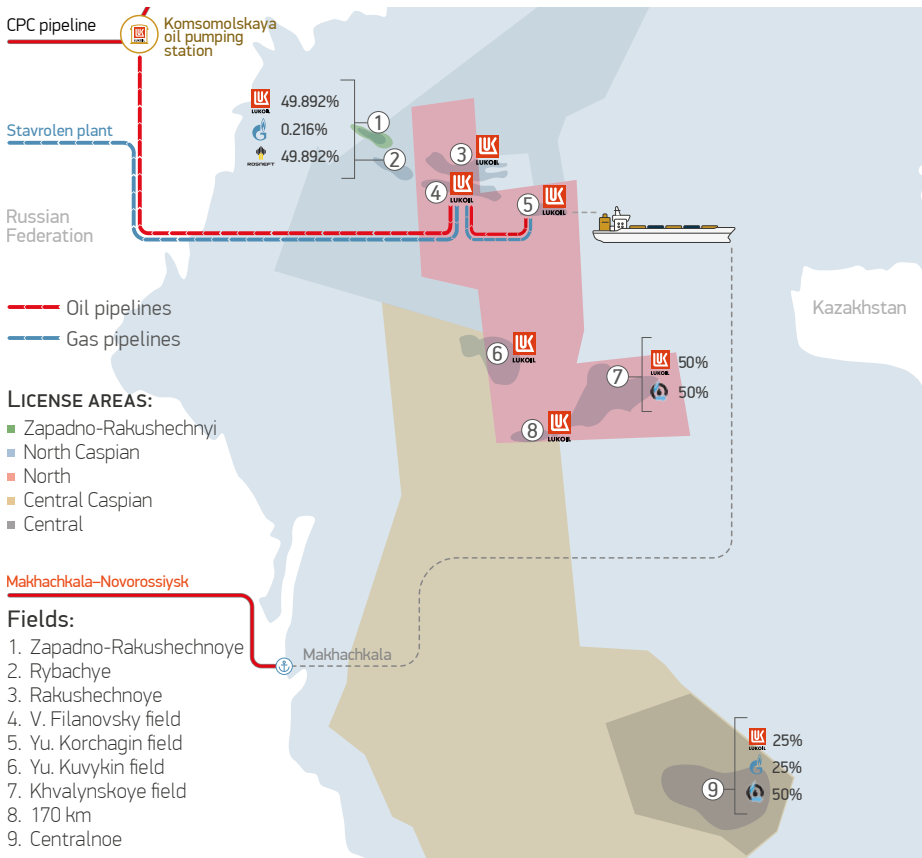
We engaged in our first offshore projects virtually as soon as we established our Company. In 1995, we launched a large-scale exploration program in the Caspian, and, in 1997, we started the development of the Kravtsovskoye field in the Baltic, with the first tonne of commercially produced oil delivered in 2004. The Caspian oil and gas province, with its vast resource base to support the Company's current and future production growth, was discovered as a result of a major multi-year effort and heavy investment in seismic surveys, exploration drilling, construction of core infrastructure and field development.

A year ago, we made a number of discoveries in the Baltic Sea which turned the Russian Baltic from a region with declining production into a region with the growth potential. We expect to achieve first production from the new fields in the medium term. Our involvement in promising international offshore projects opens up new opportunities to support further growth and build up our technology and management expertise.

## COMPANY'S EXPERIENCE IN OFFSHORE PROJECTS



## CASPIAN OIL AND GAS PROVINCE



The Company and its joint ventures own licenses for five blocks covering most of the northern Caspian Sea. Out of the nine field discoveries we made in the Caspian, two (Yu. Korchagin and V. Filanovsky fields) are already in production, while the remaining seven discoveries will support our future development potential. Ten prospects earmarked for future exploration will complement the already discovered reserve base.

The Caspian region accounts for more than 10% of our recoverable hydrocarbon reserves. The V. Filanovsky field comprises about a third of our north Caspian oil reserves, while the Khvalynskoye field accounts for almost half of the natural gas reserves. With such a vast reserve base, the Caspian region offers substantial production potential.

## KEY RESULTS OF OUR OPERATIONS IN THE NORTH CASPIAN

**93%**

success rate of prospecting and exploration drilling

**1.07**

billion tonnes of oil equivalent

recoverable reserves

**>8**

million tonnes

cumulative oil production

**>8**

billion cubic meters

cumulative gas production

**27**

prospecting and exploration wells

**30**

production wells

**6**

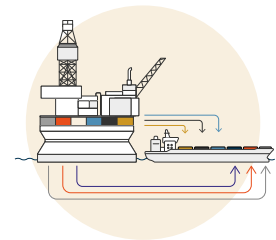
platforms

**660** km

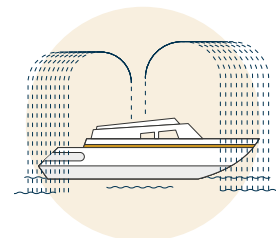
of pipelines

## PROTECTING ENVIRONMENT AND MAINTAINING SAFETY

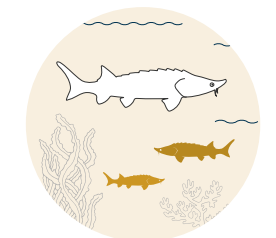
With the Caspian Sea being a unique ecosystem, we prioritize industrial safety and environmental protection in our Caspian operations. We aim to avoid any adverse impact on the ecosystem.



**Zero discharge principle** – all production and consumer waste is collected to be sent onshore for disposal.



**Spill response and prevention** – we conduct over 140 drills a year and operate Russia's largest specialized training center.



**Environmental monitoring and biodiversity conservation** – satellite-based monitoring of water bodies, subsoil conditions, environmental pollution and wildlife; fish breeding to replenish fish populations.

# GLOBAL GEOGRAPHY

## LUKOIL ON A GLOBAL SCALE

### EXPLORATION AND PRODUCTION

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

See page 44

### REFINING

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

See page 55

### MARKETING AND DISTRIBUTION

We market our products through our own wholesale and retail channels, including an extensive network of filling stations in 18 countries, vessel bunkering infrastructure in 4 countries, and aircraft refuelling facilities in airports of 30 Russian cities. Our trading operations cover all major international markets.

See page 65

### POWER GENERATION

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

See page 61

#### THE BALTIC SEA

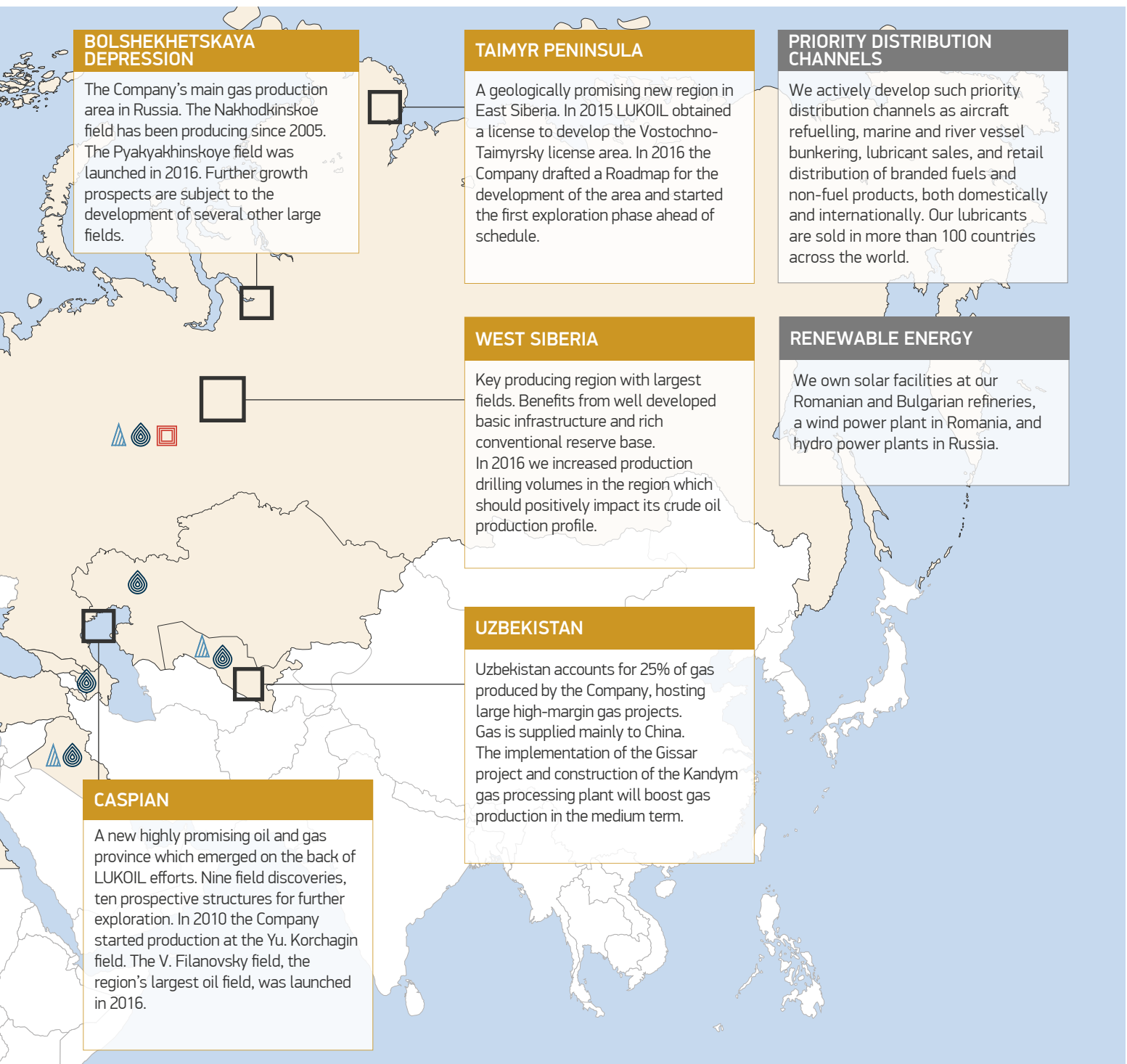
The Kravtsovskoye field has been producing since 2004. The region's proximity to target markets and well-developed infrastructure result in high efficiency of oil production. In 2015 the Company discovered a number of new fields which created a potential for future production growth in the region. In 2016 we developed a concept for further development of the region.

#### NORTH AMERICA

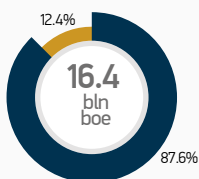


**4** continents  
**> 30** countries  
**> 60** Russian regions

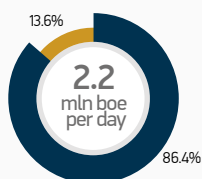
The map shows the Group's major production assets as of December 31, 2016.



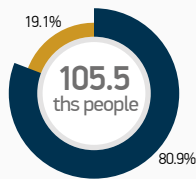
Proved hydrocarbon reserves as of December 31, 2016



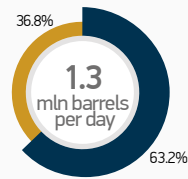
Marketable hydrocarbon production in 2016



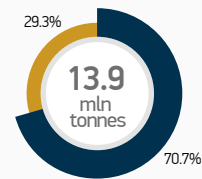
Average headcount in 2016



Oil refining by own refineries in 2016



Retail sales in 2016



● Russia  
● International projects

● Domestic sales  
● International sales

# VERTICAL INTEGRATION

## BUSINESS MODEL

Our business model is driven by the principle of efficient vertical integration to create added value and make our business highly resilient through risk diversification.

### EXPLORATION AND PRODUCTION

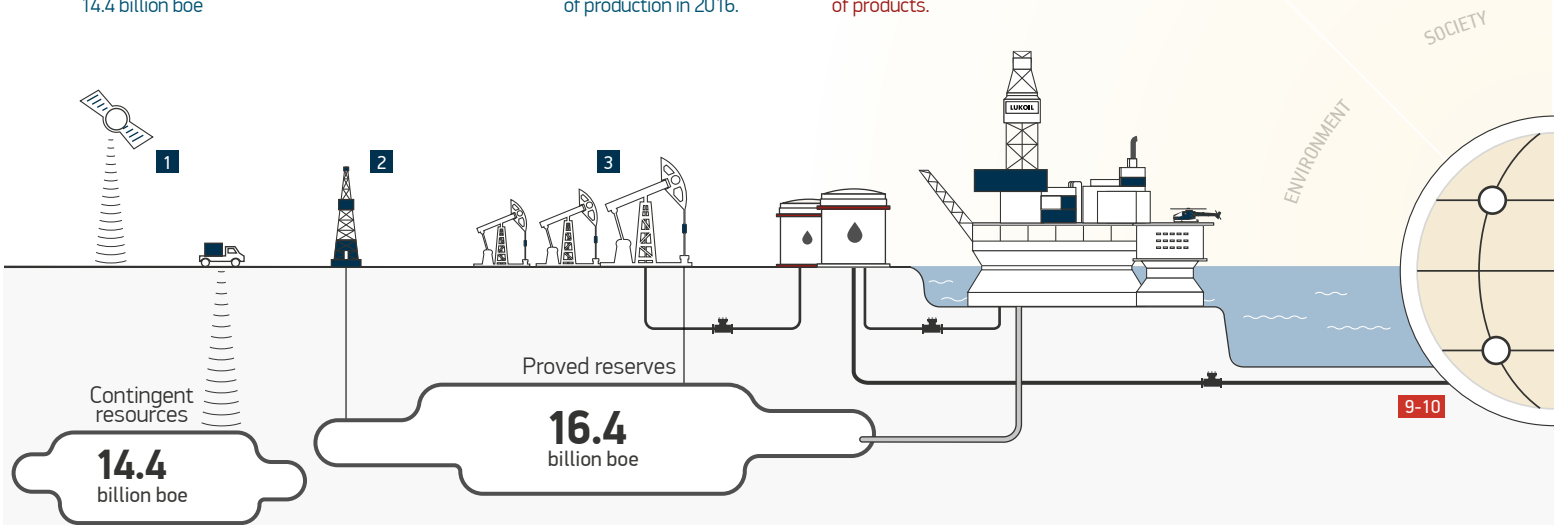
- 1 EXPLORATION**  
Developing resource potential and building up commercial reserves.
- 2 DEVELOPMENT**  
Field development and construction (including supporting infrastructure).
- 3 PRODUCTION**  
Drilling and production of hydrocarbons.

Proved reserves – 16.4 billion boe  
Contingent resources – 14.4 billion boe

Over 450 fields under development.  
2.2 million boe per day of production in 2016.

### REFINING

- 4 OIL REFINING**  
Creating added value by processing crude oil into different petroleum products.  
8 refineries, 66.8 million tonnes of throughput in 2016.
- 5 PETROCHEMICALS**  
Deep conversion of hydrocarbon feedstock into complex petrochemical products.  
5 plants and production facilities within oil refineries, with a total annual output of 1.3 million tonnes of products.
- 6 GAS PROCESSING**  
Efficient utilization of associated petroleum gas.  
5 gas processing plants and production facilities within oil refineries, with a total annual capacity of 7 billion cubic meters.
- 7 LUBRICANT PRODUCTION AND DISTRIBUTION**  
A priority channel and a wide product range with access to end consumers.  
33 production facilities, sales in more than 100 countries.



## VALUE CREATION: KEY INDICATORS

### CAPITAL

<b>NATURE CAPITAL</b> 26 billion boe of reserves*	<b>INTELLECTUAL CAPITAL</b> 43 billion RUB value of intangible assets
<b>HUMAN CAPITAL</b> 40% employees under 35 years old	<b>PRODUCTION CAPITAL</b> 30,000 wells production well stock
<b>FINANCIAL CAPITAL</b> 752 billion RUB cash flow from operating activities	

### EXPLORATION AND PRODUCTION

PRODUCTION GROWTH AT NEW HIGH-MARGIN PROJECTS

# 9.3%

(+1.5 p.p. vs. 2015) – production share of new high-margin projects

See page 44

### REFINING

GROWING PRODUCTION OF HIGH VALUE ADDED PETROLEUM PRODUCTS

# 66.5%

(+3.3 p.p. vs. 2015) – Group's average light product yield

See page 55

\* SEC proved, probable and possible reserves.



MARKETING AND DISTRIBUTION

POWER GENERATION

**8 RETAIL**  
Access to end consumers across various regions, incremental value added from sales of branded fuels, additional diversification through non-fuel product sales.

**9 INTERNATIONAL TRADING**  
Most efficient wholesale marketing of own crude oil and petroleum products, supplies to own refineries and distribution networks in Europe. Incremental value added from trading third-party hydrocarbons.

**10 CENTRALIZED ALLOCATION OF RESOURCES**  
Streamlining flows of crude oil and petroleum products within the Group.

**11 AIRCRAFT REFUELLING**  
A priority high-margin channel, with access to end consumers.

**12 MARINE AND RIVER BUNKERING**  
A priority high-margin channel, with access to end consumers.

**13 POWER GENERATION**  
Gas conversion into electricity and heat, utilization of associated petroleum gas, supplies of low-cost electricity to own production facilities, access to end consumer market.

**14 RENEWABLES**

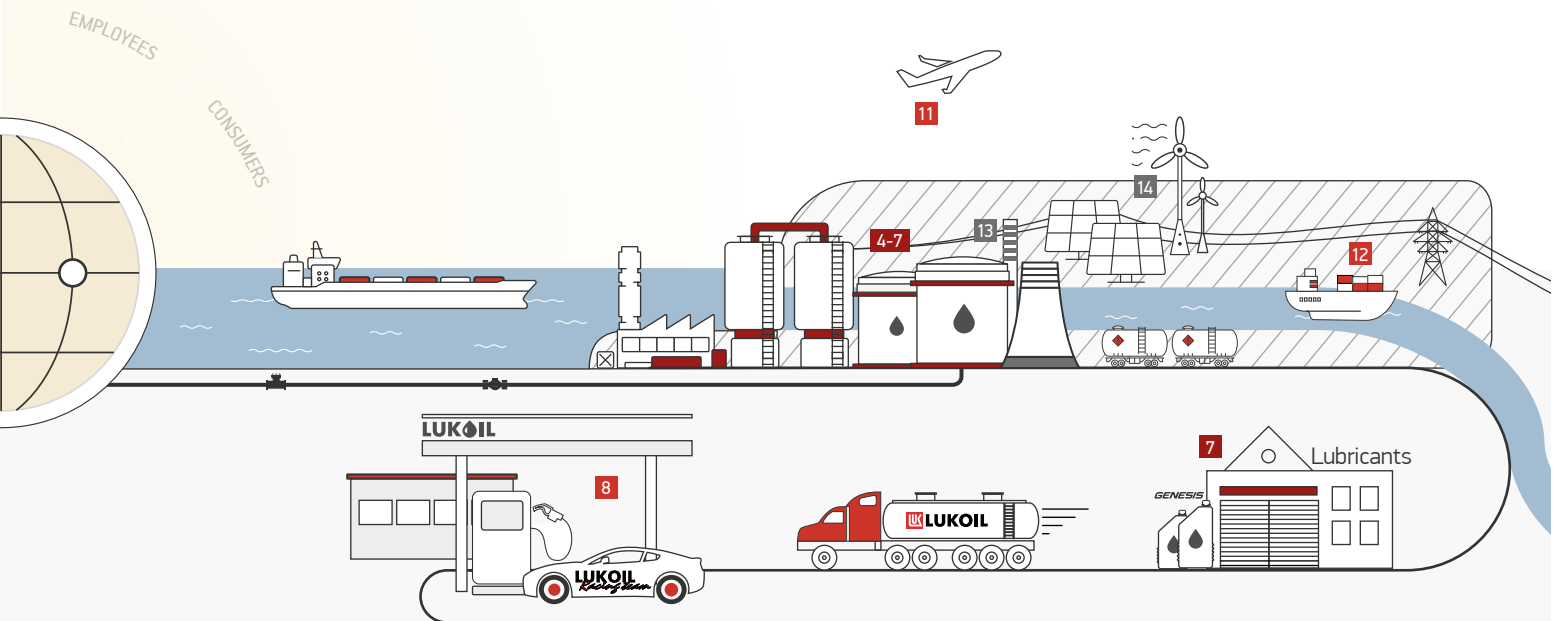
5,300 filling stations, 13.9 million tonnes of sales in 2016.

Presence in all major markets.

30 airports, over 2.7 million tonnes of sales in 2016.

21 ports, 3.3 million tonnes of sales in 2016.

5,789 MW and 8,696 Gcal/h capacity.



MARKETING AND DISTRIBUTION

DEVELOPMENT OF PRIORITY DISTRIBUTION CHANNELS

**3.3 million tonnes**

(+31% vs. 2015) – bunker fuel sales

See page 65

FINANCIAL PERFORMANCE

LEADERSHIP IN RUSSIA BY EBITDA PER BOE

**\$14**

EBITDA per boe of production

VALUE FOR SHAREHOLDERS

NEW PROGRESSIVE DIVIDEND POLICY

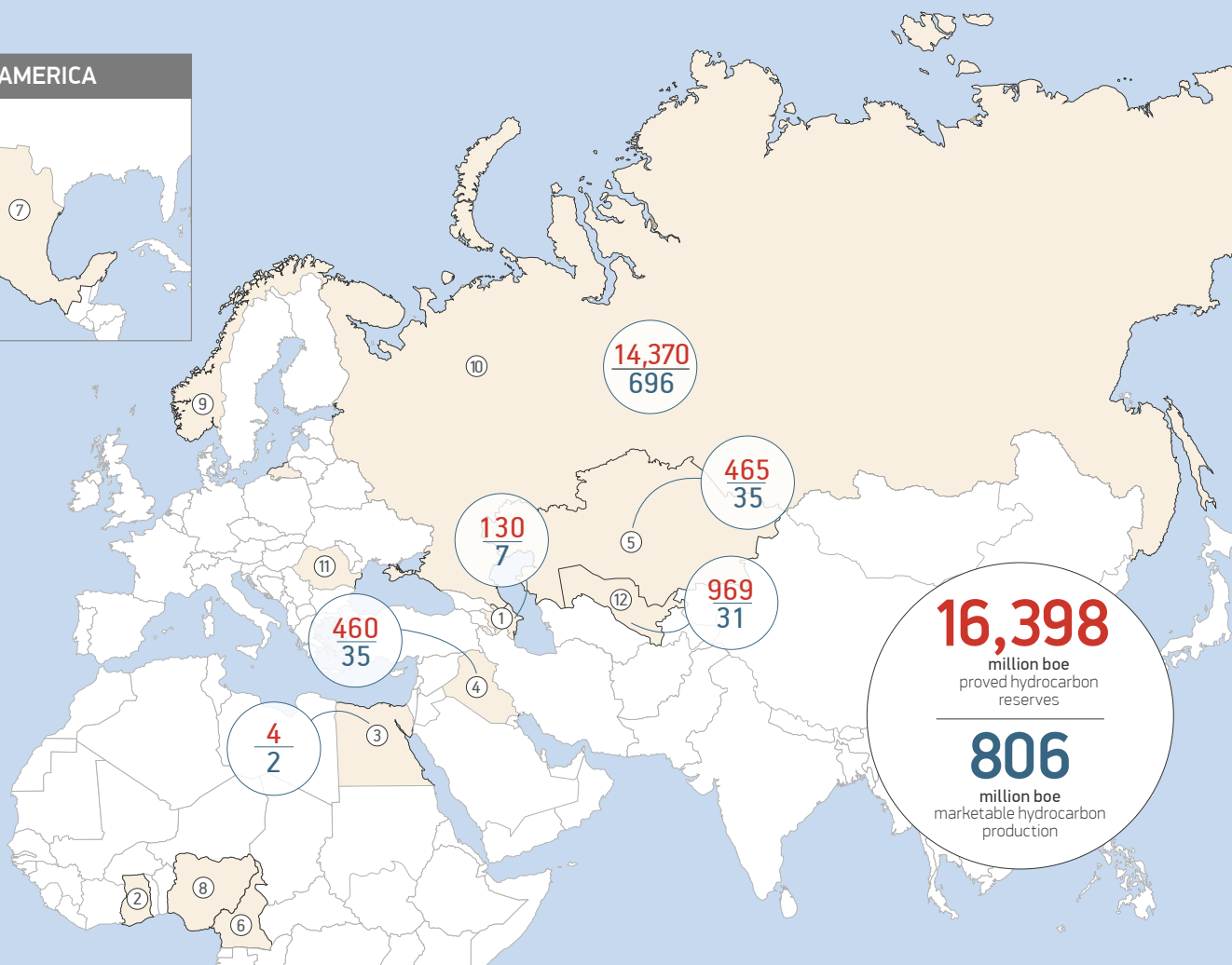
**6.9%**

dividend yield\*

See page 124

\* Dividend yield for 2016 is calculated based on recommended by the Board of Directors total dividend amount of RUB 195 per share for 2016 and average market share price on Moscow Exchange in 2016.

# EXPLORATION AND PRODUCTION



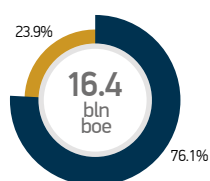
### Key highlights of the E&P segment, billion RUB

	2014	2015	2016	y-o-y, %
EBITDA	508	595	521	-12.5
Net income	174	107	216	100.9
CAPEX*	463	488	443	-9.2

- 1. Azerbaijan (Oil production, Gas production)
- 2. Ghana (Exploration)
- 3. Egypt (Exploration, Oil production)
- 4. Iraq (Exploration, Oil production)
- 5. Kazakhstan (Oil production, Gas production)
- 6. Cameroon (Exploration)
- 7. Mexico (Exploration)
- 8. Nigeria (Exploration)
- 9. Norway (Exploration)
- 10. Russia (Exploration, Oil production, Gas production)
- 11. Romania (Exploration)
- 12. Uzbekistan (Exploration, Oil production, Gas production)

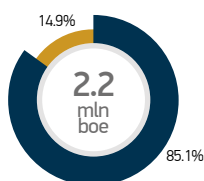
- ▲ Exploration
- Oil production
- Gas production

### Proved hydrocarbon reserves as of December 31, 2016



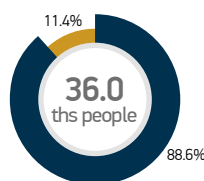
- Crude oil
- Gas

### Daily production of marketable hydrocarbons in 2016



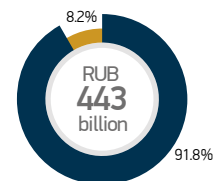
- Liquid hydrocarbons
- Gas

### Average headcount in the E&P segment in 2016



- Russia
- International projects

### CAPEX\* in the E&P segment in 2016



- Development and other
- Exploration

\* Including non-cash items and advances.

## 2016 RESULTS

### LAUNCHING LARGE FIELDS AND FOCUSING ON GROWTH PROJECTS

**+7.1%**

production growth at new high-margin projects

- In October 2016, the Company started commercial production from its largest field in the Caspian – the V. Filanovsky field – with a target production rate of 6 million tonnes of light sweet crude oil per year. Three production wells drilled at the field showed record high initial flow rates exceeding 3,000 tonnes per day per well. The field is connected to the CPC pipeline system. Jackets for Phase 2 platforms were installed offshore, while Russian shipyards continued fabricating the topsides for the platforms;
- In October 2016, the Company started commercial oil production from the Pyakyakhinskoye oil and gas condensate field in the Bolshekhetskaya Depression (northern part of West Siberia). Gas infrastructure was completed at the field to support production start-up in 2017. 113 production wells were drilled as of the end of 2016, including 30 multibore wells;
- Heavy crude oil production in Timan-Pechora grew by 9.0%. We launched steam generators with a combined capacity of 300 tonnes of steam per hour, a water treatment unit with a capacity of 700 tonnes of water per hour, and an oil processing and gathering facility at the Yaregskoye field;
- The construction of the Kandym gas processing plant with an annual capacity of 8 billion cubic meters was started in Uzbekistan in April 2016, and gas treatment unit for the Gissar project was prepared for scheduled launch in 2017. Gas production in Uzbekistan grew by 8.0%.

### MANAGING PRODUCTION IN OUR CORE REGIONS

- We increased production drilling volumes in West Siberia brownfields to slow down production decline rates.

### RESERVE REPLACEMENT

**0.7 billion boe**

reserves additions driven by exploration works, production drilling and revision of previous estimates

- Due to advanced exploration techniques we achieved 87% success rate of prospecting and exploration drilling and discovered 13 new fields and 71 deposits;
- We added 673 million boe of proved reserves as a result of exploration works, production drilling and revision of previous estimates;
- A major exploration programme was launched in the high-potential Vostochno-Taimyrsky area in East Siberia, with 1,891 km of 2D seismic surveys completed;
- Active exploration was continued in the Caspian and Baltic Seas. Drilling of a prospecting well was started at the Khazri structure in the Caspian Sea, and Prospecting Well No. 2 was completed at the D33 field in the Baltic Sea.

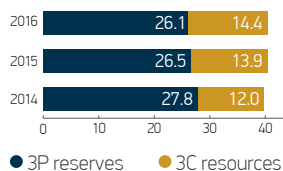
### INCREASING TECHNOLOGICAL EDGE

- We continued our efforts to tap complex reserves. Group-wide production of heavy and hard-to-recover crude oil rose by 11.4%, while the share of complex wells increased from 22.1% to 28.6%.

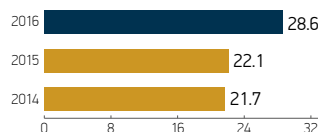
**87%**

exploration drilling success rate

### 3P reserves and contingent 3C hydrocarbon resources, billion boe



### Share of horizontal wells in total new oil wells, %



**47.0 tonnes per day**

new complex oil wells flow rate in West Siberia (+48.8% y-o-y)

## 2017 AND MID-TERM PRIORITIES

- Reach planned production capacity at newly launched fields by drilling new wells and construction of additional production facilities;
- Increase drilling in our traditional core producing regions to decelerate production decline rates;
- Build up heavy crude oil production;
- Launch gas processing facilities to boost gas production in Uzbekistan;
- Build up technological expertise in developing complex reserves.

# DEVELOPING THE POTENTIAL OF THE BOLSHEKHETSKAYA DEPRESSION

## LAUNCH OF THE PYAKYAKHINSKOYE FIELD



# 113

wells as of December 31, 2016

78 oil wells  
31 gas wells  
4 water wells

1

### METERING STATION

- Accepting, metering and delivering treated oil to the trunk oil pipeline system operated by Transneft.
- Key facilities include a pump station for internal and external oil pipeline transportation, a custody transfer metering unit, a control room and a physical and chemical laboratory.

2

### FIELD SUPPORT BASE

Operation, routine and preventive maintenance of equipment, oil and gas field facilities and communications, and power lines at the field. Key facilities include a filling station, a repair and operation facility, a brine station for preparing kill fluid, and an onsite physical and chemical laboratory.

3

### CONDENSATE DEETHANIZATION AND STABILIZATION UNIT

Separating methane-ethane and propane-butane fractions to achieve required feedstock quality. Core equipment includes two columns, furnaces, three pump stations, heat-exchange equipment and tanks.

4

### PUMP STATION OF THE PRESSURE-MAINTENANCE SYSTEM

Pumping water into productive oil reservoirs to boost production. Reservoir water from oil treatment unit and water from water wells is used.

5

### PETROLEUM GAS COMPRESSOR BOOSTER STATION

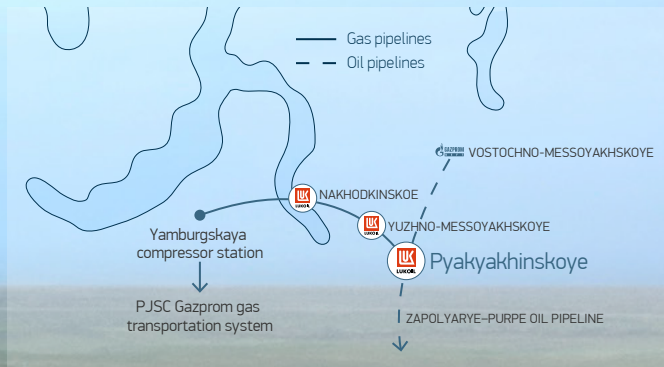
All associated petroleum gas is gathered and compressed and then supplied to the comprehensive gas treatment unit along with natural gas.



# 261

billion cubic meters

recoverable gas reserves



**86**

million tonnes

recoverable oil reserves

6

**GAS TREATMENT UNIT**

Treating gas to meet Gazprom's standards. Treating gas for onsite consumption.

7

**OIL TREATMENT UNIT**

Gathering, treating, metering and delivering oil to the deethanization and stabilization unit and further to the metering station. Reservoir water extracted as part of oil treatment is supplied to water treatment facilities. Associated petroleum gas is transported for further treatment to the petroleum gas compressor booster station.



**DRIVERS OF THE PROJECT'S ECONOMIC PERFORMANCE**

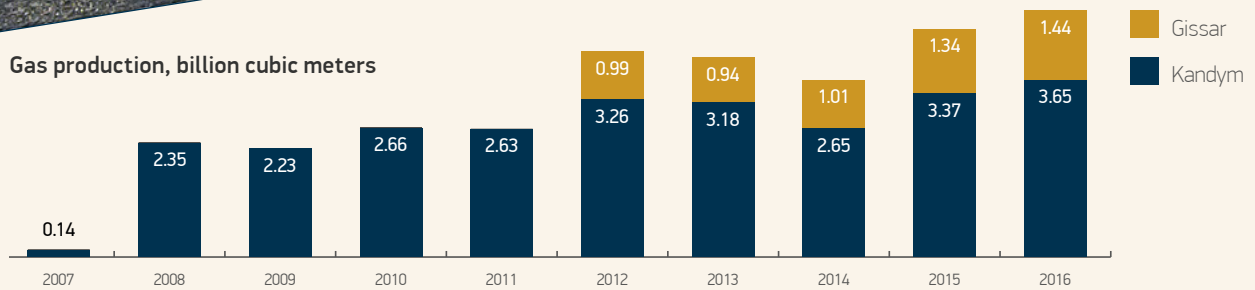
- Synergy with existing transportation infrastructure
- Use of advanced technologies: drilling of multibore horizontal wells (up to five bores)
- High flow rates (average flow rate above 80 tonnes per day per well) to drive low costs per barrel of production
- A long-term gas offtake contract

# BUILDING UP GAS PRODUCTION

## DEVELOPMENT OF PROJECTS IN UZBEKISTAN



Gas production, billion cubic meters



**2004** | PSA signed for **Kandym** LUKOIL's share – 90%

**2007** | **Kandym** Production start-up at Khauzak-Shady

**2008** | Acquisition of 100% in PSA for **Gissar**

**2011** | **Gissar** Early Gas project started

**2015** | **Kandym** Two gas treatment units launched (combined annual capacity: 3.7 billion cubic meters)

**2017** | **Gissar** Gas treatment unit with an annual capacity of 4.4 billion cubic meters  
Pumping and booster station  
Achieving full capacity

**2018** | **Kandym** Gas processing plant, Phase 1 (annual capacity: 4 billion cubic meters)

**2019** | **Kandym** Gas processing plant, Phase 2 (annual capacity: 4 billion cubic meters)  
Achieving full capacity



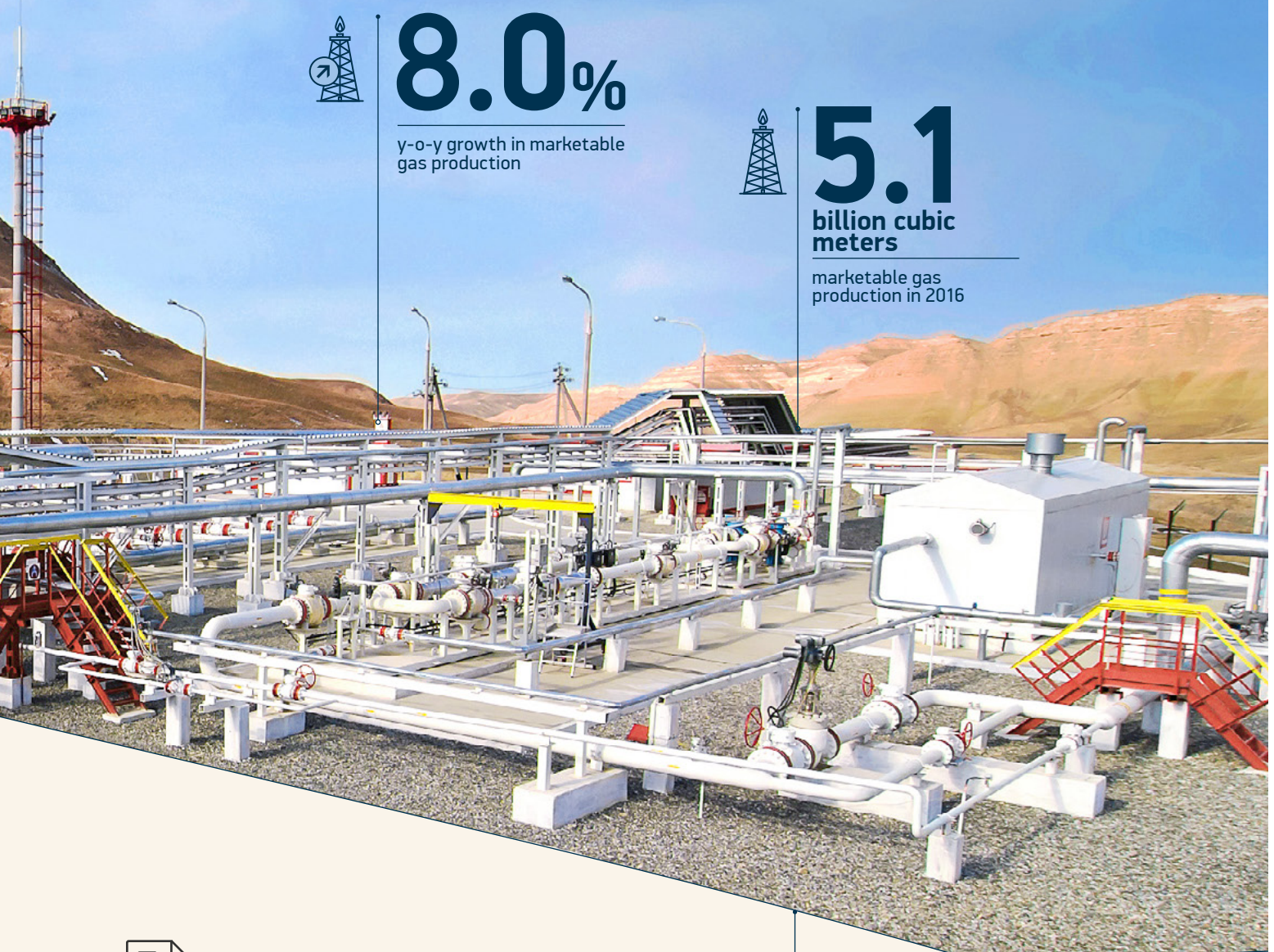
**8.0%**

y-o-y growth in marketable gas production



**5.1**  
billion cubic meters

marketable gas production in 2016



**DRIVERS OF THE PROJECT'S ECONOMIC PERFORMANCE**

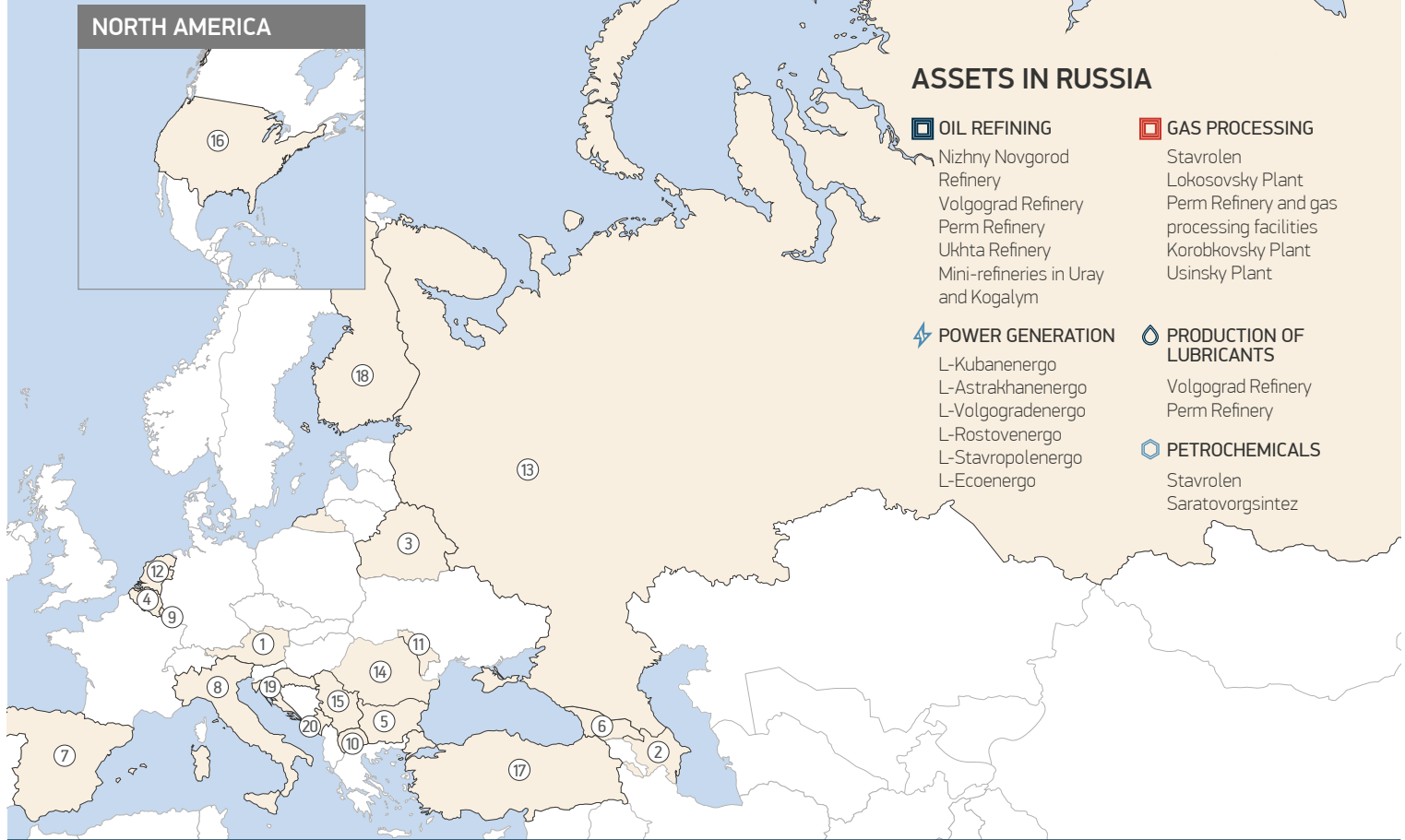
- Rich reserve base
- Substantial production growth potential
- Access to the international markets
- Successful track-record in the region



**969**  
million boe

proved hydrocarbon reserves

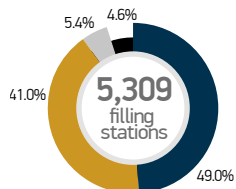
# REFINING, MARKETING AND DISTRIBUTION



- 1. Austria
- 2. Azerbaijan
- 3. Belarus
- 4. Belgium
- 5. Bulgaria
- 6. Georgia
- 7. Spain
- 8. Italy
- 9. Luxembourg
- 10. Macedonia
- 11. Moldova
- 12. Netherlands
- 13. Russia
- 14. Romania
- 15. Serbia
- 16. USA
- 17. Turkey
- 18. Finland
- 19. Croatia
- 20. Montenegro

- Oil refining
- Gas processing
- Petrochemicals
- Power generation
- Marketing (filling stations)
- Transshipment
- Lubricants
- Aircraft refuelling

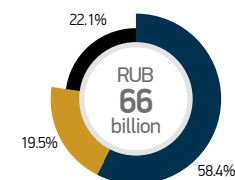
### Retail Network\*



- Russia
- Europe
- USA
- Near abroad countries

\* Including owned, leased and franchised stations.

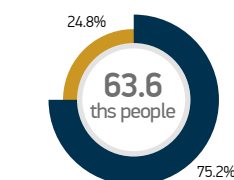
### CAPEX\*\* in the Refining, Marketing and Distribution segment in 2016, billion RUB



- Oil refining
- Retail network
- Other

\*\* Including non-cash items and advances.

### Average headcount in the Refining, Marketing and Distribution segment



- Russia
- International projects

### Key indicators of the Refining, Marketing and Distribution segment, billion RUB

	2014	2015	2016	y-o-y, %
EBITDA	195	234	233	-0.4
Net income	90	94	114	21.6
CAPEX**	142	109	66	-39.7



## 2016 RESULTS

### MAIN REFINERY UPGRADE PROGRAM COMPLETED

- Russia's largest vacuum gasoil deep conversion complex with an annual capacity of 3.5 million tonnes per year was launched at our Volgograd Refinery in May 2016 to become the last major facility commissioned as part of our ambitious refinery upgrade program;
- The refinery upgrade significantly improved our petroleum product slate: the light product yield at our Russian refineries grew to 62.9% or by 14 p.p. compared to 2010 level, refining depth improved by 9.7 p.p. to 84.7%. Fuel oil production decreased by 4.5 million tonnes per annum, while our environmental standard for motor fuels was upgraded to Euro-5.

### IMPROVED EFFICIENCY OF OIL REFINING

**18.3%**

y-o-y decline in fuel oil output

All refining facilities operated by the Group are implementing a large-scale efficiency enhancement program:

- utilization of secondary refining facilities was improved across Russian refineries through cross supplies of products between the Group's refineries, with cross supplies totaling 1.3 million tonnes;
- operating processes were streamlined at the Ukhta Refinery (which features the lowest complexity index): primary distillation throughput was decreased, and the feedstock slate streamlined to improve the product mix;
- the heavy residue conversion facility launched at the Burgas Refinery in 2015 improved its petroleum product slate, and increased refining depth by 7.9 p.p. to 82.7%, the light product yield grew to 72.9% from 65.9% in 2015.

### ENHANCING VERTICAL INTEGRATION

- A gas processing unit was launched at the Stavrolen oil and gas chemical complex with an annual capacity of 2.2 billion cubic meters per year to process gas from the Northern Caspian fields into liquid hydrocarbons and marketable gas. Liquid hydrocarbons serve as a feedstock for petrochemicals, while marketable gas is also supplied to the Company's own power generation facilities;
- Disposal of distribution networks in the Baltic countries, Poland and Cyprus as part of a strategy to enhance integration of marketing and refining assets.

### IMPROVING MARKETING PERFORMANCE AND DEVELOPING PRIORITY DISTRIBUTION CHANNELS

**31%**

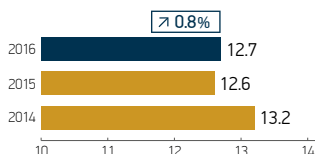
y-o-y growth in vessel bunkering volumes

- Our efforts to streamline our retail network and effective marketing resulted in 4% growth in average sales per own filling station to 9.9 tonnes per day, including an increase to 12.7 tonnes per day in Russia despite weak demand;
- Significant growth of 31% in vessel bunkering driven by high quality of the Group's products;
- Sales of LUKOIL-branded lubricants rose 16% as a result of an improved product mix and successful import substitution in Russia;
- Our share in the global market for marine lubricants grew to 10%, and LUKOIL joined the top five global suppliers of marine lubricants.

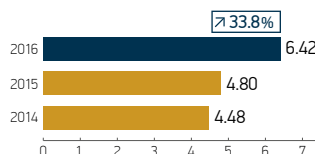
**66.1**  
million tonnes

refinery throughput at own refineries (+2.4% y-o-y)

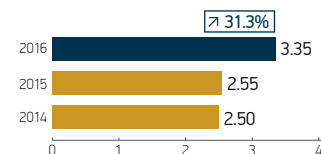
Average sales per own filling station in Russia, tonnes per day



Sales of premium ECTO fuels in Russia, million tonnes



Vessel bunkering, million tonnes



## 2017 AND MID-TERM PRIORITIES

- Improve the petroleum product slate by reaching planned capacity at the vacuum gasoil deep conversion complex of the Volgograd Refinery;
- Increase in cross supplies of petroleum products between Russian refineries to improve utilization of the secondary processes;
- Develop priority distribution channels;
- Diversify the product mix of lubricants and expand to new markets.

# SUCCESSFULLY DELIVERING AMBITIOUS PROJECTS

## RESULTS OF THE REFINERY UPGRADE PROGRAM

In 2016, we successfully completed an ambitious multi-year refinery upgrade program. The vacuum gasoil deep conversion complex at the Volgograd Refinery became the last major facility commissioned as part of the program. As a result of the program, we upgraded the environmental class of our motor fuels to Euro-5 and significantly increased the share of high value added petroleum products in our product slate.

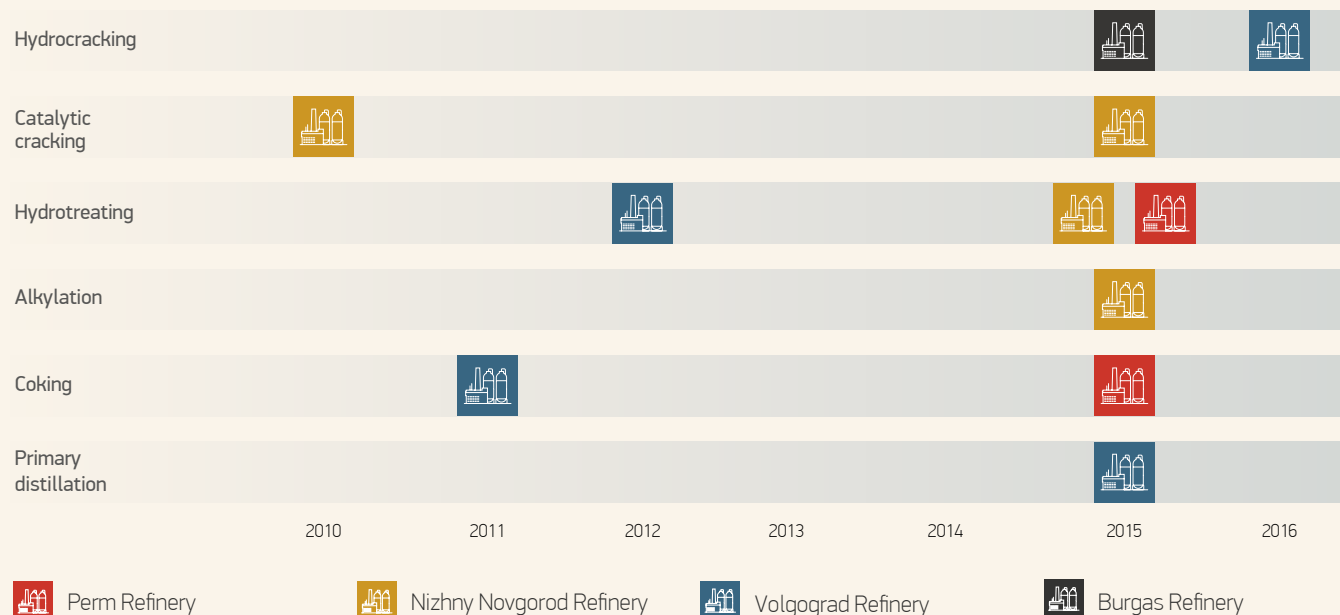


# 8.9

Nelson complexity index in 2016 as compared to 7.2 in 2010



### Upgrade of the Group's oil refineries





**PERM REFINERY**

The refinery phased out production of marketable fuel oil and achieved a record refining depth of 97%. Higher output of Euro-5 compliant diesel fuel.



**NIZHNY NOVGOROD REFINERY**

Higher gasoline output, improved refining depth.



**VOLGOGRAD REFINERY**

Petroleum product mix improved and refinery capacity expanded to 15.7 million tonnes per year.



**BURGAS REFINERY**

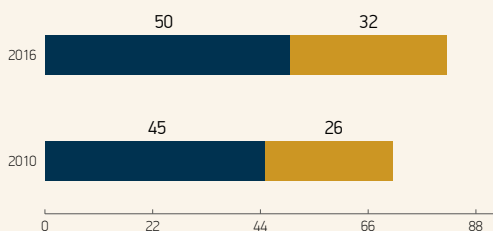
Higher oil feedstock conversion, termination of high-sulfur fuel oil production, increased output of Euro-5 compliant diesel fuels.



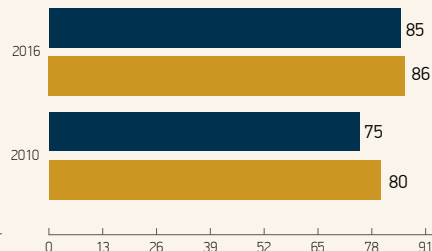
**14** p.p.

growth in the light product yield at the Group's Russian refineries since 2010

Capacity of the Group's refineries\*, million tonnes



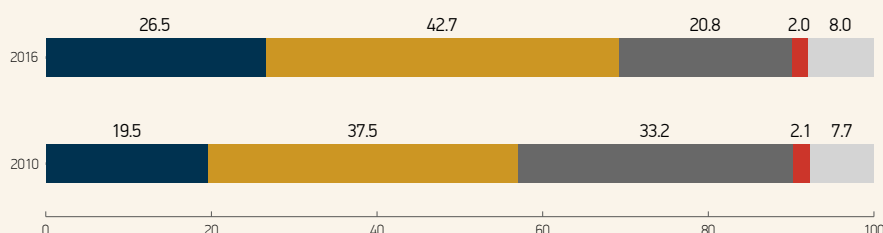
Refining depth at the Group's refineries\*, %



● Russian refineries  
● European refineries

\* Excluding mini-refineries.

Petroleum products output structure at the Group's refineries, %



● Gasolines (motor and straight-run)  
● Middle distillates (diesel fuel, jet fuel, etc.)  
● Fuel oil and vacuum gasoil  
● Lubricants and components  
● Other

# INCREASING LIGHT PRODUCT YIELD

## VOLGOGRAD REFINERY

Russia's largest vacuum gasoil deep conversion complex



# 3.5

million tonnes  
per year

capacity of the vacuum  
gasoil hydrocracker



### REFINERY'S PARAMETERS

- Annual capacity – 15.7 million tonnes
- Processes a blend of light West Siberian and Lower-Volga crudes
- Crude oil is supplied to the refinery via the Samara-Tikhoretsk oil pipeline and by rail
- Petroleum products are shipped by rail, river and road

2013 r.

- Decision made on the complex construction
- Contracts signed

2014 r.

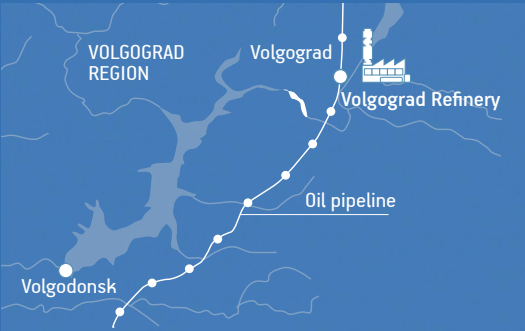
- First supplies and installation of core equipment

- Active construction phase

2015 r.

- Complex launched

2016 r.



**75%**

feedstock conversion

THE COMPLEX BOOSTS THE OUTPUT OF:



**1.8**

million tonnes per year

Euro-5 compliant diesel fuels



**0.6**

million tonnes per year

gasoline components



**0.1**

million tonnes per year

liquefied gases



DRIVERS OF THE PROJECT'S ECONOMIC PERFORMANCE

- Increase in light product yield
- Economy of scale
- Integration with own retail network in the region
- Available export channels

# THINKING FORWARD

## CORPORATE RESPONSIBILITY

LUKOIL conducts its business in a sustainable way, seeking to strike a balance between the society, the economy and the environment.

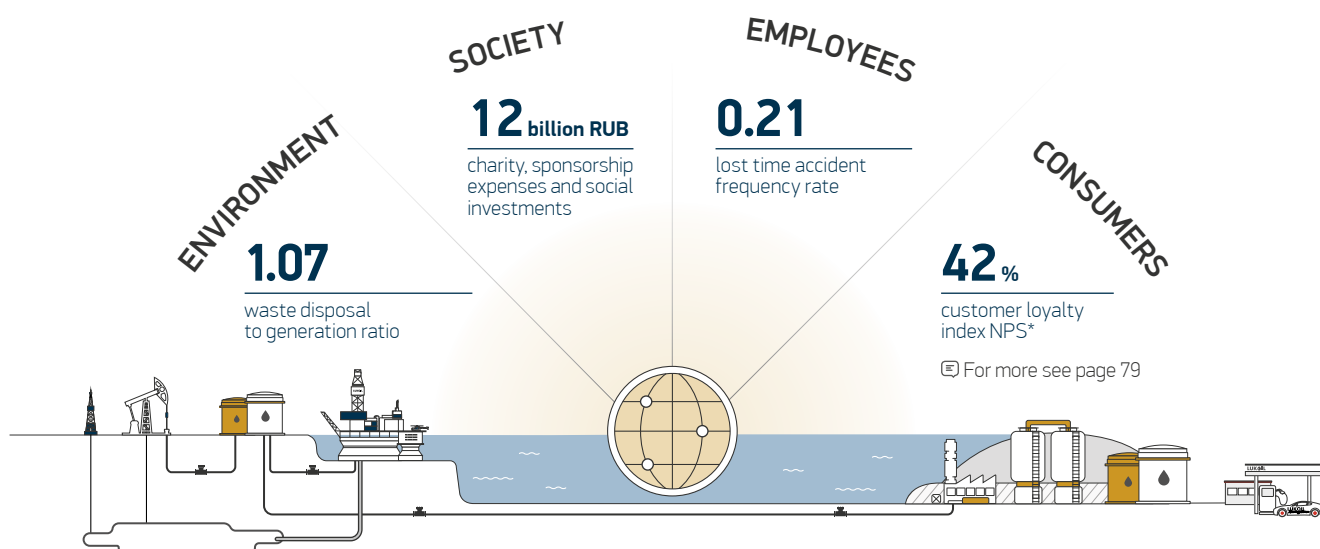
### OUR PRINCIPLES

- Competencies
- Inherent reliability
- Continuous monitoring
- Effective management

We share the principles of the United Nations Global Compact and the Social Charter of Russian Business and are committed to deliver the highest environmental and industrial safety standards.

**105.5**  
thousand people

average headcount  
in 2016



## 2016 RESULTS

### MINIMIZING ENVIRONMENTAL IMPACT

- The levels of waste disposal exceeded their generation;
- Utilization of associated petroleum gas (APG) reached 92.1% for the Group, and 96.5% for the core region of West Siberia. In 2016 in Timan-Pechora region we completed the construction of a number of APG utilization facilities, resulting in 15.6% increase in APG utilization volume year-on-year;
- Waste water discharge decreased by two times for the Group.

### ENSURING INDUSTRIAL SAFETY

- Lost time accident frequency rate reduced to 0.21;
- Number of lost-time incidents reduced by 14.3% to 24.

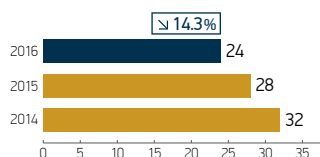
### RESPONSIBLE BUSINESS CONDUCT IN THE REGIONS OF OPERATIONS

- Increased investments in charity and sponsorship;
- Over 150 applications filed to federal authorities and NGOs on matters related to tax and customs regulation, promotion of competition, industrial and environmental safety.

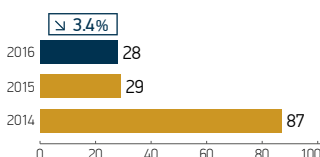
### EFFECTIVE HUMAN RESOURCES MANAGEMENT

- Structure of foreign subsidiaries streamlined, and the management talent pool approved;
- Occupational standards developed, and a Qualification Assessment Center set up.

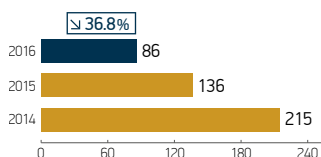
Number of lost-time incidents



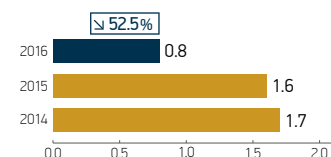
Number of environmental incidents



Contaminated land, hectares



Waste water discharge, million cubic meters



## 2017 AND MID-TERM PRIORITIES

- Further reduction in environmental impact. Continued upgrades of production facilities, reconstruction of existing and construction of new gas treatment units, development of the projects on the effective use of APG across the Group's new assets, and repair and replacement of pipelines. Improve the GHG emission management system;
- Support of socio-economic development in the regions where the Company operates;
- Leverage talent pool, improve succession planning, enhance incentive systems, and ensure the required skilled talent to support the Group's priority projects.

\* Net Promoter Score Index is measured within -100% to +100% range.

# EXCELLENT CORPORATE GOVERNANCE

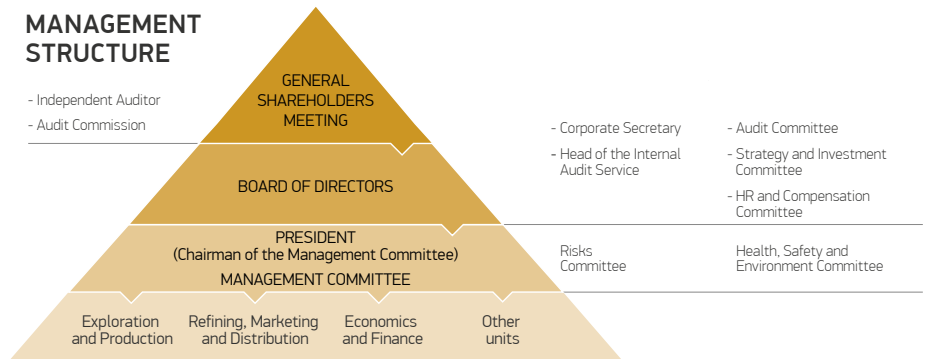
## CORPORATE GOVERNANCE

### GENERAL SHAREHOLDERS MEETING

General Shareholders Meeting is the Company's supreme governance body. Annual General Shareholders Meeting is held each year in the form of joint shareholder presence. An Extraordinary Shareholders Meeting was also held in 2016, in the form of absentee voting.

For more details on General Shareholders Meetings see page 82

### MANAGEMENT STRUCTURE



**Valery GRAYFER, 1929**  
 • Chairman of the Board of Directors

0.01%

### BOARD OF DIRECTORS

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

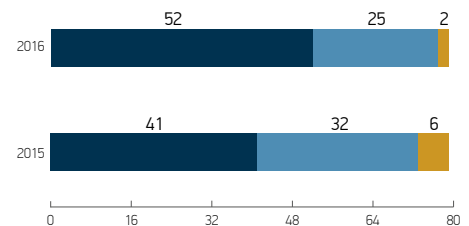
#### Changes to the Board of Directors in 2016:

- Sergei Mikhailov stepped down
- Toby Trister Gati elected to the Board

For more details on the Board of Directors see page 83

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

**97%** full or partial compliance with the Code



Legend: Full (dark blue), Partial (light blue), None (yellow)

Statistics is based on the Corporate Governance Code Compliance Report prepared in accordance with the recommendations set out in the relevant letter by the Bank of Russia.



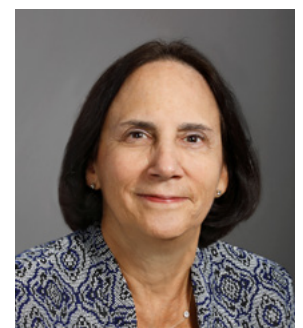
**Ravil MAGANOV, 1954** 0.38%  
 • Deputy Chairman of the Board of Directors  
 • Executive Director  
 • Member of the Management Committee  
 • First Executive Vice President (E&P)  
 • Member of the Strategy and Investment Committee



**Vagit ALEKPEROV, 1950** 22.98\*%  
 • President  
 • Executive Director  
 • Chairman of the Management Committee



**Victor BLAZHEEV, 1961** 0%  
 • Independent Director  
 • Chairman of the Audit Committee  
 • Member of the HR and Compensation Committee



**Toby Trister GATI, 1946** 0%  
 • Independent Director  
 • Member of the Strategy and Investment Committee

The composition of the Board of Directors is presented as of December 31, 2016.

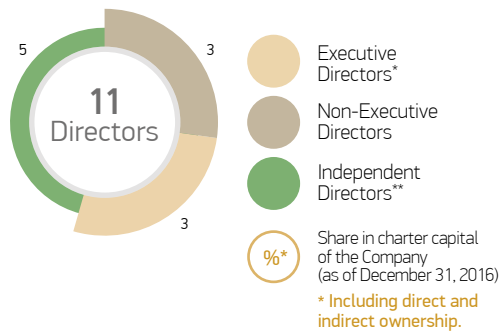


**COMPOSITION OF THE BOARD OF DIRECTORS COMMITTEES**



For more details on the Board Committees see page 94

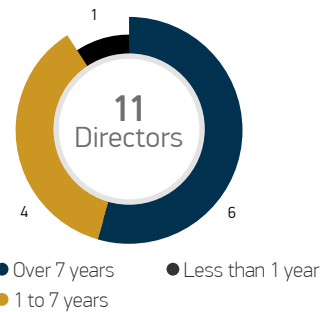
**Director status**



**45%**

**Independent Directors**

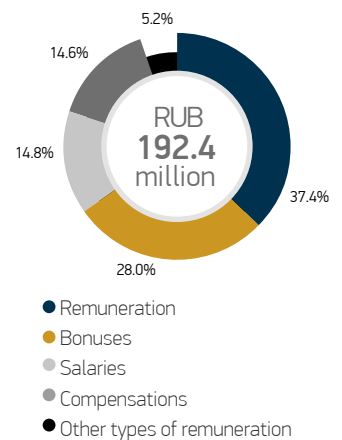
**Length of service on the Board**



**Board meetings in 2016**



**Payments\*\*\* to Directors in 2016**



**Igor IVANOV, 1945** 0%

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



**Roger MUNNINGS, 1950** 0%

- Independent Director
- Chairman of the HR and Compensation Committee



**Richard MATZKE, 1937** 0.0003%\*

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



**Guglielmo MOSCATO, 1936** 0%

- Non-Executive Director
- Member of the Strategy and Investment Committee



**Ivan PICTET, 1944** 0%

- Independent Director
- Member of the Audit Committee



**Leonid FEDUN, 1956** 9.88%\*

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

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

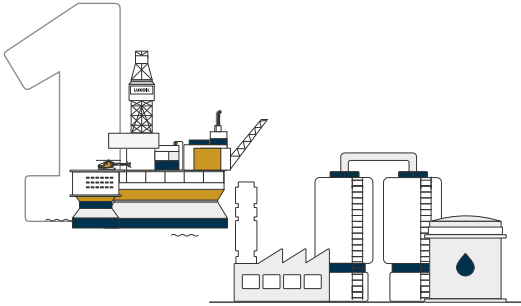
\*\* Recognized as independent directors as defined in the Listing Rules of the Moscow Exchange and recommendations set out in the Corporate Governance Code. Victor Blazhev and Igor Ivanov were determined to be independent by Resolution of the Board of Directors of PJSC LUKOIL (Minutes No. 13 dated June 23, 2016).

\*\*\* For Directors who are concurrently on the Management Committee, remuneration includes only payments related to performing their duties of the Board of Directors.

# STRATEGY

## STRATEGIC GOALS

### STRENGTHENING OUR POSITION IN THE INDUSTRY

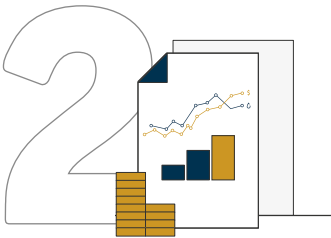


Development of new projects in the Exploration & Production and Refining, Marketing and Distribution segments to effectively replenish the resource base, increase the output, and enhance the product mix and other key performance indicators.

Development of the competitive advantages by applying advanced technologies, identifying the best technical solutions, cost control, creating and capturing synergies within our vertically integrated production chain.

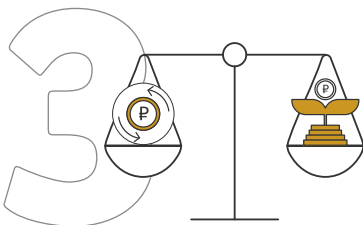
Continuously streamlining processes at existing assets to maximize operations efficiency.

### FINANCIAL STABILITY



Maintaining high financial stability in a volatile oil price and foreign exchange rate environment through strict financial discipline, conservative planning and effective risk management.

### THE RIGHT BALANCE

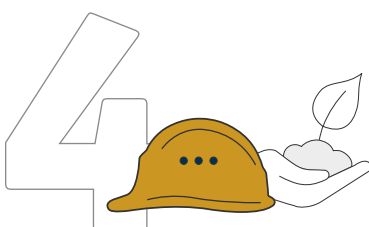


Maintaining the right balance between efficient reinvestment and distributions to shareholders.

Prioritizing dividends in cash flows distribution subject to maintaining financial stability.

Targeting dividend per share growth rate of no less than ruble inflation.

### HIGH LEVEL OF CORPORATE RESPONSIBILITY



Minimizing environmental impact and ensuring high levels of occupational safety and health and environmental protection.

Sustainable development on the basis of social stability, prudent environmental management and responsible business conduct in the regions where the Company operates.

## 2016 RESULTS

Despite a weaker macroeconomic environment, we were able to add 0.7 billion boe to our proved reserves due to the geological exploration results and the revision of previous estimates, put on stream large fields with considerable production potential, and complete our ambitious refinery upgrade program.

Our production and oil products distribution structure kept evolving towards a higher share of high-margin barrels in the E&P segment and high value added light petroleum products in the Refining, Marketing and Distribution segment of our business.

We continued optimizing our operating processes and costs at the existing assets. Through advanced technologies, standardization of operating processes and other optimization initiatives, we were able to limit the growth in lifting costs and decrease refining and processing operating costs. Our total capital expenditures were reduced by 16%, with our priority growth projects being financed in full. With the completion of the major refinery upgrade program, we were able to focus on the E&P segment, which accounted for 87% of the Group's total capital expenditures.

By using a conservative oil price scenario in our business planning and effective cost and working capital control, we increased our free cash flow to RUB 255 billion in 2016, which significantly improved the Company's financial stability.

We repaid a number of loans ahead of the schedule to reduce our total debt to RUB 699 billion.

As part of ongoing optimization of our debt portfolio, we issued \$1 billion Eurobonds at a record low premium to Russian sovereign Eurobonds. As a result, we increased the share of fixed-rate debt in our total debt portfolio. Our net debt declined by RUB 165 billion to RUB 437 billion, and leverage (net debt / EBITDA ratio) was down to 0.6.

Financial stability in the low-oil-price environment and strong development perspectives were the key considerations when approving a new progressive dividend policy which was a logical continuation of sustainable dividend increases over the past 19 consecutive years.

Based on the 2016 full-year results, the Board of Directors recommended to increase the total dividend to RUB 195 per share, up 10.2% from 2015.

The Company kept the financing of its key projects in full to secure higher cash flows going forward.

All key environmental impact indicators were reduced. Due to our consistent efforts to avoid accidents including the routine-preventive initiatives and drills, we were able to reduce workplace injury rates during the reporting year.

## RISKS

- **Macroeconomic**
- **Industry**
- **Geological**
- **Investment program non-delivery**

- **Macroeconomic**
- **Financial**

- **Macroeconomic**
- **Financial**

- **Environmental and industrial safety**

☞ For more details see Appendix 2 "Risks"

# COMPETITIVE ADVANTAGES

## THE COMPANY'S POSITIONING IN THE INDUSTRY

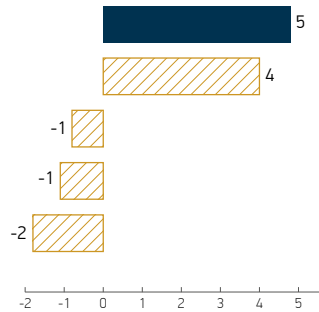
### STRONG FINANCIAL PERFORMANCE AND STABILITY

**\$5**  
per boe

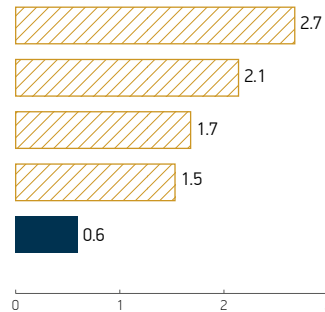
2016 free cash flow per barrel

■ LUKOIL  
▨ International majors

Free cash flow per barrel, US dollars per boe



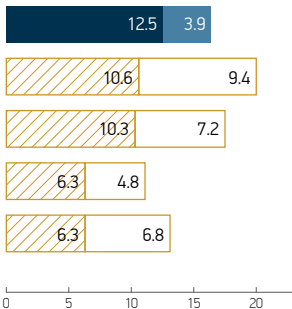
Net debt / EBITDA



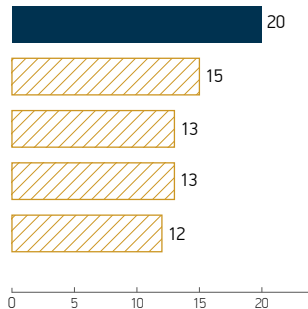
In 2016 we were the industry leaders in terms of free cash flow per barrel of production and maintained one of the lowest levels of leverage in the industry due to a well-balanced portfolio of assets, high degree of vertical integration and efficient cost management.

### RESOURCE BASE

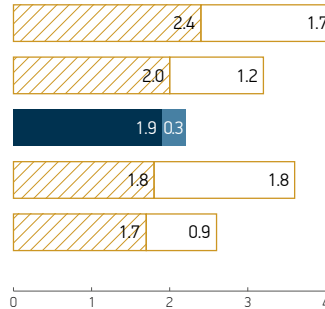
Proved hydrocarbon reserves, billion boe



Hydrocarbon reserves life, years



Hydrocarbon production, million boe per day



We have a vast resource base to support our future growth. Our proved hydrocarbon reserves life is 20 years. Notably, most of our reserves base is conventional, which allows us to maintain low development and production costs as compared to most other players in the industry.

### THE COMPANY'S POSITIONING IN THE GLOBAL AND RUSSIAN OIL AND GAS INDUSTRIES

**1%**  
of global proved oil reserves

**12%**  
of Russian oil reserves

**2%**  
of global oil production

All numbers are presented either for 2016 or for the year ended December 31, 2016, unless otherwise stated.

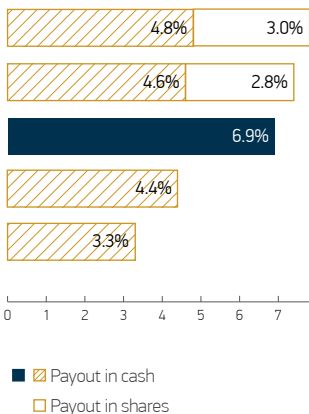
**DIVIDENDS**

**6.9%**

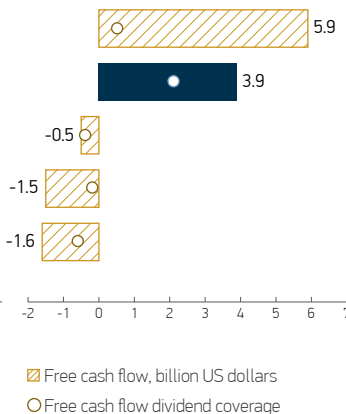
2016 dividend yield\*

\* Dividend yield for 2016 is calculated based on the recommended by the Board of Directors total dividend per share of RUB 195 for 2016 results and the average market price of PJSC LUKOIL shares on the Moscow Exchange.

**Dividend yield, %\***



**Free cash flow and dividends**



Despite the challenging macroeconomic environment, we keep increasing dividends to remain an industry leader in terms of dividend yield. Unlike a number of international competitors, we pay our dividends fully in cash.

**NEW PROGRESSIVE DIVIDEND POLICY**

**Financial stability**



Dividends



Investment



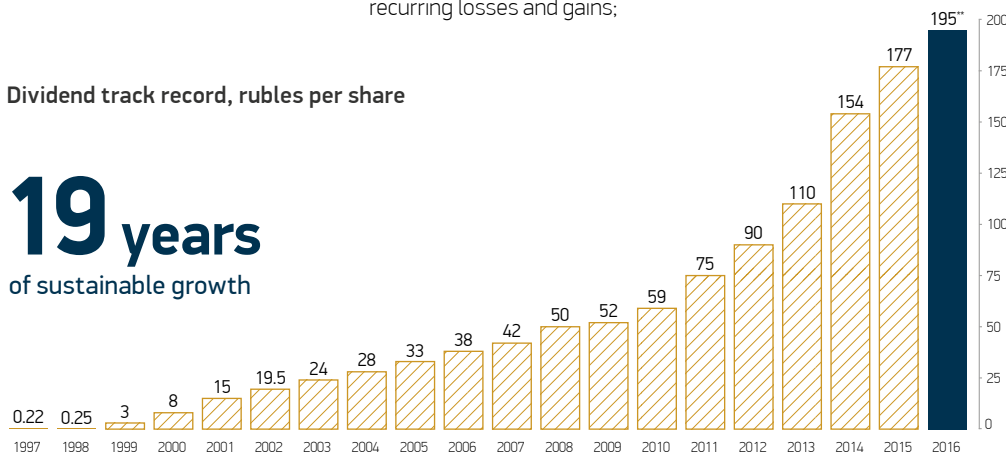
M&A

In October 2016, the Board of Directors approved a new progressive dividend policy that was presented to investors in April 2016. It is based on the following main principles:

- Dividends have priority over other payments;
- Commitment to provide the dividend payout ratio of not less than 25% of IFRS net income which can be adjusted for non-recurring losses and gains;
- The Company aims to provide annual growth of ruble-denominated dividend per share at least in line with ruble inflation for the reporting period.

**Dividend track record, rubles per share**

**19 years**  
of sustainable growth



\*\* Total dividend per share for 2016 recommended by the Board of Directors.

**15%**  
of Russian oil production

**2%**  
of global oil refining

**15%**  
of Russian oil refining

# FUNDAMENTAL DRIVERS AND TRENDS

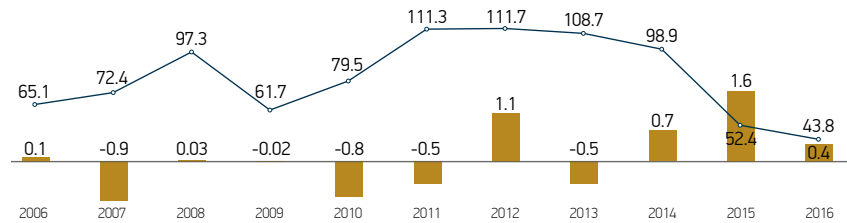
## GROWTH OF THE GLOBAL DEMAND FOR CRUDE OIL TO CONTINUE

### GLOBAL OIL PRICES

**\$80**  
per barrel

the oil price at which the industry will be able to deliver required supply volumes to match the growing demand in 2025

Global oil prices and demand vs. supply



↔ Average price of Brent crude, US dollars per barrel ● Demand vs. supply, million barrels per day Source: IEA

#### DEMAND

- Population
- Global economy
- Car fleet
- Fuel efficiency
- Electric vehicles
- Renewables

#### SUPPLY

- OPEC
- Independent producers
- Shale projects
- Production cost

#### OTHER FACTORS

- Investment cycles
- Supply interruptions
- Financial markets

### DEMAND

BY 2030:

**>1**  
billion people

growth in urban population

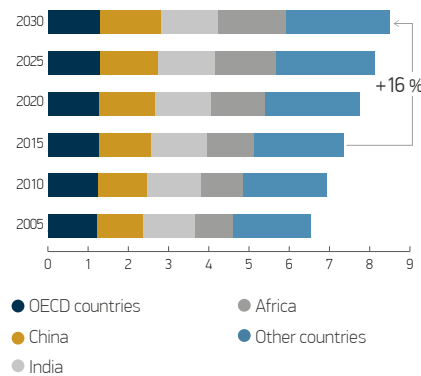
**>1**  
billion vehicles

growth in the global fleet of vehicles

**>13**  
million barrels per day

increase in demand for oil

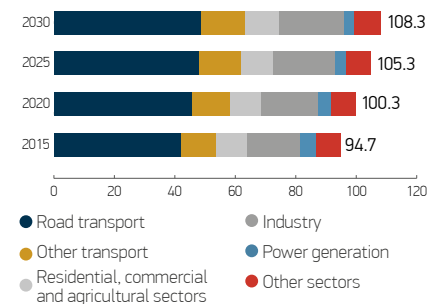
Global population, billion people



Source: UN

Oil demand is mainly driven by the global increase in urban population, in particular in the emerging markets such as India and China. Urbanization and, accordingly, higher household incomes contribute to higher oil consumption by households, and by the commercial and agricultural sectors.

Projected global demand for oil, million barrels per day



Source: IEA, PJSC LUKOIL's estimates

Conventional vehicles with internal combustion engines will continue to dominate the total global fleet of vehicles, despite a growing share of electric vehicles, which in turn will boost fuel efficiency and limit the oil price demand. Besides of transportation sector, other sectors such as air, rail, river and sea transportation services, as well as the industrial and petrochemical sectors contribute significantly to the overall growth in oil demand.

SUPPLY

3%

average annual production decline rate globally at producing fields until 2030

+29 million barrels per day

demand for new projects excluding conventional OPEC production by 2030

60% of global supply

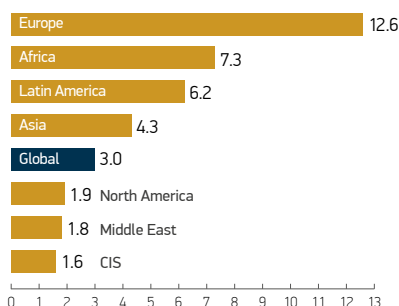
the share of independent players that own the most expensive-to-recover reserves

The Company factors in developments in the global oil and gas industry into its medium- and long-term planning.



For more details see: Major Trends In Global Oil Market to 2030. <http://www.lukoil.ru/FileSystem/PressCenter/78037.pdf>

Average annual production decline rates at producing fields, %

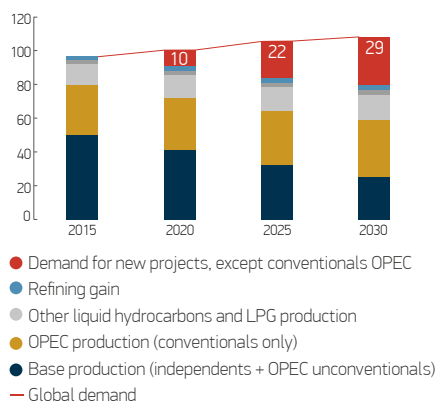


Source: Wood Mackenzie, PJSC LUKOIL's estimates

On the back of rising global crude oil demand, the market is expecting shortages due to the natural production decline at producing fields, and the delays in launching new projects after a period of significant underinvestment resulting from lower oil prices.

SUPPLY SOURCES

Demand for new projects, million barrels per day



Source: EIA, PJSC LUKOIL's estimates

**SHALE PROJECTS.** Low oil prices hit the balance sheets of shale producers forcing them to leverage up. The prospects for further growth in shale oil production in the US are mostly contingent on the trends in global oil and gas prices. Besides, with reserves depleting rapidly, the production costs of shale oil might rise going forward as companies will have to move to less productive areas of developed formations or tap new formations.

**UNCONVENTIONAL OIL.** Global oil prices will be significantly affected by expensive unconventional oil projects: deep-water projects, high-viscosity and tight oil projects. To match the demand, the equilibrium oil price should be around \$80 per barrel in 2025 (in 2015 prices).

**OPEC.** With the global resource base depleting and new field development getting more expensive, it will be the relatively cheap and stable production by OPEC that will stabilize the market by offering the basic supply to match the growing consumption.

# PROFESSIONAL TEAM

## EXECUTIVE BODIES



Vagit

**ALEKPEROV, 1950**

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

22.98\*

### PRESIDENT

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.

#### Changes to the Management Committee in 2016:

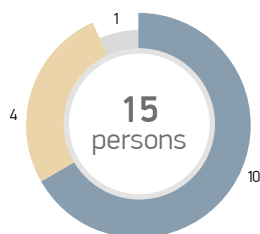
- early termination of powers of Sergei Malyukov
- Oleg Pashaev was added to the Management Committee

### MANAGEMENT COMMITTEE

The Management Committee is a collective executive body supervised by the Chairman of the Management Committee. It is in charge of the Company's day-to-day operations. Following the President's proposals, the Board of Directors appoints members of the Management Committee each year. In 2016, the Management Committee consisted of 15 persons.

For more details on the Management Committee see page 99

### Length of service in the Management Committee



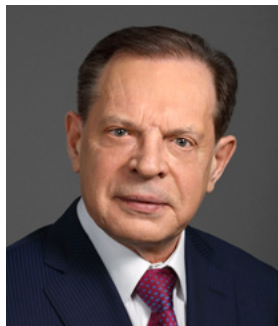
Over 7 years

1 to 7 years

Less than 1 year

%\* Share in charter capital of the Company (as of December 31, 2016)

\* Including direct and indirect ownership.



**Sergei KUKURA, 1953**

0.39%

- Member of the Management Committee
- First Vice President (Economics and Finance)



**Ravil MAGANOV, 1954**

0.38%

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



**Vladimir NEKRASOV, 1957**

0.04%

- Member of the Management Committee
- First Vice President (Refining, Marketing and Distribution)



**Alexander MATYTSYN, 1961**

0.31%

- Member of the Management Committee
- Senior Vice President for Finance



**Valery SUBBOTIN, 1974**

0.2\*

- Member of the Management Committee
- Senior Vice President for Sales and Supplies



**Azat SHAMSUAROV, 1963**

0.005%

- Member of the Management Committee
- Senior Vice President for Oil and Gas Production

The composition of Management Committee is presented as of December 31, 2016.





**Vadim VOROBYOV, 1961** 0.01%

- Member of the Management Committee
- Vice President for Oil Refining, Gas Processing and Petrochemicals



**Lyubov KHOBA, 1957** 0.36%

- Member of the Management Committee
- Vice President, Chief Accountant



**Anatoly MOSKALENKO, 1959** 0.02%

- Member of the Management Committee
- Vice President for HR Management and Security



**Oleg PASHAEV, 1967** 0.005%

- Member of the Management Committee
- Vice President for Oil Product Sales



**Denis ROGACHEV, 1977** 0.001%

- Member of the Management Committee
- Vice President for Procurement



**Gennady FEDOTOV, 1970** 0.007%

- Member of the Management Committee
- Vice President for Economics and Planning



**Evgeny KHAVKIN, 1964** 0.008%

- Member of the Management Committee
- Vice President, Chief of Staff of PJSC LUKOIL

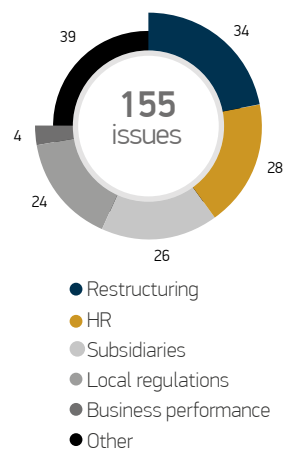


**Ivan MASLYAEV, 1958** 0.03%

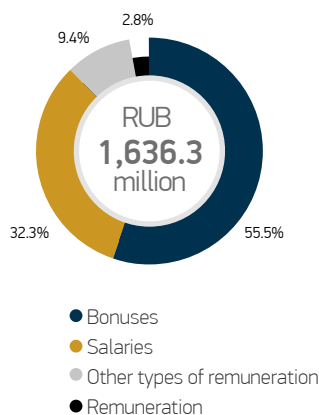
- Member of the Management Committee
- Vice President, General Counsel

**27**  
meetings in 2016

**Issues reviewed by the Management Committee**



**Payments\* to Members of the Management Committee in 2016**



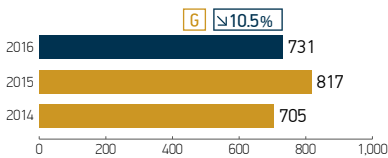
\* Including the amount paid to the President of PJSC LUKOIL.

# STRONG RESULTS

## KEY PERFORMANCE INDICATORS

### FINANCIAL PERFORMANCE

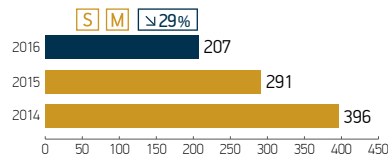
#### EBITDA, billion RUB



The financial result of our operations, a key analytical indicator used to calculate multiples for peer comparisons.

Lower EBITDA was mostly driven by lower compensation crude oil volumes from the West Qurna-2 project.

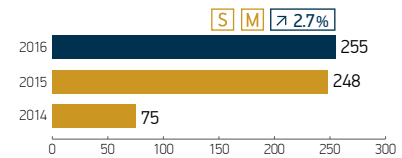
#### Net income, billion RUB



The key financial result; an accounting source to pay dividends.

Lower income was mostly due to the non-cash foreign exchange effect caused by high volatility in foreign exchange rates.

#### Free cash flow, billion RUB



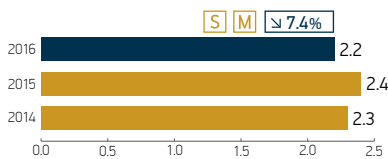
A key metric to estimate the Company's value; a cash source for dividend payment.

Stronger free cash flow in an adverse macroeconomic environment was mostly due to lower CAPEX.

### OPERATIONAL PERFORMANCE

#### EXPLORATION AND PRODUCTION

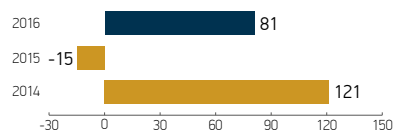
##### Marketable hydrocarbon production, million boe per day



Key operations indicator.

Oil production decrease was mainly driven by lower crude oil compensation volumes from the West Qurna-2 project as well as natural production decline at our fields in West Siberia. These factors were partially offset by the launch of new greenfields and increased production drilling in West Siberia.

##### Hydrocarbon reserve replacement ratio, %

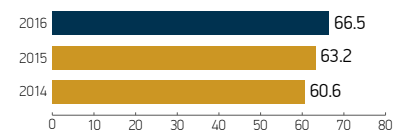


Reflects the Company's ability to ensure sustainable development through replacement of production with new reserves.

Based on the geological exploration results and the revision of previous estimates, LUKOIL added 0.7 billion barrels of oil equivalent to its proved reserves in 2016. Our proved reserves life is 20 years.

#### REFINING, MARKETING AND DISTRIBUTION

##### Light products yield, %



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

Higher yields of light petroleum products were due to the new conversion capacities launched at refineries in 2015–2016.

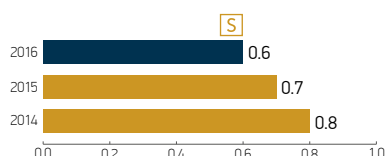
**S** Strategy KPI is used for strategy monitoring and the Group's performance assessment;

**G** Group's KPI is used for the Group's performance assessment;

**M** Motivation KPI is factored in when calculating the annual bonus payable to top managers and reflects team performance.

### FINANCIAL STABILITY

#### Net debt / EBITDA, %

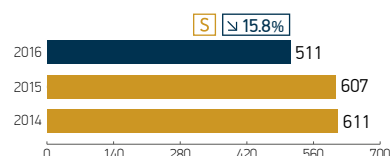


Reflects the level of debt burden.

Low leverage is the result of conservative financial policy and supports strong financial position in a volatile oil price and foreign exchange rate environment.

### THE RIGHT BALANCE

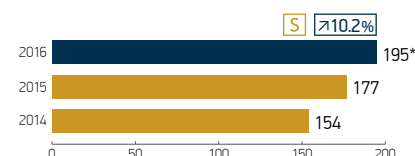
#### CAPEX, billion RUB



Cash flows reinvestment to support and develop business.

Lower capex in 2016 was mostly due to the completion of the major refinery upgrade program and lower investment in the international projects.

#### Dividend per share, RUB

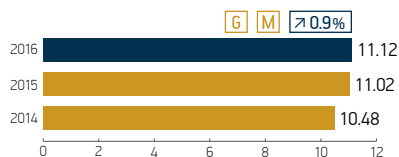


Cash distributions to shareholders in line with the Dividend Policy.

2016 is our nineteenth consecutive year of the dividend growth.

### HIGH LEVEL OF CORPORATE RESPONSIBILITY

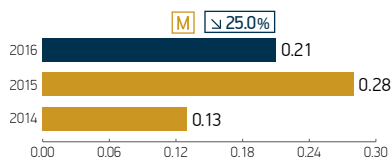
#### Associated petroleum gas (APG) utilization, billion cubic meters



The indicator directly affects the emissions into the atmosphere and is used to calculate the KPI for Ensuring the Required Level of Health and Safety and Environmental Protection (the HSE Compliance KPI). In addition waste water discharge and waste disposal rates are also used to calculate this KPI.

In 2016, APG utilization rate grew to 92.1% driven by new utilization facilities commissioned in Timan-Pechora.

#### Lost-time accident frequency rate



One of the key indicators used to calculate the KPI for Ensuring the Required Level of Health and Safety and Environmental Protection.

In 2016, the lost-time accident frequency rate decreased due to the decline in the number of accidents to 18 in 2016 as compared to 24 in 2015.

\* Total dividend per share for 2016 recommended by the Board of Directors.

# CHAIRMAN'S LETTER



“We recognize the importance of the ongoing development and thus we seek to continuously improve our corporate governance system. We understand that this is one of the key factors behind the Company’s investment thesis and an essential foundation for achieving our strategic goals”

## Dear Shareholders,

We are pleased to report that LUKOIL has again confirmed the ability to effectively develop large scale strategic projects while maintaining strong financial stability and demonstrating sufficient flexibility and adequate levels of control in managing key operational and financial indicators and risks despite the challenging macroeconomic environment. It is in a tough environment like this, a Company’s **strategy effectiveness**, business model and governance system can be ascertained.

Our achievements during the reporting year across all business development areas lay the foundation for the future growth and sharpening of the Company’s competitive edge. The Company’s **vertically integrated business model** demonstrated excellent performance amid the low oil price environment while the well-developed corporate governance system contributed to finding efficient business solutions and minimizing risks.

LUKOIL’s corporate governance system is based on **international best practices** and incorporates the principles of openness and transparency, regulatory requirements, the listing rules of the Moscow Exchange and the London Stock Exchange and the Corporate Governance Code recommended for implementation by the Central Bank of Russia.

Guided by “**Always Moving Forward,**” we recognize the importance of the ongoing development and thus we seek to continuously improve our corporate governance system. We understand that this is one of the key factors behind the Company’s investment thesis and an essential foundation for achieving our strategic goals.

In the recent years, we have been gradually implementing the principles and recommendations of the **Corporate Governance Code** of the Bank of Russia and putting into effect the necessary changes to ensure compliance with the new listing rules of the Moscow Exchange.

The key developments of 2016 include the **introduction of the Corporate Secretary role** in line with the requirements of the Corporate Governance Code, as well as improvements to the internal audit, internal control and risk management systems. We also updated a vast range of internal documents regulating the activities of the Board of Directors and its committees.

These efforts increased the rate of full or partial compliance with the principles of the Corporate Governance Code to 97%, or by 5 p.p. versus 2015, with the Company’s corporate governance system now incorporating **all key elements** of international best practice.

The rate of full or partial compliance with the principles of the Corporate Governance Code increased to 97%, or by 5 p.p. versus 2015.

☞ See page 80

There were also changes in the composition of the Board of Directors. In 2016, **Sergei Mikhailov** stepped down, having served on the Board for 12 years. His extensive business experience and membership in non-governmental organizations enabled him to make valuable contributions to the Board’s activity. We would like to thank Mr. Mikhailov for many years of his service on the Board of Directors and continuous involvement in the work of its committees.

In 2016, **Toby Trister Gati** was elected to the Board of Directors. She has many years of experience in government relations, international relations and legal affairs. We are delighted to welcome Ms. Gati to the Board of Directors.

We believe that the current Board of Directors is well balanced in regard to its composition (the ratio of independent, executive and non-executive directors), independence and skills. Having a significant number of **independent directors** on the Board and its committees ensures impartiality and a high quality of managerial

decisions that take into account the interests of various stakeholders and ensure consistency in the implementation of the Company's strategy.

The **composition of the board committees** involved in the decision-making process on key issues related to the strategy, investment programs, remuneration of the Company's management, internal audits and control, deserves special recognition. As such, the Audit Committee is comprised exclusively of independent directors; the majority of the members of the Human Resources and Compensation Committee are independent, while the Strategy and Investment Committee includes independent members one of whom is the Committee Chairman. This composition ensures objectivity and expertise regarding key issues related to strategy implementation monitoring, the Company's operations and the remuneration of top management.

We continue to improve **the system of protection of minority shareholders' rights**. As a result, we introduced the update to Information Policy Regulation and approved the Regulations on Provision of Information to shareholders of PJSC LUKOIL, as well as the new Dividend Policy.

We intend to continue developing our corporate governance system to enhance the Company's efficiency and competitive

edge. Our **highly professional, motivated team** is committed to achieve the Company's strategic goals and creating shareholder value. I see this as the key competitive advantage of PJSC LUKOIL, which has supported and will continue to support the Company's successful sustainable growth.

I am pleased to present the Board of Directors' 2016 report on PJSC LUKOIL's development results in priority business areas.

In 2016 Toby Trister Gati was elected to the Board of Directors. She has many years of experience in government relations, international relations and legal affairs.

☞ See page 83

Having a significant number of Independent Directors on the Board and its committees ensures impartiality and high quality of managerial decisions that take into account the interests of various stakeholders and ensure consistency in the implementation of the Company's strategy.

☞ See page 87



**Valery Grayfer**  
Chairman of the Board of Directors  
of PJSC LUKOIL

# Board of Directors' Report on the Development Results in Priority Business Areas

## EXPLORATION AND PRODUCTION



### MACROECONOMIC OVERVIEW

In 2016, the year-average price of Brent crude fell by 16.5% year-on-year to \$43.7 per barrel, a twelve-year low.

Along with the oversupply of 1.7 million barrels per day during the fourth quarter of 2015 as reported by IEA, the decline in prices at the beginning of 2016 was driven by the increase in the key interest rate by the US Federal Reserve and negative statistics on China's GDP growth hitting its lowest level in the past 25 years. The price slump put a lot of pressure on production of high-cost barrels and resulted in the shrinking supply of such barrels, which

in turns positively impacted supply and demand balance. The November 2016 decision by OPEC and a number of non-OPEC countries to reduce production volumes has had a significant impact on the market rebalancing. This joint coordination of efforts has led to the growth in oil prices driven by the expectations of lower supply. In December 2016, Brent oil prices increased to over \$55 per barrel, reaching the highest levels for 2016.

Being influenced by the oil price dynamics, the Russian ruble weakened by 9% to the US dollar with the resulting average annual

exchange rate of RUB 67 per US dollar, which in turn positively impacted the ruble-denominated oil prices.

In 2016, Mineral Extraction Tax (MET) base rate increased by 12%, while the crude oil export duty base rate remained unchanged to the 2015 levels. Given the progressive nature of oil industry-related taxes, the ruble-denominated oil prices, net of MET and export duty, increased by 5%, which positively impacted the financial results of the E&P segment.

### Russian oil exporter's revenue breakdown

	2014	2015	2016	Change, 16/15, %
	<b>\$ per barrel</b>			
Urals crude price	97.6	51.4	42.1	-18.1
MET	20.7	14.1	11.8	-16.8
Export duty	50.0	16.4	10.3	-37.1
<b>Net revenue</b>	<b>26.9</b>	<b>20.9</b>	<b>20.0</b>	<b>-4.1</b>
	<b>RUB per barrel</b>			
Urals crude price	3,747.5	3,136.6	2,820.7	-10.1
MET	795.0	861.1	788.1	-8.5
Export duty	1,921.3	1,000.5	692.5	-30.8
<b>Net revenue</b>	<b>1,031.3</b>	<b>1,274.9</b>	<b>1,340.1</b>	<b>5.1</b>



**RESERVES**

LUKOIL Group has proved hydrocarbon reserves in six countries. The major part of the proved reserves (around 90%) is conventional, which is the Company's most important competitive advantage ensuring low development and production costs per barrel.

As of the end of 2016, the Group's SEC proved hydrocarbon reserves amounted to 16.4 billion boe, with oil accounting for 76.1% of this amount. Our reserves life is 20 years as compared to the average of 12 years among the world's largest private oil and gas companies. LUKOIL is one of the leading Russian and international companies in terms of proved reserves and their quality.

Russia accounts for 88% of the Group's proved hydrocarbon reserves, concentrated mainly in West Siberia. Offshore fields and high-viscosity oil comprise around 10% of the proved reserves. About a half of the proved

reserves in international projects is located in Uzbekistan, where the Company is actively developing its gas projects.

Around 57% of the Company's proved hydrocarbon reserves is classified as developed, i.e. they can be extracted from existing wells using the available technology and equipment. A large share of undeveloped reserves supports the future production growth potential.

Available contingent resources of 14.4 billion boe provide potential for increasing proved reserves as macroeconomic environment improves, development plans evolve, new technologies are introduced, or pilots are carried out.

In 2016, LUKOIL increased its proved reserves by 673 million boe, driven by the results of exploration and revisions to previous estimates. Exploration activities

and related discoveries, as well as production drilling in the traditional regions of the Company's operations in Russia and abroad accounted for 556 million boe of the increase in proved reserves. Revisions to previous estimates increased proved reserves by another 117 million boe. This revision-driven increase was mostly attributed to the Company's growing effective share of reserves in Uzbekistan and Iraq.

The hydrocarbon reserve replacement ratio was 81%, for crude oil – 85%. These results were achieved despite the decline in the annual average crude price to a twelve-year low and the higher MET base rate.

**Hydrocarbon reserves and 3C contingent resources, million boe**

	2014	2015	2016	Change, 16/15, %
<b>Total proved reserves</b>	<b>17,585</b>	<b>16,558</b>	<b>16,398</b>	<b>-1.0</b>
Crude oil	13,594	12,585	12,482	-0.8
Gas	3,991	3,973	3,916	-1.4
Developed	9,916	9,710	9,421	-3.0
Undeveloped	7,669	6,848	6,977	1.9
Russia	15,826	14,617	14,370	-1.7
International projects	1,759	1,941	2,028	4.5
<b>Probable reserves</b>	<b>6,823</b>	<b>6,760</b>	<b>6,684</b>	<b>-1.1</b>
<b>Possible reserves</b>	<b>3,375</b>	<b>3,216</b>	<b>2,981</b>	<b>-7.3</b>
<b>3C contingent resources</b>	<b>11,969</b>	<b>13,881</b>	<b>14,366</b>	<b>3.5</b>

Independent audit of the proved reserves was carried out by Miller and Lents for the entire economic life of the fields.



## LICENSES

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

As of the end of 2016, the Group held 514 licenses in Russia, with 90% of them granting either 'hydrocarbon exploration and production' or 'hydrocarbon prospecting, exploration and production' rights. The average remaining validity period of these licenses is 25 years. Some of the licenses are entirely unique in terms of use, e.g. the license for the Imilorskoye field in West Siberia is of 'federal significance' (i.e. primary importance for the national economy) and is valid till 2127. The remaining 10% of the Company's licenses grant the right to 'prospect, explore and appraise hydrocarbon deposits' and have the average remaining validity period of 3.5 years.

In 2016, the Group took part in seven and won six subsoil license auctions. In the reporting period, 15 new licenses were added to the Company's portfolio of oil and gas assets, including four licenses for the Baltic Sea deposits discovered earlier. LLC Tsentralnaya Oil and Gas Company (with a 50/50 ownership split between JSC National Company KazMunayGas and a joint venture LLC Tsentrcaspneftegas, owned by PJSC LUKOIL and PJSC GAZPROM), obtained a hydrocarbon

exploration and production license at the Tsentralnaya structure in the Caspian Sea for 27 years.

In the reporting period, the Group obtained 271 amendments to the existing subsoil licenses, had 84 licenses renewed, registered 36 license extensions, voluntarily terminated licenses for three areas, and completed license updates as instructed by the President of Russia.

### Number of licenses as of December 31

	2014	2015	2016
<b>Total</b>	<b>483</b>	<b>502</b>	<b>514</b>
Exploration and production	355	355	361
Prospecting and appraisal	35	47	47
Geological survey, exploration and production	93	100	106





**EXPLORATION**

**2016 RESULTS**

- Discovered 13 fields and 71 deposits;
- Prepared the roadmap for the Vostochno-Taimyrsky license area development and launched the first exploration phase;
- Completed Exploration and Development Concept for the Baltic Sea bed;
- Completed the construction of prospecting well No. 2 at field D33 in the Baltic Sea;
- Launched the construction of a prospecting well at the Khazri structure in the Caspian Sea;
- Discovered the Eridu field at Block 10 in Iraq following the successful drilling of the first prospecting well.

**2017 PRIORITIES**

- Caspian Sea – further prospecting and exploration at the Titonskaya, Khazri and Yuzhnaya structures;
- Baltic Sea bed – follow-on exploration at earlier discovered fields and prospecting on new promising sites;
- Vostochno-Taimyrsky area – completion of seismic surveys and drilling of the first prospecting well;
- Iraq – drilling of the second well at Block 10 for follow-on exploration and appraisal of oil reserves at the recently discovered Eridu field.

LUKOIL Group carries out exploration in ten countries, concentrated mostly in Russia. Overseas exploration projects are focused on the Gulf of Guinea, Norway’s section of the Barents Sea bed, Mexico, Iraq, and the Black Sea.

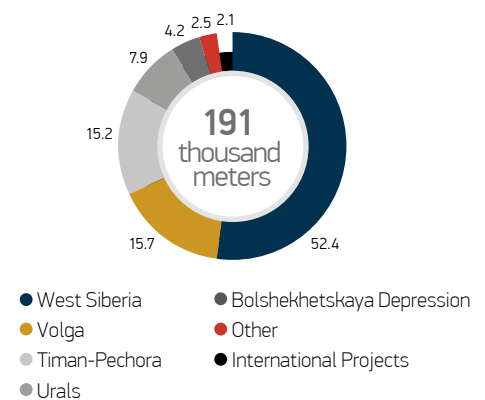
Exploration activities consistently yield good results. In 2016, the Company completed construction of 54 prospecting wells with an 87% success rate. In West Siberia, including the Bolshekhetskaya Depression, and in the Caspian Sea, 100% of prospecting wells were successful. The Company discovered 13 new fields and 71 deposits. We believe that our success is driven by advanced exploration techniques and selection of the most promising areas based on research results.

Total exploration drilling remained flat year-on-year with 191 thousand meters drilled in 2016, but there was more than a fourfold increase in exploration drilling in the Caspian Sea. Exploration drilling in West Siberia, Urals and Timan-Pechora regions increased by 61%, 67% and 45%, respectively. Our exploration drilling activity was lower in the international projects and the Volga region. The exploration

drilling in the international projects decreased by 83%, mostly due to the West Qurna-2 project.

2D seismic surveys decreased by 76% following the completion of seismic activities in West Siberia in seven new license areas obtained at the license auctions in 2013 and the launch of the next project phase. Exploration capital expenditures amounted to RUB 37,180 million.

**Exploration drilling in 2016, %**



**Exploration**

	2014	2015	2016	Change 16/15, %
2D seismic survey, km	6,224	9,984	2,371	-76.3
3D seismic survey, square km	4,312	6,075	6,332	4.2
Exploration drilling, km	268	191	191	0
Exploration capital expenditures, RUB million	44,621	71,269	37,180	-47.8

## KEY EXPLORATION PROJECTS IN 2016

### VOSTOCHNO-TAIMYRSKY LICENSE AREA

The Vostochno-Taimyrsky license area in West Siberia is our largest and most promising exploration project. A subsoil license was obtained in 2015 by LLC LUKOIL-West Siberia, the Company's subsidiary. A roadmap for the license area development was approved in 2016, with the Company having completed 1,891 km of 2D seismic surveys versus annual plan of 1,000 km. Drilling of the first prospecting well is scheduled for 2017.

### CASPIAN SEA

One of the Company's priorities is further exploration in the Caspian Sea, given the potential synergies with major field discoveries made in the region earlier. In 2016, the Company completed the construction of Sarmatskaya-3, a 3,350-meter prospecting well at the Yu. Kuvykin field. As a result, the geological structure of the field's northern part was defined that led to an upward revision of the gas and condensate reserves. 200 square kilometers were surveyed with 3D seismic methods to define the geological structure of the field's southern part.

Construction of Khazri-1 prospecting well was launched to explore the geological structure of the southern part of the Central Caspian license area, identify potential reservoirs and evaluate their production potential.

### BALTIC SEA

The Company has unparalleled expertise in the Baltic Sea operations, which allows to minimize risks associated with the development of new fields and shorten new project lead times. Proximity to export markets and own transportation infrastructure reduces the transportation expenses and improves cost efficiency of operations in the region. In 2016, the Company finalized its Exploration and Development Concept for the Baltic Sea based on the fields discovered in 2015.

In the reporting period, we completed the construction of 2,350-meter prospecting well No. 2 at field D33. When tested, the well produced a gushing oil flow. New drilling data made it possible to define the subsurface structures and location of the third prospecting well.

We approached the final stage of 3D seismic data interpretation, which will be used to update resources of the Baltic Sea fields discovered in 2015 and promising sites.

### INTERNATIONAL PROJECTS

Most international exploration activities were concentrated in Iraq and Nigeria.

A new oil field Eridu was discovered at Block 10 in Iraq (LUKOIL as a project operator and INPEX CORPORATION holding 60% and 40%, respectively) following the drilling of prospecting well No. 1 with the depth of 3,168 meters. This field is the first large discovery made in Iraq for the last 20 years. The drilling activity revealed oil-saturated productive reservoirs in the Mishrif Formation. Tests on the Mishrif horizon in 2017 produced a low-sulphur oil flow at the rate of over 1,000 cubic meters per day. In 2017, we intend to launch drilling and testing of prospecting well No. 2.

In Nigeria, two oil deposits were discovered with the 5,601-meter Nsiko North-2X prospecting well completed at Block OML-140 (LUKOIL – 18%, NNPC – 30%, Chevron as an operator – 22%, and ONG – 30%).

In Romania, 1,000 square kilometers of the Trident project seismic data were reinterpreted with the new drilling data to define the available resources and location of promising sites at Block EX-30 (LUKOIL as an operator – 72%, PanAtlantic – 18%, and RomGas – 10%).



**DEVELOPMENT AND PRODUCTION**

**2016 RESULTS**

- Launched production at 15 fields, including the Filanovsky field (in the Caspian Sea) and the Pyakyakhinskoye field (in the Bolshekhetskaya Depression in the north of West Siberia);
- Increased production drilling at mature fields in West Siberia; delivered a 2x reduction in production decline rate in the region;
- Increased high-viscosity oil production in Timan-Pechora by 9.0% due to development of the Yaregskoye field and the Permian-Carboniferous deposit at the Usinskoye field;
- Increased production in the Denisovskaya Depression in Timan-Pechora by 4.7%;
- Continued pilot operations in the Imilorsko-Istochny license area;
- Launched the construction of the Kandym gas processing plant in Uzbekistan.

**2017 PRIORITIES**

- The Yu. Korchagin field in the Caspian Sea – construction and installation of a wellhead offshore platform;
- The V. Filanovsky field in the Caspian Sea – installation of offshore Ice-Resistant Platform 2 and Living Quarters Platform-2; drilling of production wells;
- The Bolshekhetskaya Depression – start-up of gas production at the Pyakyakhinskoye field;
- West Siberia – increase in production drilling to slow down production decline rates;
- Timan-Pechora – further growth of heavy crude oil production;
- Uzbekistan – launch of a gas treatment unit at Southwest Gissar and further construction of the Kandym gas processing plant.

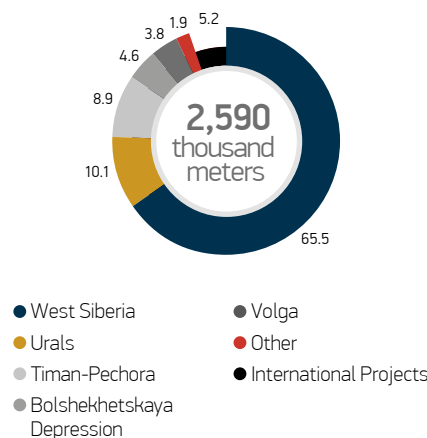
**Marketable hydrocarbon production, thousand boe per day**

	2014	2015	2016	Change 16/15, %
<b>Total</b>	<b>2,314</b>	<b>2,379</b>	<b>2,202</b>	<b>-7.4</b>
Liquid hydrocarbons	1,992	2,052	1,875	-8.6
Gas	322	327	327	0.0

LUKOIL Group produces oil and gas in six 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 the Southern Federal District (the Volgograd Region, the Astrakhan Region, and the Republic of Kalmykia).

In 2016, production of marketable hydrocarbons totaled 2.2 million boe per day, including 85.1% made up by liquid hydrocarbons, and natural and associated gas accounting for the remaining 14.9%. In 2016, capital expenditures in oil and gas development declined 2.8% year-on-year to RUB 407 billion.

**Production drilling in 2016, %**



**CRUDE OIL**

In 2016, the Company produced 92.0 million tonnes of crude oil, including 83.2 million tonnes of oil produced in Russia, representing 15.2% of Russia's total oil production, as reported by CDU TEK.

Commissioning of the large V. Filanovsky and Pyakyakhinskoye fields in the second half of 2016, the increase in production drilling in West Siberia, and the growing production in the Timan-Pechora and Urals regions positively influenced Company's oil production.

Wide application of advanced technologies helped to increase the high-viscosity oil production at the Yaregskoye and Usinskoye fields in Timan-Pechora. We also benefitted from strong production growth at other fields in this region – the R. Trebs and A. Titov (LUKOIL holding 25.1% in the JV) – and fields in the Denisovskaya Depression. In the Urals, the production growth was associated with the active development of earlier commissioned fields and commercial adoption of new technologies. Apart from the V. Filanovsky and Pyakyakhinskoye fields, production of hydrocarbons was launched at 13 new fields, mostly in Timan-Pechora and the Volga region, driving higher rates of the Group's total oil production.

The key negative factor influencing the production was a 52.8% decrease in compensation crude oil from the West Qurna-2 project in Iraq due to higher amount of historical costs reimbursement in 2015. Another negative factor was the 2015 disposal of the Company's stake in Caspian Investment Resources Ltd. operating in Kazakhstan.

Production declines in West Siberia are associated with the natural depletion of mature fields. To minimize its negative effect, the Company actively uses enhanced oil recovery (EOR) techniques at depleted fields and develops promising areas in the region: for example, production at the Imilorskoye field plus the Zapadno-Imilorskoye field increased by 42% (by 143,000 tonnes) following the drilling and commissioning of 41 production wells. Commissioning the new wells at the V. Vinogradov field in 2015–2016 drove our oil production up by 41% (by 95,000 tonnes).

In 2016, production drilling across the Group reached a total of 2,590 thousand meters, with 828 new production wells put in operation. The share of horizontal wells rose to 28.6% from 22.0% in 2015.

A 7.6% increase in production drilling by LLC LUKOIL-West Siberia in 2016 and the commissioning of the Pyakyakhinskoye field delivered a 2x reduction in the decline rates in the region (December 2016 vs. December 2015). In the reporting year, we made a decision to continue with increasing production drilling at the region's mature fields to minimize the declines in the future even further.

Driven by high flow rates at the V. Filanovsky and Pyakyakhinskoye fields, the average flow rate for the Group's new horizontal wells grew almost twofold, while the average flow rate across the new wells, including directional wells, increased by 5.6%. As of the end of the reporting year, there were 30,000 oil production wells in operation.

## GAS

Marketable gas production in 2016 remained almost flat year-on-year at 20.3 billion cubic meters.

Production rates were boosted by international projects, which demonstrated an 8.0% increase in production to 7.6 billion cubic meters. International projects accounted for 37% of the marketable gas produced by the Company, with two thirds of this volume coming from Uzbekistan.

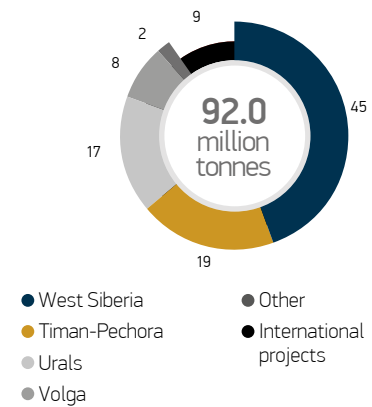
The successful implementation of the Southwest Gissar and Kandym-Khauzak-Shady projects in 2016 made it possible to increase production in Uzbekistan by 8.0% (for the share attributable to the Group). Gas projects in Uzbekistan are key drivers of the future production growth.

Marketable gas production was also increased in Kazakhstan at the Tengiz and Korolevskoye projects and at the Karachaganak field, with the Group's share growing by 8.3% and 16.0%, respectively.

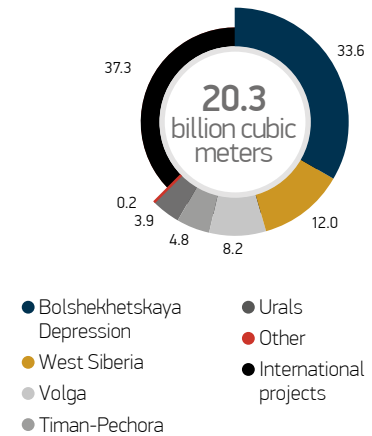
In Russia, marketable gas production in 2016 declined by 3.7% to 12.7 billion cubic meters. The Company's major gas field is Nakhodkinskoe, which accounts for 53.5% of our marketable gas production in Russia.

In 2016, the Pyakyakhinskoye field's gas infrastructure was prepared for commissioning in 2017. Once launched, it will significantly increase gas production in Russia.

## Oil production structure in 2016, %



## Marketable gas production structure in 2016, %





**GROWTH PROJECTS**

With its vast resource base, the Company is specifically focused on implementing new projects to boost production. These projects include both development of new fields and recovery enhancement at mature fields through the use of 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 and set the ground for nine field discoveries with combined recoverable reserves of 1.07 billion tonnes of reference fuel in this region. In 2016, we commissioned the V. Filanovsky field, continued the construction of Phase 2 at the Yu. Korchagin field, and launched the FEED for the Rakushechnoye field project.

**V. FILANOVSKY FIELD**

The V. Filanovsky field, discovered in 2005, is the largest oil field in the Russian sector of the Caspian Sea, with annual target production of 6 million tonnes of crude oil. Commercial production at the field started on October 31, 2016 when Phase 1 of the field construction was launched.

The Phase 1 infrastructure includes the Riser Unit (RU), Ice Resistant Platform (IRP), Central Processing Platform (CPP), Living Quarters Platform (LQP), and Head Onshore Facilities (HOF).

The field has a unique geology: highly permeable collectors yield record high initial flow rates.

In 2016, three horizontal wells were drilled, each more than 3,000 meters in total measured depth, with their horizontal sections reaching beyond 1,000 meters. The initial flow rate of each well exceeded 3,000 tonnes per day, which is 80x higher than average for the other new wells drilled by the Company. The field produces high quality light low-sulphur oil.

The field's output is exported via the pipeline system operated by the Caspian Pipeline Consortium (CPC). The oil quality bank maintained by the CPC ensures that the Company gets fair selling prices that reflect the high quality of its crude. Since 2017, the associated petroleum gas from the field is scheduled for supply to the Stavrolen oil and gas chemical complex to be further processed into marketable gas and petrochemical products.

The field's infrastructure drives considerable synergies for other Caspian projects. Specifically, the production start-up at the field enabled us to start oil shipments from the Yu. Korchagin field via the CPC pipeline system, reducing transportation costs. Further projects that are planned to be developed by the Company in the Caspian will also seek to capture synergies with the V. Filanovsky field infrastructure. For example, the output from the Rakushechnoye field is to be delivered for treatment to the V. Filanovsky field's CPP and then exported via the CPC pipeline system. The Yu. Kuvykin field can also benefit from the transportation infrastructure of the V. Filanovsky field.

As of the end of the reporting year, the V. Filanovsky field produced 9,400 tonnes of crude oil per day. Further development of the field will focus on drilling new production and injection wells, and construction of the Phase 2 and Phase 3 infrastructure.

**YU. KORCHAGIN FIELD**

The Yu. Korchagin field was discovered in 2000 and became the first field put on stream by LUKOIL in the Caspian. The field started producing in 2010. When developing the field and constructing the field infrastructure, the Company successfully tested sophisticated technological solutions and gained considerable experience and extra knowledge of the region's geology. For instance, the Company successfully applied anti-ice solutions, including heated ice fences, and reinforced anti-seismic and anti-erosion structures and piles.

All the solutions that proved to be successful during the construction at the Yu. Korchagin field are currently applied by the Company to maximize the development efficiency of the Caspian Sea fields.

The field's construction project includes two phases. Phase 1 infrastructure comprises an ice-resistant platform with drilling facilities, a living quarters platform, and an offshore transshipment facility used to ship crude oil before relevant facilities were commissioned at the V. Filanovsky field.

In 2016, to tap the reserves of the field's Eastern part, the construction of Phase 2 infrastructure project was under way comprising a wellhead platform for drilling of up to nine wells, and subsea pipelines and power cables to connect the Phase 1 ice-resistant platform.

**RAKUSHECHNOYE FIELD**

The Rakushechnoye field was discovered in 2001 and will be the next project scheduled for implementation in the Caspian region. As the field is very close to the V. Filanovsky field, the Company plans to take advantage of the existing infrastructure to shorten the lead times and reduce the field construction costs. In 2015, we drilled a 1,650-meter exploration well at the Rakushechnoye field, which allowed us to reclassify all reserves of the field as B1 reserves. All exploration activities at the field were completed. In 2016, the Group ran a bidding procedure and signed a contract to develop front-end engineering design (FEED) for the field construction.

## **BOLSHEKHETSKAYA DEPRESSION (NORTHERN PART OF WEST SIBERIA)**

The Bolshekhetskaya Depression's fields are the key gas producing assets operated by the Company in Russia. In 2016, its Nakhodkinskoye field, put on stream in 2005, produced 6.8 billion cubic meters of gas. In 2016, we also commissioned the Pyakyakhinskoye field with a target annual production of 5 billion cubic meters of gas. In the medium-term, the Company is also planning to develop the Yuzhno-Messoyakhskoye, Khalmerpayutinskoye and other fields of the Bolshekhetskaya Depression.

### **PYAKYAKHINSKOYE FIELD**

Oil production was launched at the Pyakyakhinskoye oil and gas condensate field in October 2016. The field's infrastructure includes a metering station, a field support base, a pump station of the pressure-maintenance system, an oil treatment unit, and a petroleum gas compressor station.

Since the Pyakyakhinskoye field has a challenging geology complicated by gas caps and oil rims, its core assets are developed through horizontal drilling, including multilateral wells. As of the end of 2016, 113 wells were drilled, including 78 oil wells, of which 30 wells are multilateral wells. Their average daily flow rate exceeds 80 tonnes of crude oil, which is twice as high as the average flow rate of new wells across the Group.

As of the end of 2016, the average daily production of oil and gas condensate at the field was 3,300 tonnes. The oil from the field is supplied to the Zapolyarye–Purpe pipeline.

In 2016, the gas production infrastructure of the field was prepared for launch: the marketable gas from the field will be transported via a trunk gas pipeline to a compressor station near the Nakhodkinskoye field and subsequently pumped to the Yamburgskaya gas compressor station.

## **TIMAN-PECHORA**

The Timan-Pechora oil and gas province has great potential for high-viscosity oil production growth. Mainly deposited at the Yaregskoye and Usinskoye fields, heavy crude oil accounts for approximately 5% of the Group's proved hydrocarbon reserves. The development of these reserves is stimulated through special tax rates.

### **YAREGSKOYE FIELD**

The Yaregskoye field is the Group's largest source of high-viscosity oil. In 2016, the field's output grew by 23% to 913,000 tonnes.

Facilities commissioned at the field include: Phase 1 of the Center steam unit producing 100 tonnes of steam per hour, Phase 1 and Phase 2 of the Lyayel steam unit with a total capacity of 200 tonnes of steam per hour, a water treatment unit producing 700 tonnes of water per hour, and Phase 1 of an oil processing and gathering facility. The capacity of the Phase 1 oil processing and gathering facility is 1.75 million tonnes of crude oil per year.

The Group drilled 286 wells by thermal mining at the Yaregskaya structure for a total length of 132,000 meters, and commissioned 31 surface steam injection wells. We also launched pilot operation of oil mines using an upgraded single-horizon system.

The Lyayel structure of the Yaregskoye field uses the steam-assisted gravity drainage technology in a network of horizontal wells with bore lengths of up to 1,000 meters. In 2016, 13 production wells were commissioned.

### **USINSKOYE FIELD**

The Permian-Carboniferous deposit at the Usinskoye field has excessively high-viscosity oil and is developed through thermal recovery methods. In 2016, the field's Permian-Carboniferous deposit produced 2,198,000 tonnes of crude oil, an increase of 3.9% year-on-year.

In the reporting year, Phase 1 of the 100 MW Usa power generating center was launched, providing production facilities of the Usinskoye field and fields of the Denisovsky license area with an independent source of power supply. The Usa power generating center will also contribute to higher utilization of associated petroleum gas, which will be used at the Company's local power generation facilities. In 2016, seven steam units and 28 wells were commissioned at the field.

## **WEST SIBERIA (EXCLUDING THE BOLSHEKHETSKAYA DEPRESSION)**

West Siberia is the Company's core oil producing region (44.6% of LUKOIL Group's crude oil output) and its core resource base (49.3% of the LUKOIL Group's proved crude oil reserves).

The region's prospects will mostly rely on the development of hard-to-recover reserves. A strategic goal of the Company is, therefore, to develop relevant technology capabilities, including through pilot operation.

### **IMILORSKO-ISTOCHNY LICENSE AREA**

The Imilorsko-Istochny license area consists of two fields: the Imilorskoye field plus the Zapadno-Imilorskoye field, and the Istochnoye field. By leveraging the Group's developed infrastructure nearby, LUKOIL can tap into the considerable geological potential of these fields at a shorter time and a lower cost. In 2016, crude oil output from the fields grew 42% to 485,000 tonnes.

We successfully commissioned 41 new wells (including 14 wells with horizontal completion), constructed two exploration wells and discovered a new oil deposit. Horizontal wells benefit from using the MZHF technology, including the predefined port activation sequence (TTS technology). This innovative approach enabled 20%–60% higher crude flow rates as compared to the standard MZHF technology and substantially improved technical and economic performance of assets with hard-to-recover reserves. The technology was tested on ten field wells and showed consistently strong performance.

### INTERNATIONAL PROJECTS

The growth prospects of hydrocarbon production for international projects mainly depend on the development of gas fields in Uzbekistan.

#### UZBEKISTAN

In 2016, Uzbekistan accounted for 25% of the marketable gas produced by the Company, with the Group's production share having increased by 8.0% to 5.1 billion cubic meters. In Uzbekistan, the Company is implementing two gas projects – Kandym-Khauzak-Shady and Southwest Gissar.

At Southwest Gissar, a 4.8 billion cubic meter gas treatment unit and a booster station were prepared for launch in 2017. Once these facilities are commissioned, we will be able to achieve our set production targets.

At the Kandym-Khauzak-Shady project, in April 2016, we started the construction of the Kandym gas processing plant with an annual capacity of 8 billion cubic meters of gas to produce treated natural gas and stable gas condensate. This plant will become one of the largest of its kind in Central Asia.

The plant includes the first and second process lines of a gas processing facility, external power and water supply facilities, a gathering system and an export gas pipeline, a field camp, a fire station, and other facilities.

In 2016, all core equipment was delivered to the site, with the overall progress in the construction of the plant almost at 50% as of the year-end. Phase 1 of the plant is scheduled for completion in 2018 with the capacity of 4 billion cubic meters of gas per year. The launch of the Kandym gas processing plant in 2018 will boost gas production in the region.



### TECHNOLOGIES

LUKOIL has been actively developing and deploying advanced technologies to maximize hydrocarbon recovery and streamline its operations and technological solutions. These efforts enhance our performance, reduce costs, involve new reserves into production, increase the oil recovery ratio, and help develop new products. The Company is pursuing its R&D program, which is focused on innovative development through deployment of cutting-edge solutions and technologies.

The use of latest technologies has a major upward effect on our oil recovery and production rates, and the commercial development of high-viscosity, tight and hard-to-recover oil reserves at mature fields.

#### HI-TECH DRILLING

In 2016, we commissioned 237 horizontal wells with an average daily flow rate of 79 tonnes, including 87 MZHF wells. The share of horizontal wells grew by 6.5 p.p. year-on-year to 28.6%.

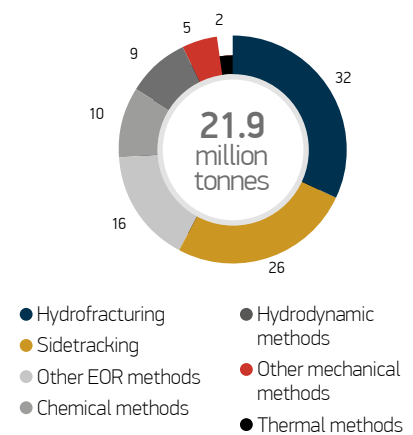
### ENHANCED OIL RECOVERY

In 2016, 27% of the Company's oil in Russia was produced with enhanced oil recovery (EOR) methods.

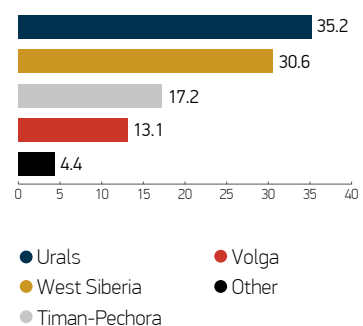
LUKOIL uses mechanical, chemical, hydrodynamic and thermal techniques to stimulate productive formations. In 2016, EOR methods were used at 7,300 wells, up 5.4% year-on-year. Mechanical methods were the biggest contributor to the incremental output growth (13.8 million tonnes).

Sidetracking was no less efficient, and the Group continued to rely heavily on this EOR technique in 2016. The Group drilled a total of 184 sidetracks in 2016, which brought incremental output to 5.8 million tonnes of extra crude, including production from sidetracks drilled in the previous years. Such high efficiency is primarily due to robust R&D mini-projects based on hydrodynamic modeling and more accurate forecasting of geology and reserves where sidetracks are drilled. Importantly, sidetracks are mainly drilled at idle wells in order to recover residual oil.

#### Incremental production from EOR technologies\* in 2016, %



#### Incremental production from EOR technologies as a share of total production in the region\* in 2016, %



\* Including carry-overs.

## NEW TECHNOLOGIES IMPLEMENTED IN 2016

**In the North Caspian**, the Company introduced a leading-edge technology in the construction of an exploration well using DigiScope 475 – a high-speed MWD (measurements-while-drilling) telemetry service to transmit annular gamma ray logging, pressure and temperature data to surface for real-time reservoir description.

**In Timan-Pechora**, the Company developed and successfully implemented measures to reduce the accident rate in prospecting and exploration drilling, which, enhanced by well construction management based on the daywork drilling model, accelerated commercial exploratory drilling by 24% year-on-year.

**In the Urals**, oil and gas exploration is complicated due to the significant amount of protected environmental zones, and development of potash magnesium salt deposits. In order to reach oil bearing reservoirs beyond a 500-meter salt-deposit protected area, a 4,620 meter exploration well with a horizontal leg of 3,088 meters was drilled at the Rostovitskoye field.

**In West Siberia**, the Company continued to actively implement the Maximum Reservoir Contact (MRC) well concept. In 2016, we commissioned 63 multilateral wells featuring two to five bores. At the Severo-Pokachevskoe field the well 1188g was drilled with a horizontal leg of 1,350 meters and 13-zone MZHF.

## HIGH-VISCOSITY OIL

The Company actively applies advanced technologies to recover high-viscosity oil. Most expertise in recovering high-viscosity oil reserves comes from Timan-Pechora, where the Group develops the Yaregskoye and Usinskoye fields. In 2016, LUKOIL used thermal EOR techniques at both fields to recover 3.1 million tonnes of high-viscosity oil.

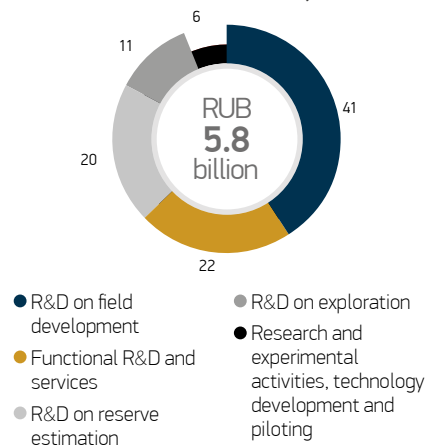
## R&D – RESEARCH AND DEVELOPMENT

The corporate R&D program provides for the development of production technologies for the Bazhenov Formation and recovery of tight oil. At refineries operated by the Group, research effort is focused on achieving higher oil refining depth, capacity upgrades and enhanced energy and economic performance. Our R&D program also benefits from partnerships with field-specific universities.

In 2016, our R&D program covered the following areas:

- Slim hole sidetracking
- Gas and water alternating gas injection in Aptian deposits of the V. Filanovsky field
- Optimizing drilling mud for horizontal drilling in Devonian deposits
- Developing a highly inhibitive water-based drilling mud system for large slope angle horizontal drilling
- Creating a multi-functional reagent to enhance oil recovery
- Optimizing a method to separate ethylene from dry gas from catalytic cracking units at the Nizhny Novgorod Refinery
- Improving the environmental state of surface and underground waters in the area of the Perm Refinery
- Bench testing of new lubricants

R&D cost breakdown in 2016, %





## REFINING, MARKETING AND DISTRIBUTION



### MACROECONOMIC OVERVIEW

In 2016, the average margin of the benchmark refinery in the European part of Russia reduced by nearly 2x year-on-year to \$2 per barrel. The negative impact came from the reduced difference between export duties for crude oil and petroleum products, driven by falling oil prices, as well as from considerable increases in motor fuel excise tax rates as from January 1 and April 1, 2016 and an increase in the fuel oil base rate from 76% to 82% of the crude oil export duty as from January 1, 2016. A reduction in the base rates of export duties for light petroleum products had a positive impact on refining margins. In particular, the diesel fuel duty base rate went down from 48% to 40% as from January 1, 2016.

Average refining margins across the Group's Russian refineries were considerably higher than the benchmark margins due to a larger share of light petroleum products in the output mix. An increased share of light petroleum products versus 2015 had a positive impact on the margins of the Company's refineries.

The benchmark refinery margin in Europe was high in 2016, at \$5 to \$8 per barrel, but still 25% lower than in 2015 due to lower gasoline and diesel fuel spreads. Changes in the spreads for fuel oil used as refinery feedstock had a negative impact on the margins of some of the Company's European refineries.

Retail margins in Russia were under pressure from growing motor fuel excise tax rates. The negative impact was partly offset by the Company's higher retail sales driven by the distribution network optimization.

#### Excise tax rates on petroleum products in Russia, RUB per tonne

	2014	2015	2016	Change, 16/15, %
<b>Motor gasoline</b>				
Euro-4	9,916	7,300	12,454	70.6
Euro-5	6,450	5,530	9,484	71.5
Diesel fuel	4,767	3,450	5,009	45.2

#### Petroleum products export duty rates, as % of crude oil rate

	2014	2015	2016	Change, 16/15, p.p.
Motor gasoline	90	78	61	-17
Diesel fuel	65	48	40	-8
Fuel oil and vacuum gas oil	66	76	82	6
Lubricants	66	48	40	-8



## OIL REFINING

## 2016 RESULTS

- Completed the major upgrade program, with Russia's largest vacuum gas oil refining facility commissioned at the Volgograd Refinery;
- Units commissioned in 2015 reached design capacity;
- Implemented a large-scale efficiency enhancement program at all refining facilities operated by the Group:
  - Increased the utilization rates of secondary refining facilities through cross supplies of products between the Company's refineries;
  - Optimized the feedstock mix of the Ukhta and Nizhny Novgorod Refineries and expanded the mix to reduce fuel oil output;
  - Increased the light petroleum products output;
  - Implemented measures to improve energy efficiency and cut costs.

## 2017 PRIORITIES

- Improve the petroleum product slate by achieving design capacity at the vacuum gas oil deep conversion complex of the Volgograd Refinery;
- Increase cross supplies of petroleum products between Russian refineries to improve utilization of secondary processes.

LUKOIL Group integrates four refineries in Russia (in Perm, Volgograd, Nizhny Novgorod and Ukhta) along with three refineries in Europe (in Italy, Romania and Bulgaria) and has a 45% interest in a refinery in the Netherlands. The aggregate capacity of these refineries is 82.1 million tonnes, i.e. 88% of the Company's liquid hydrocarbon production in 2016.

In 2016, the Group's own and affiliated refineries processed 66.1 million tonnes of oil feedstock, up 2.4% year-on-year. Russian refineries accounted for 63% of the aggregate processing volumes.

## Oil feedstock refining and petroleum products output at LUKOIL Group refineries

	2014	2015	2016	Change, 16/15
<b>Feedstock processing, thousand tonnes</b>	<b>66,570</b>	<b>64,489</b>	<b>66,061</b>	<b>2.4%</b>
<b>Petroleum products output, thousand tonnes</b>	<b>64,118</b>	<b>60,900</b>	<b>62,343</b>	<b>2.4%</b>
Gasolines (motor and straight-run)	23.3%	25.7%	26.5%	0.8 p.p.
Middle distillates (diesel fuel, jet fuel, etc.)	39.8%	41.7%	42.7%	1.0 p.p.
Fuel oil and vacuum gasoil	27.4%	24.9%	20.8%	-4.1 p.p.
Lubricants and components	2.0%	1.9%	2.0%	0.1 p.p.
Other products	7.5%	5.8%	8.0%	2.2 p.p.
<b>Light product yield</b>	<b>60.6%</b>	<b>63.2%</b>	<b>66.5%</b>	<b>3.3 p.p.</b>
<b>Refining depth</b>	<b>80.1%</b>	<b>81.5%</b>	<b>85.2%</b>	<b>3.7 p.p.</b>
<b>Nelson Index</b>	<b>7.6</b>	<b>8.2</b>	<b>8.9</b>	<b>0.7 p.</b>

Refining depth, light petroleum product yield and Nelson Index exclude mini-refineries and include the impact of cross-supplies of commercial petroleum products between the Group's refineries.

## RUSSIAN REFINERIES

In 2016, the throughput at Russian refineries remained flat year-on-year at 41.8 million tonnes. Following the output mix improvement driven by the duly completed upgrade program and by optimized utilization of secondary processes, the Group's Russian refineries posted strong financial results in 2016 despite the unfavorable macroeconomic environment. Capital expenditures of Russian refineries totaled RUB 28 billion in 2016, down 49% year-on-year. The decrease was due to the completion of the major upgrade program at our refineries.

In 2016, Russia's largest vacuum gas oil hydrocracker with the capacity of 3.5 million tonnes per year was commissioned at the Volgograd Refinery, and was the last milestone of a major upgrade program at the Group's Russian refineries. The hydrocracker enables an increase of 1.8 million tonnes per year in the output of Euro-5 compliant diesel fuels, 0.6 million tonnes per year of motor gasoline

components, and 0.1 million tonnes per year of liquefied gases. These products will be in demand primarily in Southern Russia.

At the Ukhta and Nizhny Novgorod Refineries the feedstock mix was expanded, with over 200,000 tonnes of gas condensate processed, thus increasing the output of diesel fuel and gasoline with no incremental fuel oil production.

The Ukhta Refinery improved its methodology and developed a standard to manage the new Change Management business process that identifies and removes bottlenecks. There are further plans to roll out this approach across the Group's refining facilities.

Commissioning of new refining units in 2015–2016, optimization of secondary processes utilization and expansion of the feedstock mix helped considerably improve the output mix and reduce the share of fuel oil and vacuum gas oil with a shift towards the increased share of light petroleum products.

In the reporting year, light product (excluding products of mini-refineries) yield was 62.9% (2015: 58.9%). The refining depth (excluding mini-refineries) reached 84.7% (2015: 79.9%), mainly driven by the newly commissioned

residue refining facility at the Perm Refinery, virtually phasing out fuel oil production.

Starting from 2014, the Company has been successfully implementing the Lean Six

Sigma tool to improve performance at its Russian oil refineries. Significant progress was achieved at the Nizhny Novgorod and Volgograd Refineries.

**Key performance metrics of the Group’s Russian refineries in 2016**

Refinery	Feedstock processing, million tonnes	Products output, million tonnes	Light product yield, %	Refining depth, %	Nelson Index
<b>Total</b>	<b>41.8</b>	<b>39.6</b>	<b>62.9</b>	<b>84.7</b>	<b>7.5</b>
Perm Refinery	11.9	11.1	65.9	96.6	9.4
Volgograd Refinery	12.9	12.4	58.5	91.7	6.9
Ukhta Refinery	2.9	2.7	45.3	69.7	3.9
Nizhny Novgorod Refinery	15.5	14.8	61.9	73.7	7.3
Mini-refineries in Uray and Kogalym	0.2	0.2	–	–	–
Cross-supplies	(1.6)	(1.6)	–	–	–

**EUROPEAN REFINERIES**

In 2016, the throughput at the Group’s European refineries increased by 7.4% to 24.3 million tonnes, following an increase in the capacity utilization rates driven by high refining margins, as well as the implementation of operational excellence programs.

The hydrocracker of the Heavy Residue Refining Facility at the Burgas Refinery (Bulgaria) reached its design capacity, bringing the yield of light petroleum products at the Group’s European refineries to 72.7% (72.1% in 2015) and the refining depth to 86.0% (84.5% in 2015).

In 2016, the capital expenditures of the Group’s European refineries totaled RUB 10.1 billion, down 45.0% year-on-year.

**Key performance metrics of the Group’s European refineries in 2016**

Refinery	Feedstock processing, million tonnes	Products output, million tonnes	Light product yield, %	Refining depth, %	Nelson Index
<b>Total</b>	<b>24.3</b>	<b>22.7</b>	<b>72.7</b>	<b>86.0</b>	<b>11.6</b>
Ploiești Refinery, Romania	2.8	2.7	80.5	99.5	10.0
Burgas Refinery, Bulgaria	6.8	6.4	72.9	82.7	13.0
ISAB Refinery, Italy	9.8	8.7	70.9	88.1	9.3
Zeeland Refinery, Netherlands (LUKOIL’s share)	4.9	4.9	71.6	78.8	8.4



## PRODUCTION AND MARKETING OF LUBRICANTS

### 2016 RESULTS

- Increased the sales of high-margin products (LUKOIL-branded and high-margin lubricants);
- Increased the Group's share in the global market for marine lubricants to 10% (9.5% in 2015);
- Launched the construction of the lubricants plant in Kazakhstan;
- Obtained over 150 new approvals from global industrial equipment manufacturers and over 140 approvals from leading car manufacturers;
- Expanded the product mix to 700 items.

### 2017 PRIORITIES

- Pursue import substitution further on;
- Increase the share of high added value products;
- Expand the distribution geography;
- Strengthen global cooperation with machinery and equipment manufacturers;
- Develop new business segments.

LUKOIL Group markets oils and lubricants in over 100 countries and its production facilities include seven own sites, two joint ventures and 24 contracted plants. Russian assets comprise full cycle production facilities at the Perm and Volgograd Refineries, a lubricant blending plant in Tyumen and INTESMO joint venture producing lubricants in Volgograd. LUKOIL's overseas production assets include own plants in Romania, Finland, Turkey and Austria, as well as LUKOIL-NAFTAN in Belarus, a joint venture producing additives. In 2016, 45% of lubricants in Russia were produced at facilities operated by LUKOIL Group.

### Lubricant production, thousand tonnes

	2014	2015	2016	Change, 16/15,%
Full cycle lubricant production	973	812	917	12.9
Lubricant blending	121	117	118	0.9

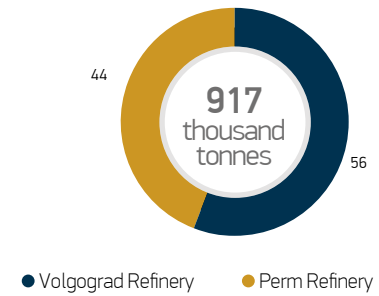
In 2016, total lubricant production increased by 11% to 1,035 thousand tonnes, and sales of LUKOIL-branded premium motor and industrial oils were up 22.4%. Production and distribution growth was driven, among other factors, by the actively implemented import substitution program and a favorable market environment. In 2016, LUKOIL launched the construction of a lubricants plant in Kazakhstan the capacity of 100 thousand tonnes per year to be engaged in blended lubricant production. The plant is scheduled for commissioning in 2018. Given its advantageous location at the crossroads of major transport routes, its priority sales markets are China and Central Asia.

One of the Group's key priorities is to develop its product mix in line with modern requirements. In 2016, we developed 50 new lubricant grades and changed the formula of 60 products; the product mix was expanded to 700 items. LUKOIL started producing a fundamentally new type of products – premium lubricating coolants for the metal processing industry.

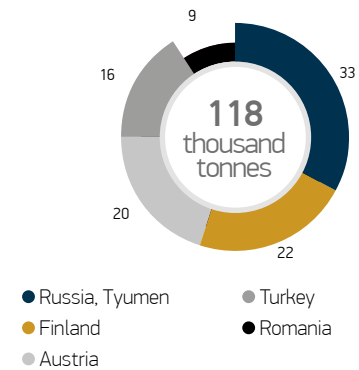
In 2016, LUKOIL became the largest Russian supplier of first fill lubricants to car manufacturers in Russia and Europe. New consumers of LUKOIL lubricants include Ford, Volkswagen and Lifan factories. We also continued to collaborate with Renault-Nissan, GM, Chery, MAN, GAZ and KAMAZ.

The Company places a strong emphasis on developing partnerships with authorized service stations, which are key drivers of

### Full cycle of lubricant production in 2016, %



### Lubricant blending in 2016, %



future demand for lubricants. In 2016, supplies to authorized service stations increased by more than 60%. The Company's customer base doubled. Landmark contracts were signed with new partners: DAIMLER KAMAZ RUS LLC, Klyuchavto Group, PANAUTO LLC, AGAT Group and Hino Motors Sales LLC.



**GAS PROCESSING**

**2016 RESULTS**

- Increased the processing capacity following the launch of a gas processing unit at Stavrolen.

**2017 PRIORITIES**

- Maximize synergy from vertical integration by increasing APG utilization, growing the output of liquid hydrocarbons and marketable gas, and providing feedstock to the Group’s power generating assets.

**Gas processing, million cubic meters**

	2014	2015	2016	Change, 16/15, %
<b>Total</b>	<b>3,221</b>	<b>3,660</b>	<b>3,901</b>	<b>6.6</b>
Lokosovsky GPP	2,049	1,944	953	-51.0
Perm Refinery with gas processing facilities	468	995	1,134	14.0
Korobkovsky GPP	433	434	418	-3.7
Usinsky GPP	271	287	137	-52.2
Stavrolen	–	–	1,259	–

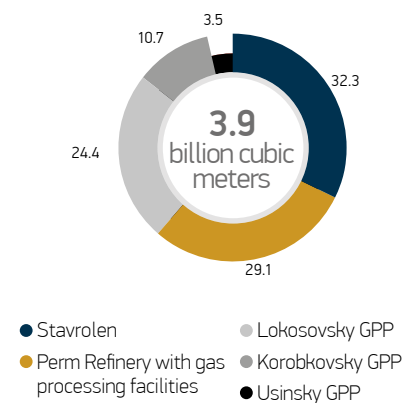
LUKOIL Group processes gas and natural gas liquids at three gas processing plants (GPPs) in West Siberia, Timan-Pechora and Volga regions, as well as at the Perm Refinery and on the site of Stavrolen oil and gas chemical complex in the Stavropol Territory. The Group’s GPPs process APG extracted by LUKOIL in Russia into liquid hydrocarbons and marketable gas.

In 2016, the natural and petroleum gas throughput increased by 6.6% to 3.9 billion cubic meters, mainly due to the gas processing unit launched at Stavrolen complex in Budennovsk with an annual capacity of 2.2 billion cubic meters. The unit enables utilization of APG from

North Caspian fields and ensures own gas supplies to LUKOIL Group’s new power generating facilities in the Stavropol Territory commissioned in 2015 (CCGT-135 in Budennovsk). Natural gas liquids produced at the gas processing unit are supplied as feedstock to Stavrolen’s petrochemical facilities.

In 2016, the output of natural gas liquids at the Group’s GPPs was 1.3 million tonnes versus 1.7 million tonnes in 2015. Marketable gas production declined by 2.8% in 2016 to 2.5 billion cubic meters due to the temporary suspension of operations at the Lokosovsky GPP in the second half of 2016.

**Gas processing in 2016, %**





## PETROCHEMICALS

### 2016 RESULTS

- Increased the marketable products output by 18%;
- Increased the sodium cyanide output following the expansion of the production line at Saratovorgsintez in 2015.

### 2017 PRIORITIES

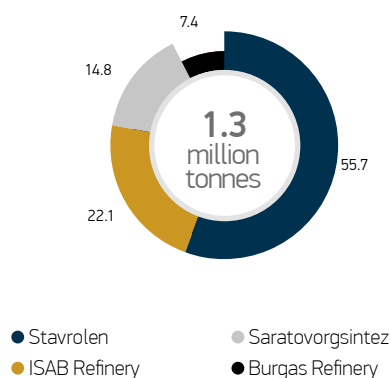
- Expand the sodium cyanide and acrylonitrile production capacity at Saratovorgsintez;
- Expand the mix of branded polymers at Stavrolen.

### Feedstock processing and output of petrochemicals

	2014	2015	2016	Change, 16/15
<b>Feedstock processing*, thousand tonnes</b>	<b>656</b>	<b>1,180</b>	<b>1,313</b>	<b>11.3%</b>
<b>Marketable products output, thousand tonnes</b>	<b>669</b>	<b>1,074</b>	<b>1,270</b>	<b>18.3%</b>
Pyrolysis products, %	24.3	34.0	34.8	0.8 p.p.
Organic chemicals, %	66.1	44.6	40.0	-4.6 p.p.
Other, %	9.4	21.2	25.1	3.9 p.p.

\* Excluding Burgas Refinery.

### Output of petrochemicals in 2016, %



LUKOIL Group produces petrochemicals at two plants in Russia, as well as at refineries in Italy and Bulgaria. The output includes pyrolysis products, organic chemicals, fuel fractions and polymers. LUKOIL meets a significant portion of domestic demand for various chemicals and is also a major exporter of chemicals to more than 30 countries.

In 2016, the Company increased its output of petrochemicals by 18.3% to 1.3 million tonnes, mainly due to the effect of the low production base at Stavrolen in 2015. Stavrolen has one of the largest

pyrolysis units in Russia. In the reporting year, the plant upgrade was completed in the result of which the share of gas in the processed feedstock can be increased up to 75%. Gas is supplied to the plant via a pipeline leading to the GPU-1 gas processing unit where it is separated into natural gas liquids and dry stripped gas. Natural gas liquids are supplied to a pyrolysis unit to be processed into petrochemical products, while dry gas goes to a power unit and to Gazprom's gas transportation system. The new vertically integrated chain allowed to monetize the Caspian gas reserves with maximum efficiency.



**POWER GENERATION**

**2016 RESULTS**

- Commissioned Phase 1 of the Usa power generating center in Timan-Pechora;
- Commissioned a power generating center at the V. Filanovsky field;
- Completed investment projects at the Krasnodar and Rostov CHPPs;
- Optimized the production capacity at LUKOIL-Astrakhanenergo, LUKOIL-Rostovenergo and LUKOIL-Kubanenergo.

**2017 PRIORITIES**

- Complete the construction of a power generating center at the Yaregskoye field;
- Implement measures to optimize operation modes for existing boiler plants and power plants.

The Company's power generation segment is represented by a fully vertically integrated chain, from generation to transmission and distribution of heat and power to external consumers (commercial power generation) and for own needs (supply power generation). The aggregate power generation capacity of the Group entities is 5.8 GW, with commercial power generation accounting for 73% and supply power generation accounting for 27%. Power generating facilities in the Group's asset portfolio help strengthen vertical integration and ensure high APG utilization rates while at the same time reducing electricity costs at its production facilities.

**Commercial electricity and heat generation**

	2014	2015	2016	Change, 16/15, %
Electricity, million kWh	17,145	17,776	18,303	3.0
Including from renewable energy sources, million kWh	874	652	967	50.0
Heat, million Gcal	14.1	12.8	12.4	-3.1

**Commercial electricity output and heat supplies**

	Electricity output, billion kWh	Heat supplies, million Gcal
<b>Total</b>	<b>18.3</b>	<b>12.4</b>
LUKOIL-Kubanenergo	38%	10%
LUKOIL-Astrakhanenergo	23%	16%
LUKOIL-Volgogradenergo	17%	34%
LUKOIL-Rostovenergo	10%	33%
LUKOIL-Stavropolenergo	6%	3%
LUKOIL-Ecoenergo	4%	–
Energy and Gas Romania	2%	4%

**COMMERCIAL POWER GENERATION**

The Group's main commercial heat generating facilities are located in the south of the European part of Russia. In particular, LUKOIL accounts for 99% of electricity generation in the Astrakhan Region and 62% in the Krasnodar Territory. In 2016, the Group's commercial electricity generation totaled 18.3 billion kWh, up 3% year-on-year. Heat production totaled 12.4 million Gcal, down 3% year-on-year.

In 2016, LUKOIL was engaged in re-equipment, upgrade and optimization of process schemes at the Krasnodar and Rostov central heating and power plants (CHPPs). Under the Wholesale Capacity Supply Agreement, which guarantees return on investment in the construction of modern CHPPs, generating facilities producing 949 MW were commissioned in the south of Russia, exceeding the obligations under the Agreement by 59 MW.

The commissioned facilities include a CCGT-410 (combined cycle gas turbine) at the Krasnodar CHPP, a CCGT-110 and CCGT-235 in Astrakhan, and a CCGT-135 at Stavrolen. Thus, the Company completed the investment cycle in commercial power generation, driving a significant reduction of capital expenditures.

### RENEWABLE POWER GENERATION

Renewable power generating facilities also contribute to commercial power generation. The Group's core assets comprise four hydro power plants (HPPs) located in Russia with an aggregate capacity of 296 MW and an output of 765 million kWh in 2016.

One of the Company's priority hydro generation projects is the modernization of the Belorechensk HPP. In 2016, the Company performed a comprehensive pre-project study of the power plant, identified key technical solutions, and developed project and tender documents. The modernization will extend the operation of the Belorechensk HPP by at least 40 years, increasing the efficiency and reliability of green electricity generation.

The Group also operates two solar power plants at its own refineries with a capacity of 9 MW in Romania and 1.3 MW in Bulgaria.

These plants, built on unused industrial sites within the refineries, supply electricity to local grids. A similar project to build a 10 MW solar power plant is currently underway at the Volgograd Refinery.

In addition, the Group owns the 84 MW Land Power wind power plant in Romania, which benefits from state support to renewable power generation. In 2016, the annual output of the plant totaled 190 million kWh.

### SUPPLY POWER GENERATION

Development of in-house electricity generation at its fields and plants helps the Group to reduce its electricity costs and increase the APG utilization as a fuel for gas-fired power plants.

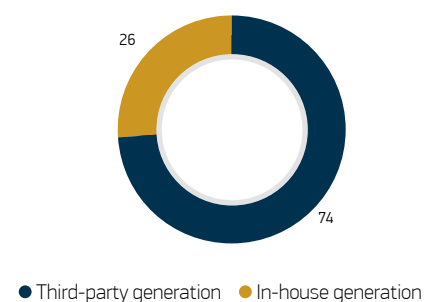
In 2016, supply power generation at the Group's oil and gas production, processing and distribution entities totaled 5,339 million kWh, up 27% year-on-year. In-house generation accounts for 26% of the total electricity consumption for production purposes across the Group.

In 2016, the Group's supply power generation capacity increased by 32% to 1.5 GW due to the launch of a power generating center at the V. Filanovsky field in the Caspian Sea,

as well as the 100 MW Phase 1 of the Usa power generating center providing independent power supply to the production facilities of the Usinskoye field and fields of the Denisovsky license area in Timan-Pechora.

In 2016, construction of the Yarega power center generating 75 MW of electricity and 92 Gcal per hour of heat was underway in Timan-Pechora. The facility is scheduled for commissioning in 2017. The construction of the power generating center will secure electricity and heat supplies to consumers at the Yaregskoye field and to the production facilities of the Ukhta Refinery.

### Power consumption by the Group's production entities in 2016, %



### WHOLESALE AND TRADING

#### 2016 RESULTS

- Increased transshipment through Company-owned oil marine terminals by 13%.

#### 2017 PRIORITIES

- Diversify sales markets;
- Increase the share of transportation via our own infrastructure.

LUKOIL sells crude oil, gas and petroleum products in the domestic and international markets, driving optimal distribution of flows to fit the market and maximize net revenue. The Company owns crude oil and petroleum products transshipment facilities, as well as pipelines, which helps minimize transportation costs. The Group integrates a well-developed trading arm to maximize the efficient sales of own crude oil and petroleum products and generate extra income from sales of purchased hydrocarbons.

In 2016, the aggregate sales of crude oil and petroleum products totaled 196.7 million tonnes, down 3.7% year-on-year, mainly due to lower volumes of compensation oil from West Qurna-2 in Iraq and lower trading volumes in some segments, driven by changes in market conditions.



## CRUDE OIL

In 2016, crude oil sales went down by 1.9% to 77.4 million tonnes, primarily due to growing supplies to European refineries and declining production, which was partly offset by higher trading volumes. Far-abroad markets accounted for ca. 87% of crude oil sales; 9% were sold in Russia and 4% in the CIS.

The Company sold 7.1 million tonnes of crude oil in the domestic market, down 34.3% year-on-year, mainly due to changes in the demand for crude oil from key Russian consumers. In 2016, the Company's crude oil exports from Russia dropped by 0.8% to 33.9 million tonnes. The share of exports beyond the Customs Union grew from 89% to 91%, mainly due to a 32% production growth in the North Caspian and at the Yaregskoye field (export duty benefits are applied to oil from these fields). Crude oil international sales increased to 70.3 million tonnes, or by 3.3%, mainly driven by the growing trading volumes.

However, the best way to maximize profits from the crude oil produced by the Group was processing at own refineries. In 2016, oil shipments to the Group's refineries in Russia reached 41.8 million tonnes, almost flat year-on-year. Feedstock shipments to the Group's European refineries in 2016 totaled 24.3 million tonnes, up 7.4% year-on-year. Capacity utilization rates increased across the Group's European refineries, with the biggest gains recorded at the plants operated in Italy and Romania. Oil shipments for processing at third-party refineries amounted to 0.7 million tonnes.

## PETROLEUM PRODUCTS

In 2016, sales of petroleum products amounted to 119.3 million tonnes, down 4.8% year-on-year, mainly due to lower trading volumes in some segments, driven by changes in market conditions. The reduction was partly offset by the petroleum products output growth at the Group's refineries.

Domestic sales accounted for ca. 17.7% of total, or 21.2 million tonnes, having increased by 6.8% year-on-year mainly due to the

## Oil shipments and sales, million tonnes

	2014	2015	2016	Change 16/15, %
Sales in Russia	11.1	10.8	7.1	-34.3
Shipments to own Russian refineries	45.3	41.9	41.8	-0.2
Exports from Russia	29.8	34.2	33.9	-0.8
International sales	51.0	68.1	70.3	3.3
Shipments to own European refineries	16.9	18.8	20.4	8.1

## Sales of petroleum products, million tonnes

	2014	2015	2016	Change, 16/15, %
<b>Total</b>	<b>118.2</b>	<b>125.3</b>	<b>119.3</b>	<b>-4.8</b>
Domestic market	21.4	19.8	21.2	6.8
International market	96.9	105.5	98.1	-7.0

## Exports of petroleum products, million tonnes

	2014	2015	2016	Change, 16/15, %
<b>Total</b>	<b>23.4</b>	<b>20.4</b>	<b>18.1</b>	<b>-11.3</b>
Diesel fuel	7.3	7.3	8.0	9.6
Motor gasoline	0.2	0.3	0.4	44.2
Aviation fuel	0.1	0.2	0.2	27.0
Lubricants	0.6	0.6	0.6	5.0
Fuel oil	8.1	6.8	3.7	-45.6
Other	7.1	5.3	5.2	-1.9

growth of light petroleum products output and sales. Retail sales in Russia amounted to 9.8 million tonnes, up 2.9% year-on-year.

In 2016, exports of petroleum products from Russia declined by 11.3% to 18.1 million tonnes following a reduction in the share of fuel oil in the output mix of the Group's Russian refineries. Exports of fuel oil were down 45.6%, and its share in the total exports of petroleum products reduced from 33.3% in 2015 to 20.4% in 2016. At the same time, exports of diesel fuel increased by 9.6%, with its share in the exports mix growing to 44.3%.

Petroleum products sold in the international market accounted for 82%. International wholesale sales were down to 94.0 million tonnes following a decline in trading. International retail sales also declined and totaled 4.1 million tonnes due to the sale of several distribution networks in 2016.

**GAS**

In 2016, marketable natural gas, APG and dry stripped gas shipments by LUKOIL Group totaled 20.3 billion cubic meters, virtually in line with the 2015 levels. In particular, LUKOIL Group supplied 5.8 billion cubic meters of marketable APG, up 0.7% year-on-year.

Russia accounted for 62.7% of the total gas shipments, or 12.7 billion cubic meters, of which 8.8 billion cubic meters were sold to Gazprom. International gas sales amounted to 7.6 billion cubic meters, up 8.0% year-on-year, due to the gas production growth in Uzbekistan.

**OWN TRANSPORTATION INFRASTRUCTURE AND DEDICATED SUPPLY CHANNELS**

The Company's priority when selling crude oil and petroleum products is efficient logistics and maximum reliance on own transportation infrastructure to reduce transportation costs and optimize transportation routes. The Group owns three terminals in Russia (Varandey Oil Terminal in Timan-Pechora, oil terminal in the port of Svetly in the Kaliningrad Region and petroleum products terminal in the port of Vysotsk on the Baltic Sea) and one terminal in the port of Barcelona in Spain with an aggregate capacity of 23 million tonnes per year.

In 2016, transshipment via the Group's own terminals totaled 21.7 million tonnes of crude oil and petroleum products. Crude oil transshipment increased by 13.3% year-on-year to 10.2 million tonnes, mainly due to increased crude oil shipments from the R. Trebs and A. Titov fields via the Varandey Terminal. This resulted in the share of crude oil exports via own transportation infrastructure growing to 24% (22% in 2015).

**Breakdown of gas supplies, million cubic meters**

	2014	2015	2016	Change, 16/15, %
<b>Total</b>	<b>19,968</b>	<b>20,251</b>	<b>20,315</b>	<b>0.3</b>
<b>Domestic</b>	<b>14,083</b>	<b>13,235</b>	<b>12,739</b>	<b>-3.7</b>
<b>To Gazprom</b>	<b>9,805</b>	<b>9,295</b>	<b>8,794</b>	<b>-5.4</b>
<b>To other consumers</b>	<b>4,278</b>	<b>3,940</b>	<b>3,945</b>	<b>0.1</b>
<b>International</b>	<b>5,885</b>	<b>7,016</b>	<b>7,576</b>	<b>8.0</b>

Petroleum products transhipped via own terminals declined by 0.9% to 11.5 million tonnes due to lower exports from Russia. In 2016, petroleum products shipments via the Group's terminal in the port of Vysotsk remained almost flat at 10.9 million tonnes.

LUKOIL also holds a 12.5% stake in the Caspian Pipeline Consortium (CPC), and launched export shipments of the Caspian crude oil via this system in 2016. The oil quality bank maintained by the CPC ensures that the Company gets fair selling prices that reflect the high quality of its crude. In 2016, shipments of the Caspian oil via the CPC amounted to 0.7 million tonnes.

In 2016, the Company exported 1.2 million tonnes of crude oil via the East Siberia – Pacific Ocean pipeline. This route enables sales of the Company's light oil from West Siberia with an adequate premium for quality as compared to conventional Urals crude oil exports to the West.

**TRADING**

LUKOIL is engaged in trading operations in over 100 countries around the world via its subsidiary, LITASCO. LITASCO's key functions include maximizing the efficiency of sales of crude oil and petroleum products produced by the Group, as well as boosting profits through trading of purchased hydrocarbons.

To maximize the efficiency of its trading operations, LITASCO builds long-term relations with major refineries in the South-East Asia, the USA and other countries and supplies crude oil and petroleum products to LUKOIL Group's refineries in Italy, the Netherlands, Romania and Bulgaria. In 2016, crude oil and petroleum products produced by LUKOIL Group accounted for 40% of LITASCO's total trading volumes, while trading of third-party crude oil and petroleum products accounted for the remaining 60%.

In 2016, the Company continued to expand the geography of its trading operations with the biggest gains made in India, Nigeria, Iraq and Egypt.



**PRIORITY DISTRIBUTION CHANNELS**

**2016 RESULTS**

- Increased average sales at own filling station to 9.9 tonnes per day through marketing efforts and optimization of the distribution network;
- Optimized costs by decommissioning under-performing filling stations, developing a network of automated filling stations and outsourcing auxiliary services;
- Increased bunker fuel sales by 31%.

**2017 PRIORITIES**

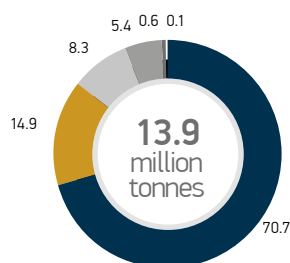
- Diversify sales markets, ensure development in promising regions;
- Increase further operational efficiency of the distribution network by improving the cost management system and implementing a customer-oriented policy;
- Increase non-fuel sales.

**Retail sales of petroleum products**

	2014	2015	2016	Change, 16/15, %
<b>Number of filling stations* as of December 31</b>	<b>5,782</b>	<b>5,556</b>	<b>5,309</b>	<b>-4.4</b>
Domestic sales	2,481	2,544	2,603	2.3
International sales	3,301	3,012	2,706	-10.2
<b>Total retail sales, thousand tonnes</b>	<b>15,543</b>	<b>14,063</b>	<b>13,916</b>	<b>-1.0</b>
Domestic sales	9,771	9,562	9,837	2.9
International sales	5,772	4,501	4,079	-9.4
<b>Average daily sales at own filling stations, tonnes per day</b>	<b>9.5</b>	<b>9.5</b>	<b>9.9</b>	<b>4.2</b>
Domestic sales	13.2	12.6	12.7	0.8
International sales	6.3	6.3	6.5	3.2
<b>Ratio of retail sales to total output of motor fuels at refineries, %</b>	<b>47</b>	<b>42</b>	<b>39</b>	

\* Including owned, leased, franchised and suspended stations.

**Breakdown of retail sales in 2016, %**



- Russia
- Europe
- Baltic States
- CIS and Georgia
- USA
- Turkey

**RETAIL SALES**

LUKOIL sells the bulk of own petroleum products in the retail market via its well-diversified distribution network of 5,309 filling stations and 132 oil depots in 18 countries.

In 2016, the Company's total retail sales amounted to 13.9 million tonnes of petroleum products, of which 9.8 million tonnes were sold in Russia and 4.1 million tonnes abroad.

The Company's marketing efforts resulted in a 2.9% year-on-year increase in retail sales of petroleum products despite the weak demand. Under the distribution network optimization program in Russia, 29 filling stations were sold, three leased out and 19 outsourced, two oil depots were sold and five suspended. The optimized distribution network helped increase average daily sales per filling station in Russia to 12.7 tonnes per day.

International retail sales of petroleum products fell 9.4% year-on-year following the sale of filling stations in Poland, Lithuania,

Latvia and Cyprus in line with the strategy to enhance integration of the distribution network with Group-owned refining facilities. As of the beginning on 2016, sold networks comprised ca. 300 filling stations, or 10% of the total number of the Group's filling stations abroad. The increase in retail sales abroad amounted to 2.8%, excluding the disposed assets. In addition, the operational optimization of the network in Europe and the CIS countries covered 41 filling stations: two filling stations were sold, 29 outsourced and 10 shut down. The average daily sales per filling station abroad increased to 6.5 tonnes per day.

To boost sales via filling stations, the Company runs a customer loyalty program with its fuel cards and retail loyalty cards provided via the LICARD corporate payment system. In 2016, the number of cards in Russia exceeded 11.4 million, up 43% year-on-year. The surge was due to active loyalty promotion efforts and marketing activities at the Group's filling stations. In 2016, the total sales of petroleum products via LICARD exceeded 8.1 million tonnes, up 25% year-on-year.

## BRANDED FUEL

LUKOIL actively promotes sales of branded fuels with improved efficiency and environmental performance under the ECTO brand. In 2016, sales of ECTO fuels in Russia were up 34% at 6.4 million tonnes, and sales via the international retail network, excluding divested distribution networks, reached 1.5 million tonnes, up 10.3% year-on-year.

## NON-FUEL GOODS AND SERVICES

In 2016, the Company continued its efforts to develop sales of related non-fuel goods and services at its filling stations. Revenue from non-fuel sales in Russia reached RUB 17.9 billion, a 23% increase year-on-year. Revenue from international sales was RUB 18.4 billion (excluding the disposed assets), up 24% year-on-year.

Product mix optimization, continuous marketing efforts, development of value added services, implementation of best retail practices, and focus on customer service excellence help the Company boost its revenue from non-fuel sales.

## BUNKERING

LUKOIL is one of the largest suppliers of bunker fuel, with bunkering operations covering 18 ports in six Russian regions. The Company carries out its overseas operations in Bulgarian ports and on the Danube river. LUKOIL's bunkering fleet in Russia consists of 18 tankers with a total dead weight of 48 thousand tonnes and operates mainly in the ports on the Baltic Sea, the Barents Sea and the Black Sea and on inland waterways.

In 2016, the Group sold 3.3 million tonnes of bunker fuel, up 31.3% year-on-year. This growth was mainly driven by the launch of new products. The Group's share in bunker fuel supplies to the Russian market was 27%.

## AIRCRAFT REFUELLING

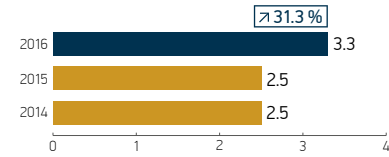
LUKOIL sells both company-produced and third-party aviation fuel, mostly into-plane fuel, at airports in Russia and abroad, in Bulgaria and Turkey, through its own subsidiaries or third-party refuelling companies.

In 2016, aviation bunker fuel sales exceeded 2.7 million tonnes, down 4.2% year-on-year, mainly due to disposals of Ukrainian distribution assets. However, into-plane fuel sales generating the highest margins were up 1.7% in 2016, reaching 1.8 million tonnes. During the past five years, the share of into-plane fuelling in the total sales of aviation bunker fuel grew from 43% to 64%.

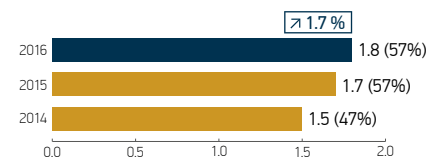
LUKOIL's long-standing consumers of aviation fuel include the largest Russian airlines and civil aviation companies. In 2016, into-plane fuel sales were made at over 30 Russian airports.

The Company continues developing its network of fuelling complexes through projects at the new airports. Specifically, in 2016, into-plane fuelling operations were in Yekaterinburg and Kaliningrad airports, as well as Zhukovsky airport in the Moscow Region.

## Bunker fuel sales, million tonnes



## Into-plane aviation fuel sales, million tonnes (share in the output at own refineries)



# Corporate Responsibility



## ENVIRONMENTAL PROTECTION

### 2016 RESULTS

- Reduced waste generation rate to levels below production waste disposal;
- Cut waste water discharge by 52.5%;
- Reduced water consumption by 1.9%;
- Reduced waste inventories by 16.2%;
- Reduced the total contaminated land area by 36.8%;
- Reduced the number of environmental incidents by 3.4%.

### 2017 PRIORITIES

- Refinement of the GHG emission management framework;
- Higher APG utilization rates;
- Zero environmental impact from emergencies and incidents;
- Lower consumption of water resources;
- Production waste disposal to generation ratio of 1 and above.

Being aware of its social accountability for the sustainable use of natural resources and preserving the environment, LUKOIL seeks to conform with the highest environmental protection standards. The Company's responsible business practices won praise from the Russian Union of Industrialists and Entrepreneurs (RSPP), which in 2016 ranked LUKOIL among the leaders in sustainability and corporate responsibility ratings.

### PARTICIPATION IN THE CARBON DISCLOSURE PROJECT

For three years running, we have been part of the Carbon Disclosure Project (CDP), an international initiative for disclosure of greenhouse gas (GHG) emissions. The Company's 2016 CDP report earned PJSC LUKOIL a "D" score for its responsibility

to address climate change, which is an industry average. The Company is working to improve its GHG emissions calculation methodology and practices across all business segments.

### CLIMATE CHANGE

As a socially responsible company, PJSC LUKOIL aims to demonstrate a caring, responsible attitude towards the environment in its activities and recognizes the importance of preventing global climate change. The Group was one of the first Russian oil companies to introduce gas flaring reduction measures long before the Government made them mandatory.

The Russian Federation stepped up its efforts to reduce GHG emissions after Presidential Decree No. 752 On Greenhouse Gas Emission Reduction was issued by the Russian President on September 30, 2013, which were taken even further after Russia adopted a proactive stance on the issue at the 21st session of the Conference of the Parties (COP) to the UNFCCC in Paris in December 2015.

LUKOIL takes an active role in discussing and implementing activities to develop a national regulatory framework on GHG emissions. In 2015, LUKOIL Group entities started using a government-sponsored methodology to calculate their GHG emissions.

### HSE CONSIDERATIONS IN THE SELECTION OF CONTRACTORS

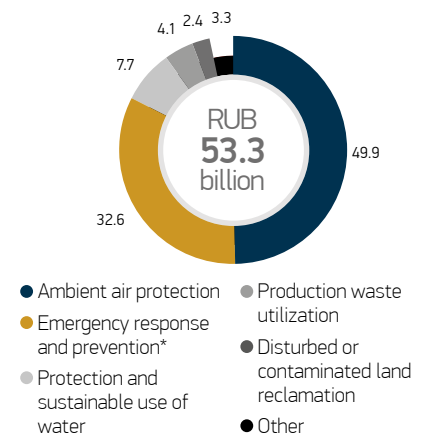
In accordance with its internal regulations, a pre-qualification process is used at PJSC LUKOIL to verify potential contractors' compliance with the established requirements for health, safety and environment (HSE). LUKOIL's corporate standards set out mandatory requirements for contractors, providing a framework to

adhere to in HSE, fire safety and emergency prevention activities. Compliance with such requirements, which constitute an integral part of a contract with a contractor, is audited as part of the pre-qualification process that contractors need to complete before taking part in our competitive tender procedures. In monitoring contract performance by contractors performing work/providing services at the Group's facilities, LUKOIL Group entities check compliance with the established HSE requirements.

### ENVIRONMENTAL SPENDING

In 2016, LUKOIL increased its environmental spending in Russia by 10.6% to RUB 53.3 billion, with 62% attributed to capex and 38% to opex. The bulk of this expenditure went on supporting ambient air protection activities, including RUB 24.2 billion of investments in initiatives to improve APG utilization rates. Pipeline diagnostics and replacement also accounted for a significant portion of environmental expenditure.

Environmental spending in 2016, %



\* Including pipeline diagnostics and replacement.

## THE GROUP'S KEY ENVIRONMENTAL EFFORTS IN 2016

## WATER

## Goal Rational use of water resources, prevention of water pollution

- Launch of treatment facilities at the Pyakyakhinskoye field;
- Construction of water drains to take contaminated water discharge from LUKOIL-Volgogradenergo to specialized contractors for treatment;
- Launch of a water treatment unit at the Yaregskoye field;
- Decommissioning of worn-out equipment at power generating facilities.

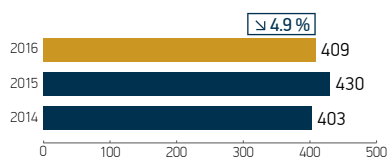
## Preserving biodiversity

- As part of LUKOIL's biodiversity conservation program, the Company implemented the following initiatives: an expedition to study Atlantic walrus in the Barents Sea in the area of Varandey Oil Export Terminal operation; funding to grow 556,000 sturgeon and whitefish fingerlings, and fingerlings of common freshwater fish in the regions in which the Company operates, and support to other initiatives to deploy fish and bird protection systems and measures to ensure preparedness for emergency response and prevention, including measures to save wildlife;
- Participation in the Mainstreaming Biodiversity Conservation into Russia's Energy Sector Policies and Operations Russian project of the UNDP/Global Environment Facility, and the Ministry of Natural Resources and Environment of the Russian Federation.

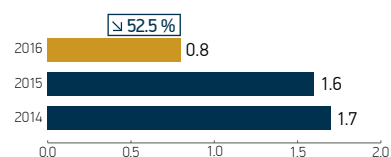
## Indicator 96%

of water consumed by LUKOIL Group is used in operations; of this amount, around 70% is consumed by heat and power generating facilities and 18% by reservoir pressure maintenance systems.

## Water consumption, million cubic meters



## Waste water discharge, million cubic meters



Significant reduction in waste water discharge was due to the introduction of zero-discharge operations at LUKOIL-Volgogradenergo and commissioning of water treatment facilities at the Pyakyakhinskoye field.

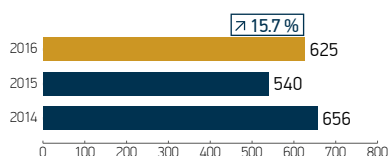
## AIR

## Goal Minimizing air emissions

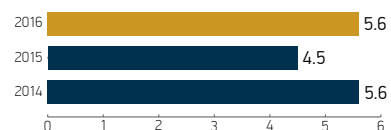
- Design, construction and upgrade of APG utilization facilities, including commissioning of 18 facilities;
- Launch of the first phase of the gas processing unit at Stavrolen oil and gas chemical complex in Budennovsk, which enabled processing of around 1 billion cubic meters of APG from North Caspian fields;
- Launch of the amine-based gas conditioning unit at the Vostochno-Lambeyshorskoye field;
- Launch of the power generating center at the Usinskoye field;
- Commissioning of seven combined-cycle gas turbines at the Permian-Carboniferous deposit of the Usinskoye field, enabling additional utilization of up to 74 million cubic meters of APG per annum.

E&P assets operated by LUKOIL Group entities account for the bulk of the Group's air emissions (85%), while APG flaring represents up to 65% of total emissions, based on the current utilization rate.

## Air emissions, thousand tonnes



## Relative rate of air emissions in Oil and Gas Production, kg per tonne of hydrocarbon production



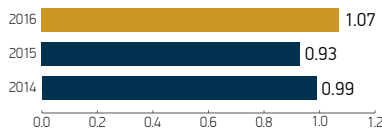
Growth in emissions was due to flaring of some APG, caused by suspended operations at the Lokosovsky GPP following an accident, and scheduled APG flaring at the V. Filanovskiy field.

**LAND**

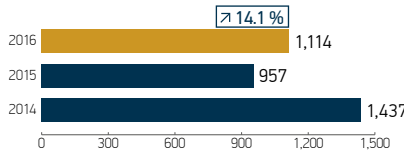
**Goal** Higher accumulated waste disposal rate

- Launch of drill cuttings treatment in West Siberia by contractors;
- Elimination of 301 sludge pits in 2015–2016.

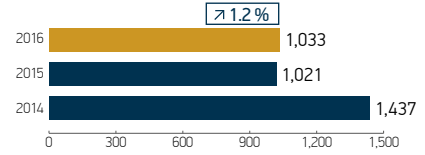
**Indicator** Annual volumes of waste disposal to new waste generation



**Indicator** Production waste utilization and disposal, thousand tonnes



**Indicator** Production waste generation, thousand tonnes



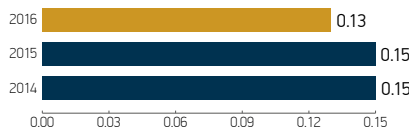
**Goal** Contamination prevention and rational use of land

- Purchases of state-of-the-art equipment to support containment and clean-up of possible oil spills. 40 certified emergency response teams were in place to respond to emergencies;
- Major repairs, rehabilitation and replacement of pipelines;
- Pipeline in-line inspections to ensure timely detection of defects and assess pipeline corrosion;
- Active elimination of environmental damage caused by pipeline failures. In 2016, efforts to reclaim contaminated land helped reduce the contaminated land area by 50 hectares;
- Reclamation of 8,409 hectares of disturbed land with restoration of the fertile soil layer and land handover to owners.

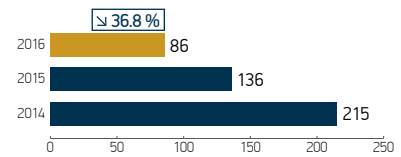
**Indicator** **99%**

of environmental incidents are caused by failures in pipeline integrity. LUKOIL implements a set of scheduled activities to minimize pipeline failure risks. In 2016, the annualized rate of pipeline replacement (measured as a percentage of total length) was 2.3%. Our efforts reduced the number of failures per km of pipeline to 0.13.

**Indicator** Failures per km of pipeline\*



**Indicator** Contaminated land, hectares



*In 2016, major efforts to eliminate environmental damage caused by pipeline failures and reclaim contaminated land helped to reduce the contaminated land area from 136 hectares to 86 hectares.*

\* Pipeline failure is defined as a pipeline interruption caused by a sudden full or partial pipeline shutdown due to loss of integrity in a pipeline, or shut-off or control valves, or to pipeline blockage. For the calculation purposes total length of pipelines (oil, gas and water) is used.

## UTILIZATION OF ASSOCIATED PETROLEUM GAS (APG)

Recognizing its responsibility to preserve clean air, LUKOIL has a range of programs in place to utilize APG in an environmentally friendly way. As a result, the Group's sites in West Siberia, the Lower Volga and Baltic already enjoy APG utilization rates of above 95%.

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

In 2016, the Group's overall APG utilization reached 92.1%. During 2016, under the Group's Efficient APG Use Program for 2016–2018, LUKOIL designed, constructed and upgraded 42 APG utilization facilities; 18 facilities were commissioned.

LUKOIL focused its efforts on Timan-Pechora and the North Caspian. As a result, the biggest gains in APG utilization rates (+4.2 p.p.) were seen in Timan-Pechora. APG utilization in this region grew by 267 million cubic meters (up 15.6%) year-on-year. Lower APG utilization rates in the North Caspian were due to the launch of the V. Filanovsky field and ramp-up in gas production. In 2017, we expect to increase the gas utilization rate with the launch of a gas treatment system at the field.

## APG utilization in key regions of operation, %

	2014	2015	2016
<b>Total</b>	<b>90.1</b>	<b>92.0</b>	<b>92.1</b>
Russia	89.8	91.9	91.7
West Siberia	96.8	96.3	96.5
Urals	87.5	92.7	92.3
Volga	94.9	94.8	91.5
Timan-Pechora	67.4	77.8	82.0
Other	95.0	98.4	98.0
International projects	94.3	93.5	98.1

## APG utilization projects completed in 2016

Region	Field	Facility
North Caspian	V. Filanovsky field	Fuel gas treatment system at IRP 1
Timan-Pechora	Usinskoye field	Most upgraded facilities at the Usinsky GPP
	Vostochno-Lambeyshorskoye field	Amine-based gas conditioning unit
	Usinskoye Field	<ul style="list-style-type: none"> <li>Seven steam units at the Permian-Carboniferous deposit</li> <li>25 km of gas pipeline to the steam units at the Permian-Carboniferous deposit</li> <li>100 MW power generating center</li> </ul>
Urals	Chashkinskoye field	<ul style="list-style-type: none"> <li>Conversion of 80 km of the Shershnevka-Chashkino oilfield pipeline to a gas pipeline</li> <li>24 km of APG pipeline of the Chashkino gas compressor station</li> <li>Shershnevka gas compressor station</li> </ul>
Volga	Vozdvizhenskoye, Poltavskoye, Avralinskoye fields	26 km of multiphase pipeline with three multiphase pump stations



**Commissioning of key APG utilization facilities**

Year	Group's APG utilization, %	Commissioning of key APG utilization facilities
2017		Launch of a gas treatment facility at the V. Filanovsky field; commissioning of the Chashkino gas compressor station (the Urals); completion of the Usinsky GPP upgrade
2016	92.1	Amine-based gas conditioning unit at the Vostochno-Lambeyshorskoye field
2015	92.0	Upgrade of the Usinsky GPP; export gas pipelines from North Caspian fields
2014	90.1	Gas treatment and conditioning units and gas pipelines in Timan-Pechora
2013	88.0	Gas turbine power plants and gas pipelines in Perm, Timan-Pechora and West Siberia
2012	87.6	Gas turbine power plants, pump stations and a gas processing unit in Kaliningrad, West Siberia and Perm
2011	79.3	Gas pipelines and gas turbine power plants in West Siberia, the Komi Republic and Perm
2010	77.5	Compressor stations in West Siberia, a gas turbine power plant in the Komi Republic



**FUEL AND ENERGY CONSUMPTION**

Energy efficiency and energy saving across all operations is a strategic priority for PJSC LUKOIL and an important part of its cost-cutting and performance improvement initiatives.

Efficient use of fuel and energy, which make up the bulk of the Group's operating expense, is among LUKOIL Group entities' major commitments.

Key energy-saving initiatives in 2016 included replacing pumps, optimizing pump operation, and installing energy saving pumps and variable frequency drives; replacing and upgrading on-site equipment to enhance its efficiency; optimizing condensate collection and return; and upgrading lighting and heating solutions.

Fuel and energy consumed by LUKOIL Group are made up of electricity (36%), heat (19%), and fuel (45%).

**Results of energy-saving initiatives**

	2014	2015	2016
Electricity savings, million kWh	97	124	87
Heat savings, thousand Gcal	186	291	100

**Energy consumption of PJSC LUKOIL, by type**

Source of energy	2016 consumption	
	in volume terms	in value terms, RUB million (inclusive of VAT)
Electricity	19,501 thousand kWh	90.4
Heat	17,734 Gcal	28.1

## ENERGY EFFICIENCY INITIATIVES

- **Using APG at the Company's on-site power plants.** In 2016, the Company covered 26% of its energy needs by generating its own power, which is 30% to 40% cheaper than power from the external national grid.
- **Permanent magnet synchronous motors (PMSMs).** LUKOIL actively replaces asynchronous motors installed at submersible pump drives with PMSMs, cutting energy consumption in oil production by 20% to 25%.
- **Energy-saving pumps.** In 2011–2016, LUKOIL Group launched 86 energy saving pumps, reducing electricity consumption at its facilities by an average of 18%.

## USE OF ADVANCED TECHNOLOGIES

To improve its energy efficiency, LUKOIL uses advanced technologies, including proprietary patented technologies. As part of its power plant re-equipment program, the Company introduced trigeneration technology, which provides the benefits of using waste heat for cooling and improving power plant efficiencies during the summer time. A pilot project using this technology was implemented at a CCGT-110 in Astrakhan. Effects from the implementation of the trigeneration technology pilot included:

- A 3.4% higher installed capacity at the CCGT-110;
- Additional 27 GWh of electricity generated during 2016;

- Improved performance of gas turbines (+1.3% on average) and lower fuel consumption (–3 grams/kWh);
- In addition to improved economics of the CCGT, the introduction of the cooling system has improved the overall reliability of the Astrakhan power grid. The Company also started deploying the technology at a CCGT-235 in Astrakhan and a CCGT-135 in Budennovsk.



## HEALTH AND SAFETY

### 2016 RESULTS

- Reduced the number of accidents and incidents;
- Reduced the number of occupational injuries and lost-time incidents.

### 2017 PRIORITIES

- Improvement of working conditions and staff education programs, hands-on training and testing employee knowledge;
- Implementation of the 2017–2019 Industrial Safety, Labor Conditions Improvement and Protection, Emergency Prevention and Response Program of LUKOIL Group Entities;
- Minimization of the Company's risks in health and safety.

### Number of accidents

	2014	2015	2016	Change, 16/15, %
Accidents	12	11	2	-81.8

### Key workplace injury rates

	2014	2015	2016	Change, 16/15, %
Number of incidents	11	24	18	-25.0
Number of injuries	21	30	27	-10.0
Number of fatalities	3	4	2	-50.0
Accident frequency rate*	0.13	0.28	0.21	-25.0

\* Accident frequency rate (AFR) is calculated as the ratio of workplace injuries to average headcount in the reporting period per 1,000 workers.  $AFR = \text{number of workplace injuries} \times 1,000 / \text{average headcount}$ .

PJSC LUKOIL has consistently ranked high among Russia's largest oil and gas companies for its health and safety performance. In recent years, we have recorded steady declines in the number of injuries, and, accordingly, in the accident frequency rates.

In 2016, we improved working conditions for almost 3,000 employees and completely eliminated workplaces with the highest levels of harmful exposures and hazardous operating conditions.

To minimize the impact of emergencies, the Company is focused on enhancing professional training of employees at LUKOIL Group entities and the levels of emergency response preparedness among governance bodies and business units. In 2016, 220 various level drills and 11,000 on-site training sessions were conducted, covering around 55,000 employees. Special emphasis was placed on preventing accidents at facilities with increased environmental risk, such as offshore facilities, particularly in the Caspian Sea. The share of such drills in the total number of drills was increased to 65%.

**The largest spill drills were conducted on the Caspian and Baltic Seas:**

- Caspian 2016 international comprehensive drill focused on response to an oil spill from a damaged inter-field subsea pipeline running from IRP-1 of the V. Filanovsky field to IRP-1 of the Yu. Korchagin field. Representatives of emergency agencies from Russia, Azerbaijan, Kazakhstan, Turkmenistan and Iran, over 600 people

took part in the drill, supported around 100 units of equipment and special-purpose machinery;

- International desktop exercise in the Baltic region (involving Finnish rescue vessels);
- Comprehensive oil spill response drill in the Baltic Sea.

Combined, the set of planning and preventive measures across LUKOIL Group helped achieve zero emergencies in 2016. Regular drills and training sessions ensured the Company's readiness to respond to any potential spills.

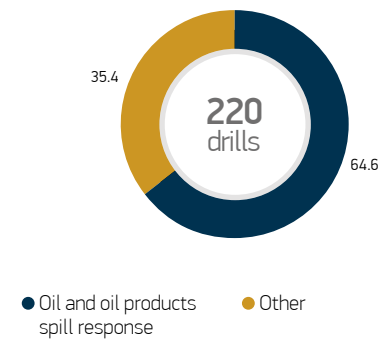
**DRIVING HSE THROUGH MOTIVATION**

To strengthen accountability for HSE compliance, the HSE Compliance KPI was included in LUKOIL Group's Set of Key Performance Indicators (KPIs). The following metrics are factored in to assess performance against this KPI:

- Fatalities due to the employer's fault.
- Compliance of the HSE Management System with the requirements of ISO 14001:2004 and OHSAS 18001:2007 international standards.
- Accident frequency rate.
- Relative rate of air emissions.
- Relative rate of waste water discharge into surface water bodies.
- Ratio between the annual volumes of waste disposal and new waste generation, and other indicators.

PJSC LUKOIL HSE compliance assessments are used to inform the motivation system for executives at all levels, workers and specialists.

**Drills conducted in 2016, %**



**Industrial safety expenditures in 2016, %**





## PERSONNEL

### 2016 RESULTS

- Engaged in development of professional standards and launched their implementation process;
- Increased the number of employees completing training courses to 65% of the total headcount;
- Approved the corporate management talent pool until 2019;
- Started staff training for the Kandym gas processing plant;
- Maintained contacts with the International Labor Organization (ILO) at the level of governments of ILO member states.

### 2017 PRIORITIES

- Launch of activities at the Qualification Assessment Center and development of a methodological framework for independent qualifications assessment. Obtain authorization to perform qualifications assessment from the Council for Professional Qualifications in the Oil and Gas Industry;
- Building dedicated teams and their training for specialized programs;
- Introduction of mobile learning techniques for personnel and expanding the list of current distance-learning courses;
- Development of a corporate knowledge management policy;
- Improvement of a program for the Company's collaboration with higher educational institutions;
- Ongoing cooperation with the ILO.

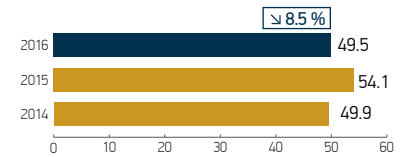
Professional personnel is an essential asset driving the Company's competitive edge and supporting effective execution of its strategy. LUKOIL Group's HR Policy is a policy of a unified integrated company with a strong and sustainable culture and an intrinsically coherent system of corporate values. LUKOIL pays special attention to the needs and interests of its employees, striving to incentivize each one of them to enhance the Group's performance. All elements of our HR Policy are structured so as to ensure maximum flexibility for the Company and its ability not only to adapt promptly and efficiently to social and political, and economic changes, but also pro-actively initiate and successfully implement changes and innovations.

In the reporting year, the Group's average headcount was 105,500 employees, down 1% year-on-year.

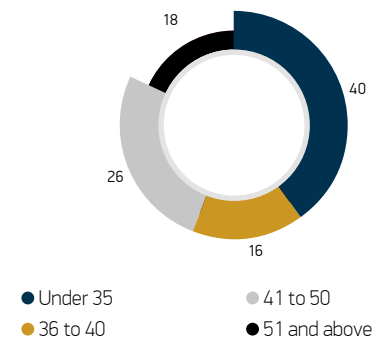
In 2016, we continued to deploy LUKOIL Group's centralized governance system, which involved improving the management system and global restructuring of the E&P segment overseas. The Company standardized the management system for foreign distribution assets and established staffing levels by function for administrative personnel. We plan to carry out similar activities in the Russian oil product supply entities.

As a member of the Russian Trilateral Commission, the Company can directly submit proposed amendments to labor laws and regulations while they are being drafted and considered by the Russian Government. Over 120 draft regulations were reviewed in 2016.

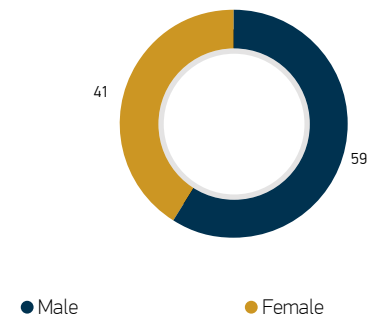
### Revenue per employee, RUB million



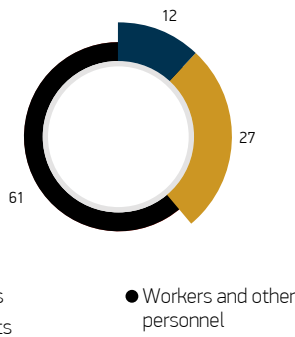
### Personnel breakdown by age as of December 31, 2016, %



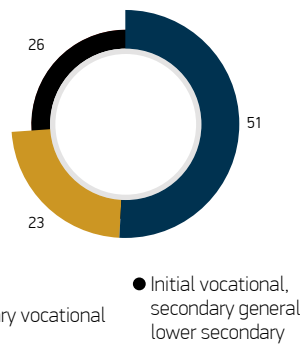
### Personnel breakdown by gender as of December 31, 2016, %



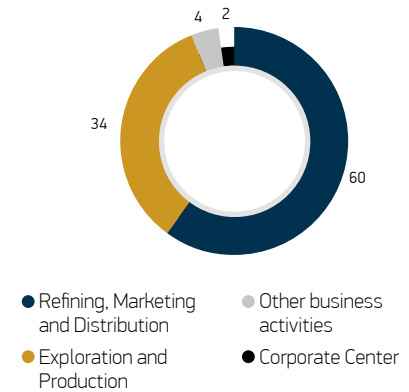
Personnel breakdown by job category as of December 31, 2016, %



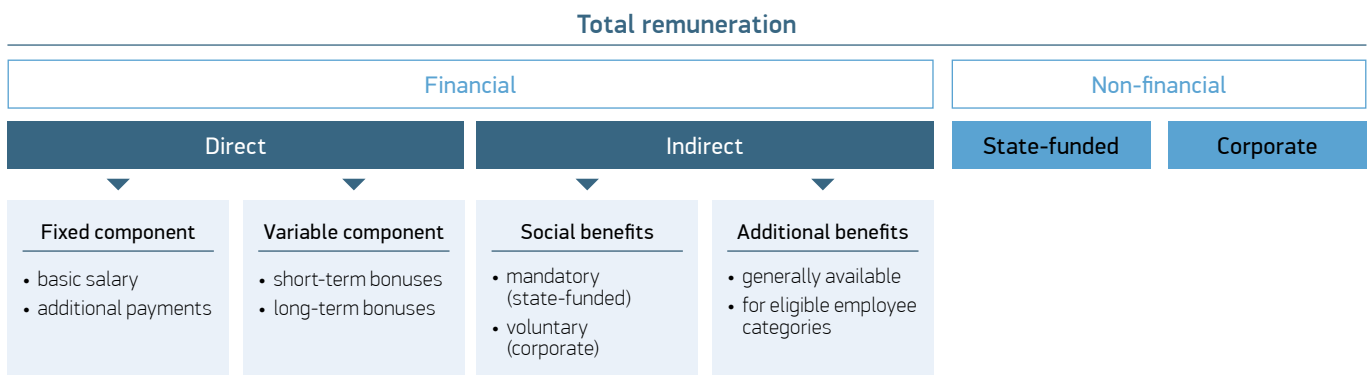
Personnel breakdown by education level as of December 31, 2016, %



Personnel breakdown by segment as of December 31, 2016, %



Personnel motivation system



SOCIAL POLICY FOR EMPLOYEES

The Company's social policy is governed by DAO LUKOIL's Social Code, Agreement between the Employer and PJSC LUKOIL Trade Union Association for 2015–2017 and other internal regulations on social policy.

Committed to ensuring social stability and improving the quality of life of its employees and their families, LUKOIL implements an extensive social policy offering a variety of benefits, guarantees and privileges. In 2016, the total costs of social programs for employees, their families and non-working

retirees amounted to ca. RUB 20 billion, while the costs of social infrastructure maintenance were ca. RUB 1 billion.

Key programs included:

- **Health.** In the reporting year, the Company's expenses on health, voluntary medical insurance, health improvement, employee sports activities and recreation totaled RUB 7.7 billion. Primary health care services are now available to employees at over 100 first-aid posts, including eight new posts launched in 2016. Seasonal vaccinations were administered, with 35,000 employees benefiting from the vaccination program;

- **Housing.** In 2016, the Group's Russian and foreign entities spent a total of ca. RUB 3 billion to address the housing needs of the Company's employees. The corporate Housing Policy continues to focus on supporting the needs of the Company's talent pool;
- **Private pension plans.** As of the end of 2016, over 39,000 employees participated in the corporate contribution pension scheme, with their total contributions exceeding RUB 486 million. In 2016, the Group's contributions under all private pension plans in Russia and overseas totaled ca. RUB 2 billion.

## OCCUPATIONAL STANDARDS AND PERSONNEL TRAINING

The Company has a continuous training system in place to provide its personnel with all the necessary knowledge and skills. Twice a year, the Company holds traditional Professional Training Days for the management of LUKOIL Group entities, involving all top managers of our subsidiaries. During the event, participants discuss the most important issues related to their jobs. The Company builds a talent pool to ensure continuity of management. We prepare individually tailored 3-year development plans for every employee included in the talent pool and check their progress annually. To train engineers, the Company collaborates with leading higher educational institutions that offer oil and gas degree programs. To successfully attract and develop young talent, we run a number of dedicated programs engaging school and university students, and targeting young employees. In 2016, the total headcount of young employees (under 35 years) was 43,800. We provide trainings, workshops and induction programs to meet the needs of young employees and specialists. Development of mentoring for young talent is a key part of these efforts. Only the most qualified, loyal and best-performing employees are appointed as mentors.

To ensure compliance with the provisions of Federal Law No. 122-FZ dated May 2, 2015, which cover the use of occupational standards by LUKOIL Group entities, the Company established a dedicated task force in 2016. This team aligned functions and employee qualifications with occupational standards and developed consistent approaches to management of occupational standards across the Group. We launched our Qualification Assessment Center in line with the new regulatory requirements introduced by Federal Law No. 238-FZ On Independent Assessment of Qualification dated July 3, 2016.

## EMPLOYEE DEVELOPMENT SYSTEM

We use a full range of advanced educational tools and techniques available today, including business case studies, workshops, trainings, overseas internships, professional development courses, retraining programs, professional training days and distance learning courses. During 2016, about 70,000 employees benefited from our training programs.

To improve operational efficiency and drive innovation, we deployed a Corporate Knowledge Management System (covering over 10,000 employees and 240 expert communities). This framework helps capture and disseminate best practices, ensure effective communications, and jointly explore and address common operational problems. The Company also has a distance-learning system in place, with 56 Group entities connected to the system. In 2016, the Company's employees successfully completed 68 thousand system-based training courses.

To promote constructive collaboration in culture and education and improve the levels of training for local staff, the Company holds an annual international conference focused on training and development of local workforce. At the 2016 conference, the Company signed an agreement with Uzbekneftegaz National Holding Company for mutually beneficial cooperation in training of skilled workers and specialists and signed a contract with Shurtan Gas Chemical Complex LLC to provide training and work placements for the Company's personnel assigned to the Kandym gas processing plant.

## HUMAN RIGHTS

After joining the UN Global Compact the Company developed and introduced such documents as the Code of Business Conduct and Ethics and the Rules of Corporate Culture to enhance its HR management practices. The Human Rights Policy of PJSC LUKOIL is guided by our Corporate

Social Responsibility and Human Rights Adherence standards and principles. The Company maintains constructive dialogue on corporate social responsibility and human rights adherence with government authorities, employers and trade unions in the regions in which we operate. In addition, the Company cooperates with the International Labor Organization.

We have in place the Social Code of OAO LUKOIL, approved by the Board of Directors and endorsed by the International Association of Trade Union Organizations of PJSC LUKOIL.

The Company established the Business Ethics Commission chaired by its President and CEO. The Commission has nine persons, seven of which are also members of the Management Committee. At LUKOIL Group entities, all matters pertaining to human rights fall within the responsibility of their CEOs, heads of HR, and trade union leaders.

## COOPERATION WITH THE INTERNATIONAL LABOR ORGANIZATION (ILO)

PJSC LUKOIL is the only company in Russia to have signed a cooperation agreement with the ILO. In 2016, we held a round table discussion on the Policy for High-Quality Job Creation and Provision of Accessible Employment Opportunities in Ufa, participated in a session hosted by the South-South and Triangular Cooperation Academy in Turin, and arranged a meeting between ILO Director-General Guy Ryder and Vagit Alekperov. As a result of this meeting, the unique cooperation between the ILO and the Company through a private-public partnership was recognized as a successful experience that can be shared and replicated globally. In 2015–2016, our efforts at the national level specifically focused on Azerbaijan to develop a set of initiatives supporting the local Ministry of Labor in addressing new economic challenges. Partnerships for youth employment were established in three Russian regions through the support of government agencies, social partners and civil society organizations.



## INTERACTION WITH COMMUNITIES

### 2016 RESULTS

- Increased social investments and expenses to support non-profit foundations, NGOs and educational programs;
- Continued cooperation with federal authorities, NGOs, regional and local authorities.

### 2017 PRIORITIES

- Implementation of social and charity programs in the regions in which the Company operates;
- Implementation of the framework action plan as part of the Year of the Environment, interaction with environmental organizations;
- Publication of the 2015–2016 Sustainability Report of LUKOIL Group.

Conscious of its responsibilities to all relevant stakeholders in the countries and regions in which it operates, LUKOIL follows socially responsible policies in addressing the issues of labor and employment, and pursues a wide range of sponsorship and charity efforts.

In 2016, charity and sponsorship expenses together with social investments exceeded RUB 12 billion, spent primarily on social and economic partnership projects under agreements with regional authorities (RUB 7.3 billion), supporting non-profit foundations and NGOs (RUB 1.8 billion).

### SOCIAL INVESTMENTS

As part of activities run in 2016 across its geography, the Company signed a number of cooperation agreements / addenda and protocols with the Krasnoyarsk and Krasnodar Territories and the Kaliningrad and Yaroslavl Regions, and additional agreements with the Governments of the Khanty-Mansi Autonomous Area – Yugra, Yamal-Nenets Autonomous Area, and the Stavropol and Krasnodar Territories. Under these agreements, the Company provides funds to support social and sports projects and construction and renovation projects for cultural sites.

**Support of orphanages and children’s educational facilities.** LUKOIL views support for children as a priority on its social agenda. The Company seeks to maintain a balanced approach, providing aid to disadvantaged children with health or family problems and at the same time supporting those from more functional families to develop their abilities and talents.

In 2016 in the Komi Republic, the Company co-financed a new kindergarten project; in the Izhemsk district, two rural kindergartens were repaired; the Company also sponsored major repairs at a kindergarten in the village of Pokachi, the Khanty-Mansi Autonomous Area. One of the oldest kindergartens in Budennovsk reopened after major repairs and renovation. Playrooms and gyms were renovated in four kindergartens in Perm,

a museum-laboratory of ethnography and artistic crafts was opened in Preparatory School No. 11 in the Perm Territory. We also continued our program to support children’s schools by acquiring musical instruments for schools in the Volgograd, Nizhny Novgorod and Samara Regions and the Republic of Kalmykia.

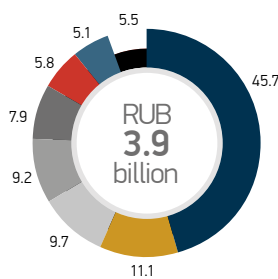
In our efforts, we specifically focus on children with disabilities. In 2016, as part of the program “Illustrated Books for Small Blind Children,” books were furnished to specialized children’s institutions in Perm, Samara, Kazan and Budennovsk. In addition, for 10 years we have been running a program to award personal scholarships to graduates of the Company-sponsored orphanages. In the reporting year, scholarships were awarded to 49 graduates.

**Educational programs.** For over 15 years, LUKOIL has been awarding personal scholarships to support the most talented students of universities and other educational institutions that offer oil and gas, petrochemical, and energy degree programs. In 2016, the corporate scholarship was made available to a total of 185 students from cities across Russia. Under its program to support young professors, the Company provided personal grants to 80 talented academics lecturing at Russia’s leading universities with oil and gas and other graduate programs.

**Healthcare support.** The Company supports some of Russia’s largest specialized medical research centers. It is also committed to developing healthcare across the Group’s geography. In the reporting year, aid was made available to the Russian Cardiology Research and Production Complex, Vishnevsky Institute of Surgery, Mezensk District Central Hospital, Liman Regional Hospital, Ukhta Children’s Hospital and Perm Territorial Clinical Children’s Hospital.

**Contest of social projects.** The annual contest of social and cultural projects held by the Group since 2002 is among our most successful social investment initiatives.

**Breakdown of the Group’s charity and sponsorship expenses\* in 2016, %**



- Non-profit foundations and NGOs
- Support for indigenous and minority peoples of the North
- Religion
- Preserving cultural and historic heritage
- Educational programs
- Target aid
- Other
- Sports

\* Excluding expenses on agreements with Russian regions and municipal entities.

In 2016, the event was held across 19 Russian regions. Around 600 projects were selected for funding out of more than 3,000 project proposals submitted to the Contest. Over the 15 years since its inception, the Contest has received almost 24,000 applications, with over 4,500 social projects put in place.

**Support for indigenous and minority peoples of the North.** For 20 years, the Company has been supporting and developing the traditions of indigenous and minority peoples of the North. Our interaction policy is fleshed out through agreements between the Company and autonomous areas, license agreements and agreements on social and economic development of the regions and locations populated by indigenous and minority peoples of the North. Economic cooperation agreements with heads of traditional nature management areas are seen as one of the best ways to provide support. These agreements determine procedures for the use of land, payment of compensations, payment of tuition fees, health resort treatment, and other types of support. In our wide-ranging support activities we are guided by the United Nations Declaration on the Rights of Indigenous Peoples and comply with the Resolution of the World Conference on Indigenous Peoples to ascertain balanced development of indigenous and minority peoples of the North.

**Preserving cultural and historic heritage.** In 2016, the Company supported regional museums, such as Nizhny Novgorod State Museum of Fine Arts, Dogadin Art Gallery in Astrakhan and Samovar Museum in Saratov, and acted as a partner for five exhibitions, two international singing contests and a number of music festivals, including the Spasskaya Tower International Military Music Festival.

The Company continued providing support to the Tchaikovsky Grand Symphony Orchestra conducted by Vladimir Fedoseyev, Perm State Tchaikovsky Opera and Ballet Theater, and Kaliningrad Regional Philharmonic Hall. In 2016, concerts were held in Vienna, Saratov, and Kazan to celebrate the 25th anniversary of PJSC LUKOIL.

As part of the celebrations, PJSC LUKOIL, together with the Federal Communications Agency, issued a postage stamp marking the Company's 25th anniversary. The stamp was released for circulation and sold through post offices.

**Target aid.** The Company pays annual allowances to battle-front, World War II and industry veterans. The Company also provides support to families of servicemen who died in local conflicts. We also maintained the education program for the Company's pensioners and veterans to overcome their social isolation.

**Support for religious groups.** The Company is actively involved in the revival of religious rites and spiritual culture. In 2016, LUKOIL supported 10 churches, monasteries, and orthodox preparatory schools. Continued financial support was provided to a new church project in Kogalym, and construction of the only church in Liman, a village with a population of around 10,000 is under way.

**Sports.** Over the years, LUKOIL's social policy has been focused on supporting sports and promoting healthy lifestyles. Taking care of its employees' and their families' health, the Company rents sports facilities and holds various sports competitions.

One of the Company's highlights in the reporting year was its international social project, LUKOIL Children's Champions Cup, focused on overcoming racial intolerance and

discrimination in football. Launched in 2013, the project has brought together national associations and clubs from 40 countries, as well as over 3,500 participants. World football stars and coaches holding international trophies in professional sports acted as the project ambassadors in 15 countries that hosted the qualifying rounds. The final matches of the 2016 Cup took place at the Otkritie Arena stadium. The competition winners were 12-year-old football players of Portuguese Benfica; Italian Genoa won the silver medal, and Spartak of Moscow took the bronze.

As part of this project, the Otkritie Arena stadium in Moscow became the first Russian arena to host an international junior matchday, attended by over 2,500 children and adults, famous athletes, winners and runners-up of the Olympic Games in different sports.

In 2016, the Company continued its long-standing support for professional sports teams and competitions, specifically, JSC Spartak-Moscow Football Club; LUKOIL Racing Team, the Champion of Russia and TCR International Series winner; Zarya Kaspiya Handball Club, Astrakhan; Spartak Volgograd water polo team, winner of the first Russian Super Cup in 2016; the Cross Country Ski Federation of Russia; and the United Basketball League, a club tournament intended to bring together the leading Eastern European clubs.

In the reporting year, the Company held the VI Spartakiad of LUKOIL Group entities, which brought together 582 employees.

LUKOIL also partners with Sochi Autodrom, a motor racing track, to provide support for the preparation and holding of various sporting events on Russia's most advanced race track and promote motor racing in general.



**STAKEHOLDER RELATIONS**

**Interaction with regional authorities.**

In 2016, we continued our efforts to improve the mechanisms of mutually beneficial cooperation to support the manufacturing sector, bolster economic growth and enhance social development in the regions in which the Company operates. Interaction with regional and local authorities covers production facilities upgrades, signing and subsequent implementation of agreements with regions, anniversary events, regional and international forums. Regular meetings were held throughout the year. Business trips to production facilities were arranged for our executives across the Company’s geography, including some high-level visits with top Government officials. We continued our cooperation with environmental organizations – WWF Russia and UNDP/GEF – Russia’s Ministry of Nature. We also continued running the program to support regional interparliamentary exchange in the Arkhangelsk, Astrakhan, Kaliningrad and Moscow Regions and in the Republic of Kalmykia.

**Interaction with federal authorities and NGOs.**

In its dealings with federal authorities the Company is guided by law and seeks to balance the interests of the state and business. LUKOIL is involved in preparing proposals to improve the legal framework of the state policy for the energy industry. In the reporting year, over 150 applications were prepared on matters related to tax and customs regulation, promotion of competition, industrial and environmental safety. As part of efforts to improve the existing legislation, some of the Company’s initiatives will be used to assess the actual impact of applicable statutory regulations subjected to such an assessment.

**Interaction with suppliers.**

To ensure competitive, unbiased and effective sourcing of goods, work and services, the Company adheres to the principles of openness and transparency of its tender procedures and fully promotes fair competition. These principles form the basis of our internal regulations and policies on the tendering process. To ensure compliance with HSE standards when selecting contractors, regulations on the tendering process include the procedure for assessing HSE compliance as part of the pre-qualification process. If the Company is not satisfied with assessment results, the potential bidder is screened out of the tendering process.

**Interaction with customers.** In 2016, we continued to maintain our customer focus, in particular, to develop customer feedback channels across the Company’s geography and monitor customer satisfaction across its network of filling stations. The Company runs mystery shopper assessments including the NPS (Net Promoter Score) measurement. The score is calculated as a difference between the percentage of “promoters” and “detractors,” with results varied from –100% to +100%. In 2016, LUKOIL’s NPS was 42%. The Company also operates a Single Hotline for customer requests. In the reporting year, given an increase in the total number of requests, the share of complaints was 58%, down 7 p.p. year-on-year. The majority of complaints dealt with actions by staff and the technical condition of filling stations, while less than 10% of complaints concerned oil product quality.

over  
**150**  
applications

were prepared on matters related to tax and customs regulation

# Corporate Governance

## 2016 RESULTS

- Introduced the role of Corporate Secretary;
- Made improvements to the internal audit system;
- Approved internal documents regulating the activities of the Board of Directors and its Committees and ensuring the exercise of rights of the shareholders.

## 2017 PRIORITIES

- Improvements to the procedures of the Board of Directors;
- Updating the Company's internal documents to incorporate regulatory changes;
- Introduction of electronic registration and voting solutions at General Shareholders Meetings.

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

The Company has in place a well-developed corporate governance framework governed by international standards of business conduct and ethics, requirements of Russian laws, listing rules of the Moscow Exchange, and provisions of the Corporate Governance Code recommended by the Bank of Russia.

Key principles underlying the corporate governance framework of PJSC LUKOIL are:

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

- Charter of Public Joint-Stock Company "Oil Company "LUKOIL"
- Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting of PJSC LUKOIL
- Regulations on the Board of Directors of PJSC LUKOIL
- Regulations on Committees of the Board of Directors of PJSC LUKOIL
- Regulations on the Management Committee of PJSC LUKOIL
- Regulations on the Audit Commission of OAO LUKOIL
- Regulations on the Dividend Policy of PJSC LUKOIL
- Director Compensation and Expense Reimbursement Policy of PJSC LUKOIL
- Code of Business Conduct and Ethics of PJSC LUKOIL
- Risk Management and Internal Control Policy of PJSC LUKOIL
- Regulations on the Corporate Secretary of PJSC LUKOIL

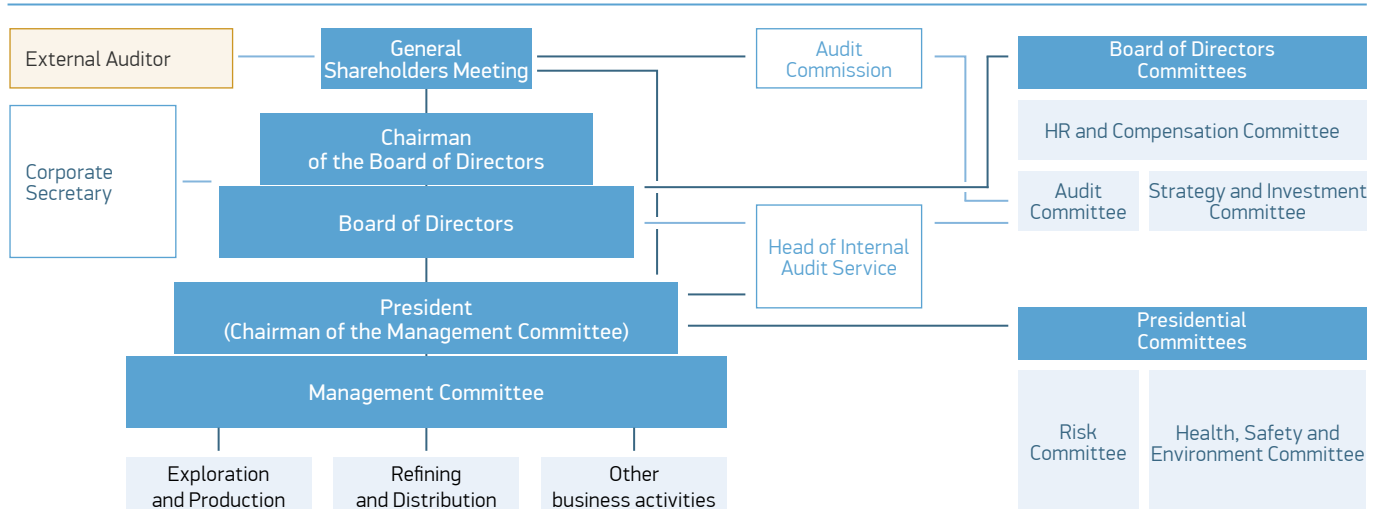
# 97%

full or partial compliance with the Corporate Governance Code in 2016



The internal documents regulating the principles, practices, and specific procedures of corporate governance are available on the Company's website at <http://www.lukoil.com/Company/CorporateGovernance/InternalDocuments>.

## Corporate governance structure of PJSC LUKOIL



— Administrative subordination

— Functional relation



## DEVELOPMENT OF THE CORPORATE GOVERNANCE SYSTEM

In 2016, the Company focused on developing its corporate governance system and improving corporate procedures and practices in compliance with provisions of the Corporate Governance Code (the "Code") recommended by the Bank of Russia. The Company implemented the following initiatives:

- **Introduction of the role of Corporate Secretary in accordance with the Code recommendations.** The Board of Directors approved the Regulations on the Corporate Secretary of PJSC LUKOIL, appointed the Corporate Secretary and determined the size of remuneration for the Corporate Secretary.

☞ For more details on the Company's Corporate Secretary see the Corporate Secretary section.

- **Improvements to the internal audit system.** At the beginning of the reporting year, the Company reformed its internal audit system. As a result, internal audit function was separated from internal control and risk management functions. To perform the internal audit function, the Company set up its Internal Audit Service. The Board of Directors of PJSC LUKOIL passed resolutions:
  - approving internal regulations governing internal audit operations,

including the Regulations on Internal Audit at PJSC LUKOIL;

- appointing a Vice President, Head of the Internal Audit Service, functionally reporting to the Board of Directors and administratively reporting to the Company's President. In addition, in April 2016, the powers of the Vice President, Head of the Internal Audit Service, as a member of the Company's Management Committee were terminated before his term expired.

- **Approval of internal documents regulating the activities of the Board of Directors and its Committees and ensuring the exercise of rights of the shareholders.** The Company approved new versions of the regulations on the Board of Directors Committees: the functions and tasks of the Board Committees were brought in line with the requirements of the Listing Rules of the Moscow Exchange and recommendations set out in the Corporate Governance Code. The Director Compensation and Expense Reimbursement Policy of PJSC LUKOIL was approved. In addition, the Company approved the Regulations on the Information Policy of Public Joint-Stock Company "Oil Company "LUKOIL" and the Regulations on the Dividend Policy of PJSC LUKOIL, as well as the Regulations on Provision of Information

to Shareholders of Public Joint-Stock Company "Oil Company "LUKOIL."

As a result of the above and other measures, the share of the Code principles fully adhered to by PJSC LUKOIL increased from 52% in 2015 to 66% in 2016\*. As of the end of the reporting year, PJSC LUKOIL adhered to nearly all basic principles of the Corporate Governance Code.

The Company intends to continue improving its corporate governance to improve performance and sharpen its competitive edge. First of all, PJSC LUKOIL will focus on implementing the principles, practices, and procedures which are most valued by the investment community and have proved to be applicable by major players.

Key focus areas for the Company's corporate governance in 2017 are:

- amending the Company's Charter to introduce electronic registration and voting solutions at General Shareholders Meetings;
- updating the Company's internal documents to incorporate changes in Russian laws.

☞ For more details on compliance with the Corporate Governance Code see Appendix 1 Corporate Governance Code Compliance Report.

### Self-assessment of the corporate governance practices for compliance with the principles and recommendations of the Code\*\*

Corporate governance principles	Number of principles recommended by the Code	2015			2016		
		Full compliance	Partial compliance	No compliance	Full compliance	Partial compliance	No compliance
Rights of shareholders and equal conditions for all shareholders in exercising their rights	13	7	4	2	9	3	1
Board of Directors	36	19	14	3	24	11	1
The Company's Corporate Secretary	2	–	1	1	1	1	–
Remuneration system for Directors and key executives	10	7	3	–	7	3	–
Risk Management and Internal Control System	6	4	2	–	5	1	–
Company disclosures	7	4	3	–	6	1	–
Material corporate actions	5	–	5	–	–	5	–
<b>Total score</b>	<b>79</b>	<b>41</b>	<b>32</b>	<b>6</b>	<b>52</b>	<b>25</b>	<b>2</b>
	100%	51.9%	40.5%	7.6%	65.8%	31.7%	2.5%

\* The methodology used to assess adherence to the Code is based on comparing the practices of PJSC LUKOIL to the detailed recommendations of the Code. If any single detailed recommendation in a paragraph is not adhered to, adherence to such paragraph is deemed partial. If none of the detailed recommendations in a paragraph are adhered to, such paragraph is deemed as not adhered to by the Company.

\*\* Statistics is provided based on the Corporate Governance Code Compliance Report.



## GENERAL SHAREHOLDERS MEETING

General Shareholders Meeting is the supreme governance body of PJSC LUKOIL responsible for decision-making on the most important matters of the Company's business:

- amending the Company's Charter or approving new versions of the Charter;
- determining the number of Directors, electing its members, and early termination of their powers;
- electing members to the Company's Audit Commission and early termination of their powers;
- approving the Company's auditor;
- paying (declaring) dividends for reporting periods;

- approving the Company's annual reports and annual accounting (financial) statements;
- adopting internal documents regulating the activities of the Company's governance bodies;
- approving transactions or making decisions to subsequently approve transactions in cases stipulated by applicable laws.

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 (approved by resolution of the Extraordinary General Shareholders Meeting dated December 18, 2012, as amended). The procedure for holding the General Shareholders Meeting provides equal opportunities for all the Company's shareholders to attend the meeting.

### General Shareholders Meetings of PJSC LUKOIL held in 2016

#### Annual General Shareholders Meeting June 23, 2016

In the form of a meeting (joint presence of shareholders to discuss agenda items and pass resolutions on the matters put to vote) with voting ballots distributed (delivered) before the date of the Company's AGM (Minutes No. 1 dated June 27, 2016).

Approved PJSC LUKOIL's Annual Report 2015 and annual accounting (financial) statements, distributed profit for the period and resolved to pay out 2015 dividends. Appointed the President of PJSC LUKOIL, elected new Board of Directors members and members of the Audit Commission, resolved to pay to members of the Board of Directors compensations and expense reimbursements, and to pay remuneration to members of the Audit Commission, approved the Company's auditor. Approved amendments to the Company's Charter, to the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting, to the Regulations on the Board of Directors, and approved the new version of the Regulations on the Management Committee of PJSC LUKOIL. Approved a related party transaction.

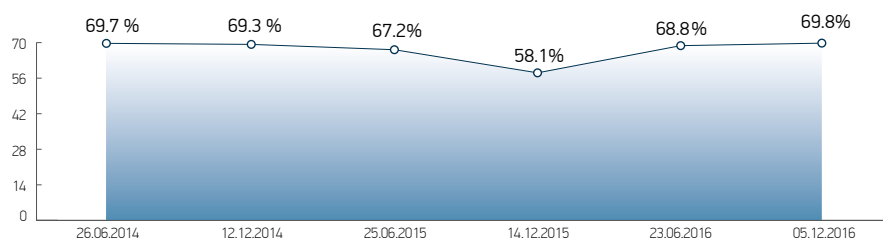
#### Extraordinary General Shareholders Meeting December 5, 2016

Absentee voting  
(Minutes No. 2 dated December 7, 2016)

Passed resolutions to pay out interim dividends for 9 months of 2016 and to pay part of the Board of Directors' remunerations.

In the reporting year, the Company worked to put electronic voting in place by filling out electronic ballots online. This system will enable the Company's shareholders to vote regardless of the place of registration of their rights.

#### Quorum at General Shareholders Meetings



The quorum at General Shareholders Meetings in 2H 2015 was lower due to a more complicated voting procedure for holders of depositary receipts, introduced by the Bank of Russia. In April 2016, the Bank of Russia adjusted these requirements, thus allowing the quorum to restore its historical average.



**BOARD OF DIRECTORS**

The Board of Directors is responsible for general management of the Company's operations except for the matters that pertain to the competence of the General Shareholders Meeting. The Board of Directors plays a crucial role in establishing and developing the corporate governance system, ensures protecting and exercising the rights of shareholders, supervises executive bodies.

The process of formation, authority of the Board of Directors, procedures for convening and holding meetings of the Board of Directors are set out in the Charter and Regulations on the Board of Directors (approved by the Resolution of the Annual General Shareholders Meeting of OAO LUKOIL dated June 27, 2002, as amended).

The scope of authority of the Board of Directors includes, inter alia:

- Determining the Company's business priorities.
- Convening Annual and Extraordinary General Shareholders Meetings, and matters related to preparing General Shareholders Meetings.

- Appointing the Management Committee, the Company's collegial executive body.
- Approving the Company's internal documents, except for internal documents approving by the Shareholders Meeting and executive bodies.
- Approving the Company's registrar and the terms of the registrar agreement and its termination.
- Approving transactions pursuant to the applicable laws and the Company's Charter.
- Making decisions on appointment and dismissal of the Corporate Secretary and the Head of the Internal Audit Service of the Company.

The Board of Directors consisting of 11 members is elected by the General Shareholders Meeting by cumulative voting (the nominees with the highest number of votes shall be deemed elected to the Board of Directors). The matter of electing members of the Board of Directors must be included in the agenda for the Annual General Shareholders Meeting. Shareholders holding in aggregate not less than 2% of

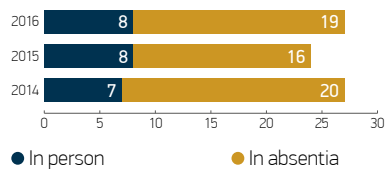
the Company's voting shares may submit their proposals on nominees to the Board of Directors not later than 60 days after the end of the reporting year.

The Board of Directors carries out the annual implementation of the Board's approved action plans, including end-of-the-year reviews of the Company's performance, preparation of General Shareholders Meetings and approval of related-party and other transactions as defined by the Charter of PJSC LUKOIL.

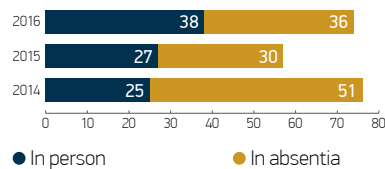
**BOARD OF DIRECTORS' PERFORMANCE**

In 2016, the Board of Directors held 27 meetings, including 8 meetings held in person and 19 meetings held in absentia. The BoD considered almost the same number of agenda items at meetings held in person as of those held in absentia (38 vs. 36, respectively). Almost two thirds of matters considered were related to corporate governance or approving transactions.

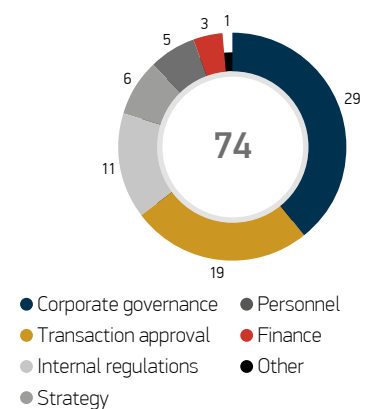
**Meetings**



**Matters considered**



**Matters considered in 2016**



**Key decisions of the Board of Directors in 2016**

Decision	Objectives and background
<b>Corporate governance</b>	
Terminated the registrar agreement with JSC Independent Registrar Company (JSC IRC) (formerly, JSC Computershare Registrar). Approved a new registrar of PJSC LUKOIL, LLC Registrator "Garant," and the terms of its agreement.	In 2015, changes were made to the shareholding in JSC Computershare Registrar that maintained the register of PJSC LUKOIL, making a group of individuals the holder of the Company's registrar. Given the risk caused by such change of control, it was considered reasonable to change the registrar.
Approved the new Regulations on the Audit Committee, the Regulations on the Strategy and Investment Committee and the Regulations on the HR and Remuneration Committee of the Board of Directors.	The documents were updated in line with the Listing Rules of the Moscow Exchange, recommendations of the Corporate Governance Code and amendments to the Company's Charter approved by the Extraordinary General Shareholders Meeting on December 14, 2015.

Decision	Objectives and background
<p><b>Corporate governance</b></p> <p>Approved a number of internal regulations of PJSC LUKOIL governing its internal audit. Decided to appoint Sergei Malyukov to the position of Vice President, Head of the Internal Audit Service.</p>	<p>The Company's internal audit system was transformed to comply with the Moscow Exchange requirements to issuers with stocks admitted to the Level One quotation list.</p>
<p>Approved the Regulations on the Corporate Secretary of PJSC LUKOIL and determined the amount of the Corporate Secretary's remuneration. Decided to appoint Natalia Podolskaya to the position of the Corporate Secretary.</p>	<p>The document was developed and approved in line with the Listing Rules of the Moscow Exchange, recommendations of the Corporate Governance Code and Regulation On the Admission of Securities to On-Exchange Trading No. 534-P dated February 24, 2016, approved by the Bank of Russia.</p>
<p>Adopted decisions as a part of preparing and holding the Annual General Shareholders Meeting of the Company.</p>	<p>Decisions were made to comply with the Federal Law On Joint-Stock Companies.</p>
<p>Summarized the results of the previous year's monitoring of the Company's compliance with Federal Law No. 224-FZ On Countering the Misuse of Insider Information and Market Manipulation and on Amending Certain Laws of the Russian Federation dated July 27, 2010.</p>	<p>The activities of PJSC LUKOIL are regulated by Federal Law No. 224-FZ aimed at consolidation of an action framework to prevent misuse of insider information and market manipulation, and at enhancing the protection of rights and legitimate interests of investors. Efforts to control the Company's compliance with the Federal Law were deemed positive and complied with applicable regulations.</p>
<p>Defined the key principles of the updated Dividend Policy of PJSC LUKOIL, based on which the Regulations on the Dividend Policy of PJSC LUKOIL was approved.</p>	<p>Higher transparency of the Dividend Policy for investors.</p>
<p>Approved the Board of Directors Performance Report for 2015–2016.</p>	<p>The annual self-assessment of the Board of Directors performance is an important tool to improve the performance of the Board of Directors. The Board of Directors of PJSC LUKOIL received a positive assessment of its performance for 2015–2016.</p>
<p>Approved the Risk Management and Internal Control Policy of PJSC LUKOIL.</p>	<p>Improvement of the risk management and internal control system in the Company and other LUKOIL Group entities, and compliance with the Corporate Governance Code.</p>
<p>Approved the Regulations on the Information Policy of Public Joint-Stock Company "Oil Company 'LUKOIL.'"</p>	<p>The Regulations were updated based on the recommendations of the Code in line with the Company's existing practices for communications with various stakeholders and the best corporate governance practice.</p>
<p>Approved the Regulations on Provision of Information to Shareholders of Public Joint-Stock Company "Oil Company 'LUKOIL.'"</p>	<p>The Company developed the Regulations to secure its shareholders' rights to receive information in line with the Federal Law On Joint-Stock Companies.</p>
<p>Approved the Policy on remuneration and reimbursement (compensation) of costs of the members of the Board of Directors.</p>	<p>The document was developed based on the recommendations of the Corporate Governance Code and the Company's existing practice for remuneration and compensation of expenses incurred by the members of the Board of Directors, and sets out a relevant formalized decision-making process.</p>

Decision	Objectives and background
<b>Strategy, operating activities and finance</b>	
Discussed the results of LUKOIL Group for 2015, objectives for 2016 and near term. Established priorities for 2016. Discussed interim (semi-annual) results of 2016 and performance of the Budget and the Investment Program of LUKOIL Group for 2016.	Control over the Company's operating activities to achieve the strategic goals of LUKOIL Group.
Discussed the Company's international business operations.	Review of the Company's international business operations and establishment of the Company's mid-term strategic priorities.
Discussed the progress of the Program to Develop Oil Production from Hard-to-Recover Reserves.	Monitoring the progress of the Program to Develop Oil Production from Hard-to-Recover Reserves and determining future priorities.
Discussed the progress of initiatives to increase production from brown fields through the use of innovations.	Control over the Company's operations to achieve the strategic goals of LUKOIL Group.
Discussed key trends in global energy industry until 2030.	Analysis of global energy trends as part of strategic planning.
Approved the related transactions of PJSC LUKOIL associated with the issue and placement of Eurobonds by the Company's subsidiary, LUKOIL International Finance B.V. The placed Eurobonds totaled \$1 billion.	Compliance with the requirements of the Company's Charter, which regulate the approval by the Company's Board of Directors of transactions or several associated transactions related to acquisition, disposal or potential disposal of property worth from 10% to 25% of the Company's assets book value specified in its accounting data as of the last reporting date, except for transactions performed in the course of the Company's day-to-day operations. The key purpose of raising funds through placement of Eurobonds is to optimize the debt portfolio.
Approved the key targets of the LUKOIL Group Budget for 2017–2019.	Approval of the key targets of the LUKOIL Group Budget for three years in line with changes in the macroeconomic environment and changes in the composition of LUKOIL Group.
Discussed the Company's safety management system.	Improvement of the HSE management system.

## In-person participation of Directors in BoD and its Committees' meetings in 2016

Members of BoD	In-person meetings (8 meetings)	Strategy and Investment Committee (5 meetings)	Audit Committee (8 meetings)	HR and Compensation Committee (6 meetings)
Valery Grayfer	8/8			
Vagit Alekperov	8/8			
Victor Blazheev	6/8		7/8	4/4 (since June 2016)
Igor Ivanov	8/8	5/5	2/5 (since June 2016)	
Ravil Maganov	7/8	4/5		
Roger Munnings	8/8 (1)			6/6
Richard Matzke	8/8			6/6
Guglielmo Moscato	5/8	0/5		
Ivan Pictet	8/8 (1)		6/8 (5)	
Leonid Fedun	8/8	5/5		
Toby Gati (since June 2016)	5/5 (1)	3/3 (1)		
Sergei Mikhailov (until June 2016)	3/3		3/3 (until June 2016)	2/2 (until June 2016)

Note: In accordance with paragraph 3.3. of the Regulations on the Board of Directors of PJSC LUKOIL, a member of the Board of Directors may participate in a meeting of the Board of Directors held in the form of joint presence by joining such meeting by phone or video conference call. Participation in a meeting via the above communications means shall be deemed equivalent to participation in person.

"6/8 (1)" in the table signifies attendance at six out of eight meetings held, including 1 meeting through a conference call. Matching numbers of held and actually attended meetings generally mean that the Director was highly involved in the activities of the Board of Directors and/or its Committee.

**ASSESSMENT OF THE BOARD  
OF DIRECTORS' PERFORMANCE**

In 2016, the Board of Directors performed self-assessment of its performance in 2015–2016, whereby the members of the Board of Directors were polled (through questionnaires) on the performance of the Board of Directors as a governance body during their tenure (from the date of election to the Board of Directors in June 2015 and to the date of termination of powers in June 2016).

Assessment of the Board of Directors' performance includes the overall assessment of its activities and the assessment each of its Committees. The key objectives of the assessment of the Board of Directors' performance are to:

- Improve the performance of the Board of Directors and its members;
- Provide an objective basis for determining the size of remuneration payable to 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**

- Board of Directors' composition.
- Overall performance and positioning of the Board of Directors.
- Exercising key functions of the Board of Directors.
- Proceedings and awareness of the Board of Directors.

**Criteria groups for the Board of Directors' Committees**

- Composition and administration of the Board of Directors' Committee.
- Exercising key functions of the Board of Directors' Committee.
- Initiatives to improve performance of the Board of Directors' Committee.

Upon assessment completion, the Chairman of the Board of Directors discusses the Committee assessment results with the relevant Committee Chairmen. Assessment results are summarized.

All items that were scored less than the arithmetic mean and the proposals made by the Chairman of the Board of Directors and Chairmen of the Board of Directors'

Committees to improve the performance of the Board of Directors and Board of Directors' Committees (draft action plans) are submitted for discussion by the Board of Directors.

If the assessment criteria have to be changed, the HR and Compensation Committee may bring the relevant matter for consideration by the Board of Directors.

Based on the latest self-assessment, the Board of Directors had positive results. The assessment results were taken into account in preparing action plans for the Board of Directors and its Committees.



**BOARD OF DIRECTORS' COMPOSITION**

The Board of Directors of PJSC LUKOIL is sustainable and consists of highly professional individuals. The Company believes that the Board of Directors has the optimal number of members and is well-balanced in terms of the number of independent, executive and non-executive directors.

The high share of independent members of the Board of Directors (45%) ensures impartial consideration of matters and constructive criticism helps improve the Board of Directors' performance and our corporate governance system as a whole.

The Board of Directors includes three executive directors (27% of the total BoD members), thus enabling deep integration of the Board of Directors and the Company's executive bodies.

In 2016, Sergei Mikhailov, who has served on the Board of Directors for 12 years, was not elected to the Board of Directors. Toby Gati was elected to the Board of Directors for the first time.

The corporate governance system of PJSC LUKOIL is formed in line with the principles and recommendations of the Corporate Governance Code, which is recommended as a guidance by the Bank of Russia. The Code's provisions take into account the international corporate governance practice and the corporate governance principles developed by the Organization for Economic Co-operation and Development (OECD).

According to the Corporate Governance Code, nominees to the Company's governance bodies are

elected primarily based on their relevant knowledge, expertise, experience and business skills

The Code does not set out recommendations on ensuring gender, age or any other diversity in Company's governance bodies. Therefore, the Company does not have any policies or internal regulations formalizing the application of such approaches.

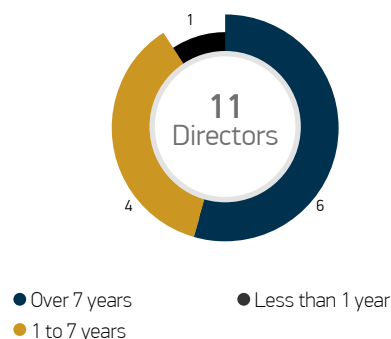
As of the end of the reporting year, the Board of Directors included one woman, Toby Gati, who was elected in 2016.

**Board of Directors' Membership as of December 31, 2016**

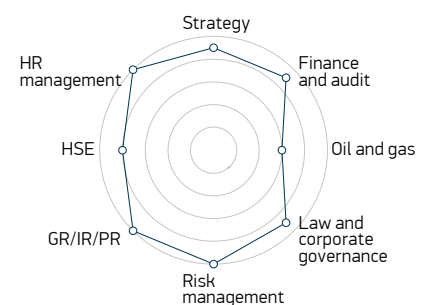
Executive directors*	Vagit Alekperov, Ravil Maganov, Leonid Fedun
Non-executive directors, including the Chairman of the Board of Directors	Valery Grayfer, Richard Matzke, Guglielmo Moscato
Independent directors	Victor Blazheev**, Toby Gati, Igor Ivanov**, Roger Munnings, Ivan Pictet
<b>Total</b>	<b>11 members</b>

\* In line with recommendations of the Corporate Governance Code, executive directors are not only members of the Management Committee of PJSC LUKOIL, but also persons employed by the Company.  
 \*\* Were deemed independent directors by the Resolution of the Board of Directors dated June 23, 2016 (Minutes No.13).

**Length of service on the Board of Directors as of December 31, 2016**



**Competence of the Board of Directors**



Members of BoD	Status	Key competencies								Industry experience, years	Share in the charter capital, %
		Strategy	Finance and audit	Oil and gas	Law and corporate governance	Risk management	GR/IR/PR	HSE	HR management		
Valery Grayfer	Chairman	●	●	●	●	●	●	●	●	64	0.01
Vagit Alekperov	Executive	●	●	●	●	●	●	●	●	48	22.98*
Victor Blazheev	Independent**		●		●	●	●		●	7	–
Toby Gati	Independent	●			●	●	●	●	●	<1	–
Igor Ivanov	Independent**	●	●			●	●	●	●	7	–
Ravil Maganov	Executive	●	●	●	●	●	●	●	●	39	0.38
Roger Munnings	Independent	●	●	●	●	●	●	●	●	24	–
Richard Matzke	Non-executive	●	●	●	●	●	●	●	●	55	0.0003*
Guglielmo Moscato	Non-executive	●	●	●	●	●	●	●	●	55	–
Ivan Pictet	Independent	●	●		●	●	●	●	●	4	–
Leonid Fedun	Executive	●	●	●	●	●	●	●	●	23	9.88*

\* Including direct and indirect ownership.

\*\* Were deemed independent directors by the Resolution of the Board of Directors dated June 23, 2016 (Minutes No. 13).

### INDEPENDENT DIRECTORS

Independent directors play a vital role in effective discharge of the duties of the Board of Directors, especially those of protecting the interests of minority shareholders and investors.

As of the end of the reporting year, the Company's Board of Directors comprised five independent directors, which is a sufficient number to have a significant influence on decision-making.

Two Committees with memberships determined by the Listing Rules of the Moscow Exchange and recommendations of the Corporate Governance Code, primarily comprised independent directors: the Audit Committee was fully made up of independent directors, and the HR and Compensation Committee was made up of two independent directors (including the Committee's Chairman) and one non-executive director.

The Company's Board of Directors believes that the Strategy and Investment Committee also has to include independent directors (As of the end of the year, two of five members of this Committee were independent, including the Committee's Chairman). Independent directors provide significant contributions to making decisions on developing strategic objectives, determining the Company's business priorities and on other critical matters that may affect the interests of the Company's minority shareholders.

**DETERMINATION OF DIRECTORS' INDEPENDENCE**

In the reporting year, the independence of directors/nominees to the Board of Directors was assessed in line with the Listing Rules of the Moscow Exchange and recommendations of the Corporate Governance Code. During the year, the HR and Compensation Committee assessed their independence twice: nominees were assessed in March and the incumbent Directors were assessed in October. Independence was assessed through questionnaires.

Due to synchronization of independence criteria set out in the Listing Rules and the Code, the assessment results of members/nominees to the Board of Directors did not show any deviations: five independent directors are provided for both by the Listing Rules and by the Code.

By the Resolution of the Board of Directors dated June 23, 2016 (Minutes No. 13), two Directors, Victor Blazheev and Igor Ivanov, were deemed independent, although they met the formal criteria of being related to the Company due to excess of the seven-year tenure as Directors set out in the Corporate Governance Code and

Listing Rules of the Moscow Exchange. This resolution was adopted since Mr. Blazheev's and Mr. Ivanov' terms in office as members of the Board of Directors of PJSC LUKOIL do not exceed 12 years in aggregate, they are not and have never been members of the Company's executive bodies or entities controlled by the Company, do not hold the Company's shares, do not provide and have never provided services to the Company and have always taken a responsible approach to discharging their duties of members of the Board of Directors of PJSC LUKOIL, which testifies to their independence, unbiased approach, and fair opinions and judgements.

In 2016, Toby Trister Gati was elected to the Board of Directors. To ensure her quickest possible and effective involvement in the activities of the Board of Directors and make use of her professional capabilities, knowledge, experience and competence, Toby Gati completed all key stages of the induction program, including a visit to one of LUKOIL Group's major oil refineries, Perm Refinery. Toby Gati initiated the development of materials on the Company's sustainability, which were sent to a stakeholder at the UN.

**INDUCTION OF NEW MEMBERS OF THE BOARD OF DIRECTORS**

Newly elected Directors complete an induction training program in the shortest possible time from the date of their election to the Company's Board of Directors.

Key elements of the program include:

- **Personal meetings.** New members have meetings with the Company'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.** New members are provided with the key corporate documents and information about the Company.
- **Familiarization with operations.** New members make site visits to the Group's production facilities.

Formalization of the induction program for the newly elected members is scheduled for completion in 2017.

It is with great sadness that we acknowledge the death of the member of the Board of Directors Guglielmo Antonio Claudio Moscato in February 2017. Mr. Moscato had vast experience in the oil industry, participated in the implementation of major oil and gas projects around the world and was one of the most reputable managers in the industry, which enabled him to make valuable contributions to the Board of Directors and the Strategy and Investment Committee over the past five years.

**BIOGRAPHICAL DETAILS OF MEMBERS OF THE BOARD OF DIRECTORS\*****Valery Grayfer**

- Chairman of the Board of Directors

Born in 1929.

Graduated from the I.M. Gubkin Moscow Oil Institute in 1952. Candidate of Technical Sciences (PhD). Recipient of seven orders, four medals, a Certificate of Honor of the Supreme Soviet of the Tatar ASSR, and a Certificate of Honor of the Russian Federation President. Lenin Prize and Russian Government Prize Winner. Professor at 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 OAO RITEK.
  - Since 2000: Chairman of the Board of Directors of PJSC LUKOIL.
- Since 1996: Board member of PJSC LUKOIL (formerly OAO LUKOIL).

*Membership in the governance bodies of other organizations:*

- Since 2010: Chairman of the Board of Directors of JSC RITEK.

**Ravil Maganov**

- Deputy Chairman of the Board of Directors
- Executive member of the Board of Directors
- Member of the Strategy and Investment Committee
- Member of the Management Committee
- First Executive Vice President (E&P)

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. Recipient of four orders and five medals. Awarded a Certificate of Honor of the Russian Federation President. Has a Letter of Acknowledgement from the Government of the Russian Federation. Three times winner of the Russian Government Prize in Science and Engineering.

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

*Membership in the governance bodies of other organizations:*

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

**Vagit Alekperov**

- Executive member of the Board of Directors
- President
- Chairman of the Management Committee

Born in 1950.

Graduated from the M. Azizbekov Azerbaijan Oil and Chemistry Institute in 1974. Doctor of Economics. Full member of the Russian Academy of Natural Sciences. Distinguished Energy Industry Specialist and Honored Oil Specialist. Recipient of five orders and eight medals, a Certificate of Honor and two Certificates of Gratitude from the Russian Federation President. Two times winner of the Russian Government Prize.

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

*Membership in the governance bodies of other organizations:*

- Since 2000: Chairman of the Supervisory Board at LUKOIL INTERNATIONAL GmbH.
- Since 2012: Chairman of the Community Council at Our Future Fund for regional social programs.
- Since 2012: Member of the Bureau of the Board of the Russian Union of Industrialists and Entrepreneurs.

**Victor Blazheev**

- Independent member of the Board of Directors\*
- Chairman of the Audit Committee
- Member of the HR and Compensation Committee

Born in 1961.  
 Graduated from the evening department of the All-Union Extra-Mural Law Institute (AELI) in 1987. Completed a post-graduate program at AELI-Moscow Law Institute, the department of civil litigation, in 1990. Candidate of Legal Sciences (PhD), Professor. Recipient of the titles of the Distinguished Lawyer, Honored Worker of Higher Education of the Russian Federation, and Research and Development Worker of the Russian Federation, recipient of a Medal of the Order "For Merits before the Fatherland," 2nd Degree. Since 1999, he has combined his teaching activities with various official administrative positions at Moscow State Academy of Law (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: Board member of PJSC LUKOIL (formerly OAO LUKOIL).

*Membership in the governance bodies of other organizations:*

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

**Toby Gati**

- Independent member of the Board of Directors
- Member of the Strategy and Investment Committee

Born in 1946.  
 Graduated from Pennsylvania State University in 1967 (Bachelor's degree in Russian Literature and Language). Graduated from Columbia University in 1970 (Master's Degree in Russian Literature). Graduated from the Harriman Institute at Columbia University in 1972 (Master's degree in International Affairs and Certificate in Russian Studies).

- 1997–2016: Senior Advisor on matters of international cooperation and international relations at Akin Gump Strauss Hauer & Feld LLP.

Participant of the Valdai International Discussion Club.

Since 2016: Board member of PJSC LUKOIL.

*Membership in the governance bodies of other organizations:*

- Since 2012: Board member of the U.S.-Russia Business Council (USRBC).
- Since 2016: President of TTG Global LLC.

**Igor Ivanov**

- Independent member of the Board of Directors\*
- Chairman of the Strategy and Investment Committee
- Member of the Audit Committee

Born in 1945.  
 Graduated from Maurice Thorez Moscow State Institute of Foreign Languages in 1969. RAS Corresponding Member. Doctor of History, Professor. Ambassador Extraordinary and Plenipotentiary of the Russian Federation. Holds both Russian and international orders and medals.

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

Since 2009: Board member of PJSC LUKOIL (formerly OAO LUKOIL).

*Membership in the governance bodies of other organizations:*

- Since 2011: President of the Russian International Affairs Council (RIAC) not-for-profit partnership.
- Since 2013: Member of the Board of Managing Directors of Rissa Investments N.V.
- Since 2014: Member of the International Advisory Council of Universal Credit Rating Group Co., Limited.
- Since 2015: Member of the International Advisory Board at UniCredit Group.

\* Was determined to be independent by Resolution of the Board of Directors dated June 23, 2016 (Minutes No. 13).

**Roger Munnings**

- Independent member of the Board of Directors
- Chairman of the HR and Compensation Committee

Born in 1950.

Graduated from the University of Oxford in 1972 (Master's Degree in Philosophy, Politics and Economics). Fellow of the Institute of Chartered Accountants in England and Wales, made a Commander of the Most Excellent Order of the British Empire, by HM the Queen.

- 1993–2008: Chairman of KPMG's Global Energy and Natural Resources Practice.
- 1996–2008: President and CEO of KPMG Russia/CIS.
- 1998–2008: Member of KPMG's International Council (ultimate governance body).

Currently a member of the Russian National Council on Corporate Governance, member of the Expert Council of the Russian Institute of Directors, and of the Russian Union of Industrialists and Entrepreneurs. Since 2015: Board member of PJSC LUKOIL.

*Membership in the governance bodies of other organizations:*

- Since 2010: Independent member of the Board of Directors of Sistema Joint Stock Financial Corporation.
- Since 2012: Chairman of the Russian-British Chamber of Commerce.

**Richard Matzke**

- Non-Executive member of the Board of Directors
- Member of the HR and Compensation Committee

Born in 1937.

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

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

- 1989–1999: President of Chevron Overseas Petroleum, Board member of Chevron Corporation.
- 2000–2002: Vice-Chairman of Chevron, Chevron-Texaco Corporation.
- 2005–2008: Member of the Board of Directors of SBM Offshore NV.
- 2010–2013: Board member of Eurasia Drilling Company.

Board member of PJSC LUKOIL (formerly OAO LUKOIL) from 2002 to 2009 and since 2011.

*Membership in the governance bodies of other organizations:*

- Since 2001: Board member of PHI, Inc.
- Since 2014: Independent non-executive member of the Board of Directors of PetroChina Company Limited, member of the Human Resources and Compensation Committee.
- Since 2015: Member of the Advisory Board of the Energy Intelligence Group.
- Since 2016: Member of the Advisory Board of Directors of the US-Russia Chamber of Commerce.

**Guglielmo Antonio  
Claudio Moscato**

- Non-Executive member of the Board of Directors
- Member of the Strategy and Investment Committee

Born in 1936.

Graduated from Polytechnic University of Milan (Politecnico di Milano) (Italy) in 1961.

- 1996–1999: Chairman of the Board of Directors of Eni SpA.
- 1993–1997: Chairman and Chief Executive Officer of AGIP SpA.
- 1999–2006: President of the Board of Directors of the Fondazione Eni Enrico Mattei (FEEM).
- 2006–2009: Chairman of the Board of Directors of Eni Corporate University.

Since 2011: Board member of PJSC LUKOIL (formerly OAO LUKOIL).

*Membership in the governance bodies of other organizations:*

- Since 2012: Chairman of the Board of Directors and CEO of Gas Mediterraneo & Petrolio (GM&P).
- Since 2012: Member of the Advisory Council of John Hopkins University.

**Ivan Pictet**

- Independent member of the Board of Directors
- Member of the Audit Committee

Born in 1944.

Graduated from the School of Business Administration at the University of St. Gallen in 1970.

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

Since 2012: Board member of PJSC LUKOIL (formerly OAO LUKOIL).

*Membership in the governance bodies of other organizations:*

- Since 2009: President of Fondation pour Geneve and Chairman of the Fondation Pictet pour le développement.
- Since 2010: Member of the AEA European Advisory Board.
- Since 2011: Member of the Board of Directors of Symbiotics, Chairman of the Board of Directors since 2015.
- Since 2012: Chairman of the Board of Directors of PSA International SA.

**Leonid Fedun**

- Executive member of the Board of Directors
- Member of the Strategy and Investment Committee
- Vice President for Strategic Development at PJSC LUKOIL

Born in 1956.

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

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

Since 2013: Board member of PJSC LUKOIL (formerly OAO LUKOIL).

*Membership in the governance bodies of other organizations:*

- Since 2012: Chairman of the Board of Directors of CJSC IFD Capital.
- Since 2012: Chairman of the Board of Directors of Spartak-Moscow Football Club.
- Since 2012: Chairman of the Board of Directors of CJSC Management Group.
- 2012: Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs...
- Since 2012: Member of the Management Board of the All-Russia Employer Association "Russian Union of Industrialists and Entrepreneurs."
- Since 2012: Member of the Council of the Foundation for Social Program Targeted Support.
- Since 2012: Chairman of the Council of the Charity Foundation to Support Veterans and Youth at Spartak-Moscow Football Club.
- Since 2013: Member of the Council of the IFD Capital Charity Foundation for Social Program Support.
- Since 2014: Board member of CJSC Tushino 2018.

In 2016, no member of the Board of Directors received any loans (credits) from the Company.

**LIABILITY INSURANCE OF BOD MEMBERS**

Pursuant to the Policy (contract) on insuring the liability of directors, officers and corporations for 2016-2017, PJSC LUKOIL insures the liability of:

- 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 members of the sole executive body and/or members of the governing 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 members of the sole executive body and/or members of the governance bodies of such organizations (**Coverage B**);

- PJSC LUKOIL and its subsidiaries in connection with claims in respect of securities (**Coverage C**).

The insured amount (liability limit) makes up at least \$150 million in aggregate for Coverages A, B and C, including legal defence costs. The total insurance premium is up to \$450,000.

**BOARD OF DIRECTORS COMMITTEES**

To improve the effectiveness of resolutions passed by the Board of Directors, PJSC LUKOIL has in place three Board of Directors Committees, which are engaged in the preliminary detailed review of most critical issues and preparation of relevant recommendations:

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

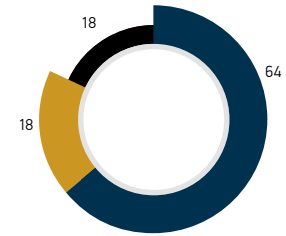
The Committees' activities are governed by applicable regulations: Regulations on the Audit Committee of the Board of directors of PJSC LUKOIL (approved by the Board of Directors of PJSC LUKOIL on January 13, 2016, Minutes No. 1), Regulations on the HR and Compensation Committee of the Board of Directors of PJSC LUKOIL (approved by the Board of Directors of PJSC LUKOIL on September 29, 2016, Minutes No. 21), Regulations on the Strategy and Investment Committee of the Board of Directors of PJSC LUKOIL (approved by the Board of Directors of PJSC LUKOIL on April 25, 2016, Minutes No. 6).

The Committees are fully accountable to the Board of Directors. Committee members are elected only from the members of the Board of Directors, and in line with the best practice and requirements of the Listing Rules of the Moscow Exchange, the Committees comprise a significant share of independent directors.

This approach helps to develop objective and well-balanced recommendations. For instance, the Audit Committee is comprised exclusively of independent directors, while the Chairmen of the Strategy and Investment Committee and HR and Compensation Committee are independent directors. The HR and Compensation Committee is made up mostly of independent directors. All Committee members have adequate combination of strong expertise and extensive experience, including hands-on experience.

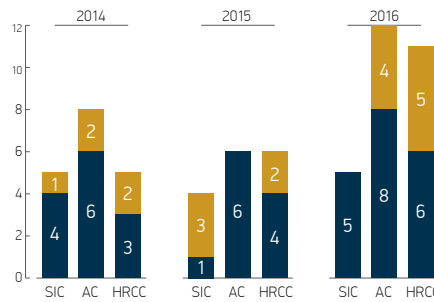
Both employees of the Company and third-parties may attend Committee meetings by invitation of Committee Chairman. However, they may not vote on agenda items.

**Committees' membership as of the end of 2016, %**



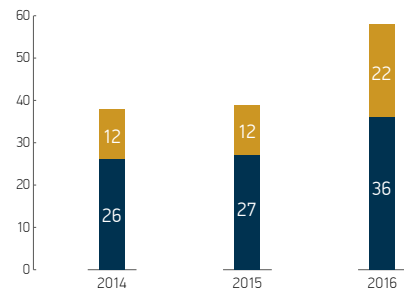
- Independent directors
- Executive directors
- Non-executive directors

**Statistics of Committee meetings**



- In person
- In absentia

**Matters considered**



- Review for submission to the BoD
- Reviewed by the Committee only



STRATEGY AND INVESTMENT COMMITTEE

“ In 2016, the Strategy and Investment Committee discussed a number of critical issues related to further improvement of the Company’s corporate governance and development strategy and made relevant recommendations to the Board of Directors of PJSC LUKOIL.

The Committee submitted to the Board of Directors recommendations on updating the Regulations on the

Dividend Policy of PJSC LUKOIL to improve predictability and transparency around calculation of dividends for investors and shareholders. The key principles of this policy include priority of dividends in distributing cash flows, setting the amount of dividends to at least 25% of the Company’s IFRS consolidated profit for the period. Moreover, the Company will seek to provide annual growth of dividends at

least in line with ruble inflation. I am confident that the combination of these principles will positively influence the investment appeal of PJSC LUKOIL ”

Chairman of the Strategy and Investment Committee  
**Igor Ivanov**

Committee membership as of December 31, 2016

Independent Directors	<b>Igor Ivanov (Committee Chairman)</b> Toby Gati
Non-Executive Directors	Guglielmo Moscato
Executive Directors	Ravil Maganov Leonid Fedun

Committee tasks	Key topics covered in 2016
<p>Making recommendations to the Board of Directors on the following matters:</p> <ul style="list-style-type: none"> <li>defining the strategic objectives of the Company’s business;</li> <li>defining the Company’s business priorities;</li> <li>the Dividend Policy, amount of dividends payable on shares and dividend payout procedure;</li> <li>the distribution of Company’s profits (losses) based on the results of the reporting year.</li> </ul> <p>Assessment of the Company’s long-term performance.</p> <p>Participation in monitoring the progress of the Company’s Strategic Development Program.</p>	<ul style="list-style-type: none"> <li>Recommendations to the Board of Directors on the amount of dividends payable on shares for 2015 and 9M 2016.</li> <li>Recommendations to the Board of Directors on approving the new Regulations on the Dividend Policy of PJSC LUKOIL.</li> <li>Methodology to assess innovation performance in oil and gas production. The procedure covers investment analysis performed when using latest oil and gas production methods in adverse geological conditions and when assessing high-viscosity oil production projects.</li> <li>Recommendations on approving the Regulations on the Strategy and Investment Committee of the Board of Directors of PJSC LUKOIL to strengthen the role of the Board of Directors in planning and monitoring progress of strategic development programs.</li> <li>Key trends in the global energy industry until 2030 and their impact on the Company’s business. Competitive environment analysis to identify priority growth areas to support preparation of the Company’s long-term strategic development program.</li> <li>Progress of the Company’s international projects.</li> <li>The Company’s compliance with the terms of license agreements.</li> <li>Expansion of the Company’s resource base.</li> </ul> <p>Additionally, the Committee discussed the Company’s Sustainability Report at the initiative of its members.</p>

## AUDIT COMMITTEE

“ In 2016, PJSC LUKOIL transformed internal audit functions. We reorganized the Internal Audit Service to bring it in line with the requirements of the Moscow Exchange Listing Rules. More specifically, we separated internal audit functions from internal control and risk management. In line with best practice, we refocused the priorities of the Internal Audit Service from detecting isolated violations and gaps in the Company’s business to comprehensive assessment, and support to improvement, of risk management, internal control and corporate governance. During the transformation of the internal audit

function, we completed migration to the generally acknowledged conceptual model of internal audit complying with the International Standards for the Professional Practice of Internal Auditing. Due to our focused efforts, we also succeeded in establishing an auditor–management partnership based on the commitment to enhance the Company’s performance on the side of both the management and the internal audit function.

These major transformations required a lot of effort to update the internal audit methodology, develop auditors’ skills, and

adapt the Company’s internal documents to the new model of internal audit. As a result, we got a really functional, modern and effective tool to provide the Company’s governance bodies with objective and reliable information on the operation of internal control and risk management frameworks ”

Chairman of the Audit  
Committee  
**Victor Blazheev**

## Committee membership as of December 31, 2016

Independent Members of BoD

**Victor Blazheev (Committee Chairman)**

Igor Ivanov  
Ivan Pictet

## Committee tasks

- Review of completeness, accuracy and reliability of the Company’s accounting (financial) statements;
- Recommendations on the Company’s proposed independent auditor and the auditor’s remuneration cap;
- Review of the independent auditor’s opinion, determination of the auditor’s independence, objectivity and absence of a conflict of interest;
- Performance assessment of the internal audit function, review of the effectiveness of control and audit procedures and consideration of relevant improvement proposals;
- Review of action plans and budget of the Company’s internal audit unit;
- Review of the effectiveness of risk management and internal control procedures, monitoring the reliability and performance of the risk management and internal control system and the corporate governance framework;
- Recommendations on preliminary approval of the Company’s Annual Report.

## Key topics covered in 2016

- Recommendations to the Board of Directors on approval of the Risk Management and Internal Control Policy of PJSC LUKOIL;
- Recommendations to the Board of Directors on the proposed auditor for subsequent approval by the General Shareholders Meeting; review of the auditor’s opinion for subsequent submission to shareholders as materials for the annual General Shareholders Meetings;
- On recommendations to the Board of Directors on approval of the 2017 Annual Audit and Consulting Plan of the Internal Audit Service and the 2017 Internal Audit Unit Budget;
- Recommendations to the Board of Directors on approving the Program to Improve Internal Audit Quality at PJSC LUKOIL for 2017–2021;
- Review of draft consolidated financial statements of PJSC LUKOIL prepared under IFRS;
- Making recommendations to the Board of Directors on preliminary approval of the 2015 Annual Report;
- Review of control and audit procedures.

HR AND COMPENSATION COMMITTEE

“ During 2016, the HR and Compensation Committee incorporated new recommendations of the Corporate Governance Code and new requirements of the Listing Rules of the Moscow Exchange into the Company’s existing compliant corporate governance framework. Accordingly, the Committee’s work was carried out with the aim of meeting current best practice

Together with fulfilling its routine responsibilities, the Committee:

- reviewed the Directors’ Compensation and Expense Reimbursement Policy of the Company developed to bring

it in line with best practice and recommended the approval and adoption of the developed policy to the Board of Directors. The varied policy is to make the remuneration system more transparent and clear for all stakeholders;

- assessed the independence of all candidates for the Board of Directors, including incumbent directors;
- played an active role in making adjustments to the role and office of Corporate Secretary to bring it in line with current best practice;

- assessed the suitability of a proposed candidate for the position of Corporate Secretary in terms of experience, competency, qualifications and personal qualities and recommended to the Board of Directors that Ms. Natalia Podolskaya be appointed to that office ”

Chairman of the HR and Compensation Committee  
**Roger Munnings**

Committee membership as of December 31, 2016

Independent Members of BoD	<b>Roger Munnings (Committee Chairman)</b> Victor Blazheev
Non-executive Member of BoD	Richard Matzke

Committee tasks

Key topics covered in 2016

- Assessing the performance of the Board of Directors, its members and committees, identifying priority directions to strengthen the Board composition;
- Interaction with shareholders to prepare recommendations for voting on the election of the Board of Directors;
- Recommendations on staff appointments;
- Development and regular review of the Company’s policy on remuneration of members of the Board of Directors the Management Committee and the President;
- Recommendations to the Board of Directors on determining the size of remuneration payable to the Corporate Secretary;
- Pre-assessing the performance of the Management Committee members and the President based on the results of the year in line with the Company’s remuneration policy.
- Assessment of nominees to the new Management Committee and recommendations to the Board of Directors. Pre-assessing the performance of the members of the previous Management Committee;
- Recommendations on approving the Regulations on the Human Resources and Compensation Committee of the Board of Directors of PJSC LUKOIL;
- Recommendations to the Board of Directors on approving the Director Compensation and Expense Reimbursement Policy of PJSC LUKOIL and Regulations on PJSC LUKOIL Management Remuneration and Incentive System;
- Independence of nominees to the Board of Directors (March 2016) and the incumbent members of the Board of Directors (October 2016);
- Recommendations to the Board of Directors on the nominee to the position of the Corporate Secretary, the amount of his/her remuneration and approval of the Regulations on the Corporate Secretary of PJSC LUKOIL;
- Recommendations to the Board of Directors to request the General Shareholders Meeting to decide on the amount of remuneration to the members of the Company’s Board of Directors and Audit Commission;
- Requirements of the modern technical policy to the level of training of specialists for working at LUKOIL Group entities;
- The state of human resources management and young specialists training; relations with veterans across LUKOIL Group entities.

## CORPORATE SECRETARY

“ Introduction of the role of Corporate Secretary in PJSC LUKOIL fully in line with the recommendations of the Corporate Governance Code is a consistent step to further improve the Company’s corporate governance ”

Corporate Secretary  
of PJSC LUKOIL  
**Natalia Podolskaya**

### **Natalia Podolskaya**

Corporate Secretary

Born in 1960.

- Graduated from the Maurice Thorez Moscow State Institute of Foreign Languages in 1983.
- Diplomatic Academy under the RF Ministry of Foreign Affairs (majoring in International Economics) – 2003.
- Corporate Secretary Advanced Training Programme, HSE Corporate Governance Centre – 2007.
- Candidate of Philological Sciences (PhD) from Moscow State Linguistic University – 1998.
- From 1983 to 1998: engaged in translation/interpreting, research and lecturing activity.
- 1998 – 2002: Manager, KPMG.
- 2002 – 2016: Chief Liaison Officer (Office of the Board of Directors), OAO LUKOIL, PJSC LUKOIL.
- Since 2016: Corporate Secretary, PJSC LUKOIL.

In 2016, the Company’s Board of Directors approved the Regulations on the Corporate Secretary of PJSC LUKOIL. The role of the Corporate Secretary is designed to support efficient interaction between the Company’s shareholders, Board of Directors and executive management. As part of such interaction, the Corporate Secretary acts as the guarantor of the compliance by the Company’s management and governance bodies with procedures and principles that ensure the exercise of legitimate rights and interests of shareholders. The Corporate Secretary ensures proper operation of the Board of Directors and its Committees.

The Corporate Secretary is sufficiently independent of the Company’s executive bodies as he/she functionally reports to the Board of Directors. The Corporate Secretary is appointed by the Company’s President based on the resolution of the Board of Directors dated August 31, 2016 and acts in line with the Company’s Charter and Regulations on the Corporate Secretary.

The Corporate Secretary’s key functions include:

- Ensuring operation of the Board of Directors and its committees;
- Participating in preparation and holding of the Company’s General Shareholders Meetings of;
- Ensuring interaction between the Company and its shareholders within his/her powers and participating in preventing corporate conflicts;
- Ensuring the Company’s interaction with regulators, market operators, registrar and other professional market participants;
- Participating in the implementation of the Company’s Information Disclosure Policy;
- Notifying the Board of Directors about detected violations of the law and Company’s internal documents (within the scope of the Corporate Secretary’s responsibility);
- Contributing to the implementation of the established procedures that ensure the exercise of rights and legitimate interests of shareholders, monitoring their execution;
- Participating in the improvement of the Company’s corporate governance system.

### **RESOLVING POTENTIAL CONFLICTS OF INTEREST INVOLVING MEMBERS OF THE BOARD OF DIRECTORS**

The Corporate Secretary monitors compliance with the Company’s internal documents and immediately notifies the Board of Directors about any violations detected. The Corporate Secretary also supervises compliance with the procedure to prevent conflicts of interest at the BoD level set forth in the Regulations on the Board of Directors.



## 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 falling reserved to the Company’s General Shareholders Meeting or the Board of Directors.

### PRESIDENT

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.

At the Company’s AGM held on June 23, 2016, Vagit Alekperov was re-appointed the Company’s President for a term of five years. At the BoD meeting held on June 23, 2016 (Minutes No. 13), the key provisions of the contract with the President were set out, including his remuneration.

V. Alekperov has been the President of PJSC LUKOIL for 23 years.

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;
- entering into transactions on behalf of the Company;

- management of the Company’s assets to support its day-to-day operations (within the limits prescribed by the Charter);
- signing financial documents;
- approving the staff schedule, signing employment contracts with employees;
- approving the Company’s internal documents regulating its day-to-day operations, save for internal documents to be approved by the Company’s Management Committee;
- 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 collegial executive body in charge of PJSC LUKOIL’s day-to-day operations, as well as development and implementation of the overall 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 (the new version approved by resolution of the Annual General Shareholders Meeting of PJSC LUKOIL dated June 23, 2016).

The authority of the Management Committee covers:

- developing and implementing the Company’s current business policy;
- developing, approving, and monitoring the performance of the Company’s action plans, budget, and investment program;
- making decisions on establishment by the Company of other legal entities, as well as on participation in other entities and termination of such participation;
- a number of powers related to development and implementation of the overall strategy of the Company’s subsidiaries;
- other powers set out by the Company’s Charter.

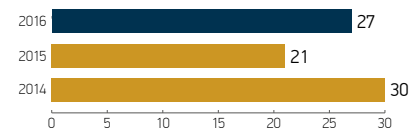
Following on the President’s proposals, the Board of Directors appoints members of the Management Committee on an annual basis. Proposals are submitted within one month following the election of the Board of Directors by the Annual General Shareholders Meeting. The Board of Directors may reject certain 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 2016. Meetings of the Management Committee are convened as necessary. All meetings are held only through joint attendance. The President sets an agenda for each meeting, also by considering the proposals coming from the Management Committee members.

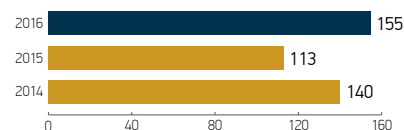
In 2016, the Management Committee held 27 meetings and passed resolutions on the following matters:

- approval of budget KPIs for LUKOIL Group;
- taking resolutions on the operations of LUKOIL Group subsidiaries;
- optimizing the production capabilities and corporate structure of LUKOIL Group;
- approval of the Company’s internal regulations underlying the Company’s core businesses, including:
  - LUKOIL Group Antimonopoly Policy;
  - Regulations on the Procedure for Planning and Organizing Standardization in LUKOIL Group;
- HR decisions on key executives of Russian entities of LUKOIL Group controlled by the Company by more than 50%.

### Number of Management Committee meetings



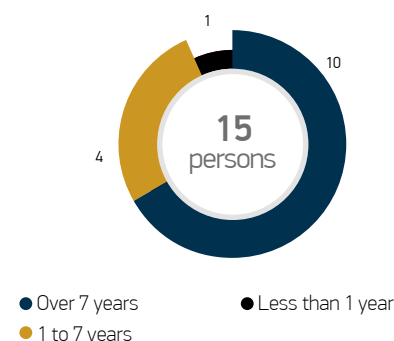
### Matters reviewed by the Management Committee



## Members of the Management Committee as of December 31, 2016

	Tenure as Management Committee member, years*	Share in charter capital of PJSC LUKOIL
Vagit Alekperov (Chairman)	23	22.98**
Vadim Vorobyev	6	0.01
Sergei Kukura	23	0.39
Ravil Maganov	23	0.38
Ivan Maslyayev	23	0.03
Alexander Matytsyn	19	0.31
Anatoly Moskalenko	13	0.02
Vladimir Nekrasov	17	0.04
Oleg Pashaev	Became Management Committee member on July 21, 2016	0.005
Denis Rogachev	1	0.001
Valery Subbotin	8	0.2**
Gennady Fedotov	6	0.007
Evgeny Khavkin	13	0.008
Lyubov Khoba	23	0.36
Azat Shamsuarov	3	0.005

## Length of service in the Management Committee as of December 31, 2016



\* Full years as of December 31, 2016.

\*\* Including direct and indirect ownership.

The Company is not aware of any loans (credits) received (from a legal entity from a group of organizations that includes the Company) by members of the Management Committee.

### CHANGES IN THE MEMBERSHIP STRUCTURE OF THE MANAGEMENT COMMITTEE

Changes to the membership of the Management Committee of PJSC LUKOIL during 2016 were as follows:

- The powers of the member of the Management Committee, Sergey Malyukov, were terminated early (Resolution of the Board of Directors dated April 25, 2016, Minutes No. 6). The resolution was passed due to the appointment of Sergey Malyukov Vice President, Head of Internal Audit, functionally reporting to the Board of Directors as set out in the Company's Charter;

- Oleg Pashaev, Vice President for Petroleum Product Marketing and Distribution, was added to the Management Committee\*\*\* (Resolution of the Board of Directors dated July 21, 2016, Minutes No. 14).

The following changes in the positions held by members of the Management Committee of PJSC LUKOIL took place after the reporting date early in 2017:

- On January 31, 2017, Vadim Vorobyev terminated as Vice President for Oil Refining, Gas Processing and Petrochemicals and was appointed Senior Vice President for Sales and Supplies starting from February 1, 2017;

- On January 31, 2017, Sergei Kukura terminated as First Vice President (Economics and Finance) and was appointed Advisor to the President starting from February 1, 2017;
- On January 31, 2017, Alexander Matytsyn terminated as Senior Vice President for Finance and was appointed First Vice President (Economics and Finance) starting from February 1, 2017;
- On January 31, 2017, Valery Subbotin stepped down as Senior Vice President for Sales and Supplies.

\*\*\* Since December 2016: Vice President for Oil Product Sales of PJSC LUKOIL.

**BIOGRAPHICAL DETAILS OF MEMBERS OF THE MANAGEMENT COMMITTEE AND OF THE PRESIDENT OF PJSC LUKOIL AS OF DECEMBER 31, 2016**

**Vagit Alekperov**

- President
- Executive Director
- Chairman of the Management Committee

Born in 1950.

Graduated from the M. Azizbekov Azerbaijan Oil and Chemistry Institute in 1974. Doctor of Economics. Full member of the Russian Academy of Natural Sciences. Distinguished Energy Industry Specialist and Honored Oil Specialist. Recipient of five orders and eight medals, a Certificate of Honor and two Certificates of Gratitude from the Russian Federation President. Two times winner of the Russian Government Prize.

**Work experience:**

- Since 1968: worked at oil fields in Azerbaijan and West Siberia.
- 1987–1990: General Director of Production Association Kogalymneftegaz of Glavyumenneftegaz of the USSR Ministry of Oil and Gas.
- 1990–1991: Deputy Minister; First Deputy Minister of the USSR Ministry of Oil and Gas.
- 1992–1993: President of the Oil Concern Langepasuraikogalymneft.
- 1993–2000: Chairman of the Board of Directors of OAO LUKOIL.
- Since 1993: President of PJSC LUKOIL.
- Since 2000: Chairman of the Supervisory Board at LUKOIL INTERNATIONAL GmbH.
- Since 2012: Chairman of the Council at "Our Future" Fund for regional social programs.
- Since 2012: Member of the Bureau of the Board of the Russian Union of Industrialists and Entrepreneurs.

Since 1993: Board member of PJSC LUKOIL (formerly OAO LUKOIL).

**Vadim Vorobyov**

- Member of the Management Committee
- Vice President for Oil Refining, Gas Processing and Petrochemicals

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. Recipient of Medals of the Order "For Merits before the Fatherland," 1st and 2nd Degree and the Order of Friendship.

**Work experience:**

- 1981–1992: elected to local youth and party bodies.
- 1992–1998: in management positions at Nizhny Novgorod insurance and banking institutions.
- 1998–2002: Vice President, President of JSC Oil Company NORSI-OIL.
- 2002–2005: General Director of OOO LUKOIL-Volganefteprodukt.
- 2005–2009: Vice President, Head of the Main Division of Coordination of Petroleum Product Marketing and Distribution in Russia of OAO LUKOIL.
- 2009–2012: Vice President, Head of the Main Division of Coordination of Petroleum Product Marketing and Distribution of OAO LUKOIL.
- 2012–2016: Vice President, Petroleum Product Marketing and Distribution of PJSC LUKOIL.
- Since 2016: Vice President for Oil Refining, Gas Processing and Petrochemicals of PJSC LUKOIL.

**Sergei Kukura**

- Member of the Management Committee
- First Vice President (Economics and Finance)

Born in 1953.

Graduated from Ivano-Frankovsk Oil and Gas Institute in 1979. Doctor of Economics. Distinguished Economist of the Russian Federation, Honored Oil Specialist, Distinguished Energy Industry Specialist. Recipient of two orders and five medals, and a Certificate of Gratitude from the Russian Federation President. Russian Government Prize winner in Science and Engineering.

**Work experience:**

- 1992–1993: Vice President of the Oil Concern Langepasuraikogalymneft.
- Since 1993: First Vice President of PJSC LUKOIL.

**Ravil Maganov**

- Executive Director, Deputy Chairman of the Board of Directors
- Member of the Management Committee
- First Executive Vice President (E&P)
- Member of the Strategy and Investment Committee

Born in 1954.

Graduated from 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. Recipient of four orders and five medals. Awarded a Certificate of Honor of the Russian Federation President. Has a Letter of Acknowledgement from the Government of the Russian Federation. Three times winner of the Russian Government Prize in Science and Engineering.

**Work experience:**

- 1988–1993: Chief Engineer, Deputy General Director, General Director of Production Association Langepasneftegaz.
  - 1993–1994: Vice President of OAO LUKOIL.
  - 1994–2006: First Vice President of OAO LUKOIL (E&P).
  - Since 2006: First Executive Vice President of PJSC LUKOIL (E&P).
  - Since 2010: Member of the Supervisory Board of LUKOIL INTERNATIONAL GmbH.
  - Since 2016: Deputy Chairman of the Board of Directors of PJSC LUKOIL.
- Since 1993: Board member of PJSC LUKOIL (formerly OAO LUKOIL).

**Ivan Maslyaev**

- Member of the Management Board
- Vice President, General Counsel

Born in 1958.

Graduated from Lomonosov Moscow State University in 1980. Candidate of Legal Sciences (PhD). Distinguished Lawyer of the Russian Federation. Honored Oil Specialist. Recipient of four medals.

**Work experience:**

- 1992–1993: Head of the Legal Department of the Oil Concern Langepasuraikogalymneft.
- 1994–1999: Head of the Legal Division. 2000–2012: Head of the Main Division of Legal Support of OAO LUKOIL.
- Since 2012: Vice President, General Counsel of PJSC LUKOIL.

**Alexander Matytsyn**

- Member of the Management Board
- Senior Vice President for 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. Recipient of two medals, including a Medal of the Order "For Merits before the Fatherland," 2nd Degree, and the Order of Honor.

**Work experience:**

- 1994–1997: Director, General Director of KPMG, international auditors.
- 1997–2012: Vice President – Head of the Main Division of Treasury and Corporate Finance of OAO LUKOIL.
- 2012–2013: Vice President of Finance of OAO LUKOIL.
- Since 2013: Senior Vice President for Finance of PJSC LUKOIL.

**Anatoly Moskalenko**

- Member of the Management Board
- Vice President for Human Resources Management and Security

Born in 1959.

Graduated from the Supreme Soviet of the RSFSR Moscow Higher Combined Arms Academy in 1980, Military Diplomatic Academy in 1987, the Russian Presidential Academy of Public Administration in 2005. Candidate of Economics (PhD). Recipient of six orders and twenty medals. Russian Government Prize Winner.

**Work experience:**

- 1976–2001: service in the Armed Forces of Russia.
- 2001–2003: Head of the Human Resources Division, Head of the Human Resources Department of OAO LUKOIL.
- 2003–2012: Head of the Main Division of Human Resources of OAO LUKOIL.
- 2012–2016: Vice President, Human Resources Management and Corporate Structure Development of PJSC LUKOIL.
- Since 2016: Vice President for Human Resources Management and Security of PJSC LUKOIL.



**Vladimir Nekrasov**

- Member of the Management Committee
- First Vice President (Refining, Marketing and Distribution)

Born in 1957.

Graduated from Tyumen Industrial Institute in 1978. Candidate of Technical Sciences (PhD), full member of the Academy of Mining Sciences. Distinguished Specialist of the Ministry of Fuel and Energy of the Russian Federation. Honored Oil Specialist. Recipient of two orders and six medals. Awarded a Certificate of Honor of the Russian Federation President. Russian Government Prize Winner.

**Work experience:**

- 1992–1999: Chief Engineer, General Director of Territory Production Unit (TPU) Kogalymneftegaz of OOO LUKOIL-West Siberia.
- 1999–2005: Vice President of OAO LUKOIL, General Director of OOO LUKOIL-West Siberia.
- Since 2005: First Vice President of PJSC LUKOIL.

**Oleg Pashaev**

- Member of the Management Committee
- Vice President for Oil Product Sales

Born in 1967.

Graduated from M.V. Frunze Higher Naval College in 1989. Recipient of a Medal of the Order "For Merits before the Fatherland," 2nd Degree and the Order of Honor.

**Work experience:**

- 1984–1993: service in the Armed Forces of Russia.
- 1993–1997: worked for Northern Shipping Company.
- 1998–2002: General Director of OOO Quorum-SK.
- 2002–2004: General Director of OOO LUKOIL Severnefteprodukt.
- 2004: First Deputy General Director for Aircraft Refueling of OOO LUKOIL Tsentrneftprodukt.
- 2004–2016: General Director of OOO LUKOIL AERO.
- 2016: Vice President for Petroleum Product Marketing and Distribution of PJSC LUKOIL.
- Since December 2016: Vice President for Oil Product Sales of PJSC LUKOIL.

**Denis Rogachev**

- Member of the Management Committee
- Vice President for Procurement

Born in 1977.

Graduated from I.M. Gubkin Russian State Oil and Gas University in 2000.

**Work experience:**

- 2000–2003: employed by the Main Division of Geology and Exploration of OAO LUKOIL, OOO LUKOIL-Western Siberia.
- 2003–2009: employed by Schlumberger Logelco and Baker Hughes B.V.
- 2009–2012: Deputy Head, First Deputy Head of the Administrative Office of the Board of Directors of OAO LUKOIL, Executive Assistant to the President of OAO LUKOIL.
- 2012–2013: General Director of OOO Trading House LUKOIL
- Since 2013: Vice President for Procurement of PJSC LUKOIL.

**Valery Subbotin**

- Member of the Management Committee
- Senior Vice President for Sales and Supplies

Born in 1974.

Graduated from Tyumen State University in 1996. Recipient of two medals, including a Medal of the Order "For Merits before the Fatherland," 2nd Degree, and the Order of Honor; Honored Oil Specialist.

**Work experience:**

- 1998–2003: employed by JSC LUKOIL-Prague, JSC LUKOIL-Bulgaria, Moscow representative office of LITASCO.
- 2003–2005: First Deputy Head of the Administrative Office of the Board of Directors of OAO LUKOIL.
- 2005–2007: First Deputy Head of the Main Division of Sales and Supplies of OAO LUKOIL.
- 2007–2012: Vice President, Head of the Main Division of Sales and Supplies of PJSC LUKOIL.
- 2012–2016: Vice President for Sales and Supplies of PJSC LUKOIL.
- Since 2016: Senior Vice President for Sales and Supplies of PJSC LUKOIL.

**Gennady Fedotov**

- Member of the Management Committee
- Vice President for Economics and Planning

Born in 1970.

Graduated from Moscow Institute of Physics and Technology in 1993. Recipient of a Medal of the Order "For Merits before the Fatherland," 2nd Degree and the Order of Friendship.

**Work experience:**

- 1994–2002: employed by Halliburton and Shell.
- 2002–2007: Head of Division, Deputy Head, Head of the Main Division of Corporate Budget Planning and Investments of OAO LUKOIL.
- 2007–2012: Vice President, Head of the Main Division of Economics and Planning.
- Since 2012: Vice President for Economics and Planning of PJSC LUKOIL.

**Evgeny Khavkin**

- Member of the Management Committee
- Vice President, Chief of Staff

Born in 1964.

Graduated from Moscow Institute of Economics, Management and Law in 2003. Recipient of two medals, and a Certificate of Gratitude from the Russian Federation President.

**Work experience:**

- Since 1988: employed at entities in West Siberia.
- 1997–2003: Deputy Head, First Deputy Head of the Administrative Office of the Board of Directors of OAO LUKOIL.
- 2003–2012: Secretary of the Board of Directors, Head of the Administrative Office of the Board of Directors of OAO LUKOIL.
- 2012–2015: Vice President, Chief of Staff of OAO LUKOIL.
- Since 2015: Vice President, Chief of Staff of PJSC LUKOIL.

**Lyubov Khoba**

- Member of the Management Committee
- Vice President, Chief Accountant

Born in 1957.

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

**Work experience:**

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

**Azat Shamsuarov**

- Member of the Management Committee
- Senior Vice President for Oil and Gas Production.

Born in 1963.

Graduated from Ufa Oil Institute in 1986. Candidate of Technical Sciences (PhD). Honored Oil Specialist. Recipient of a Medal of the Order "For Merits before the Fatherland," 2nd Degree. Russian Government Prize Winner.

**Work experience:**

- 1997–2000: Chief Engineer of Oil and Gas Production Board (OGPB) Pokachevneft, Deputy General Director for Production of TPU Langepasneftegaz, Head of OGPB Pokachevneft, General Director of TPU Uraineftegaz.
- 2000–2001: President of Orenburg Oil Joint Stock Company (ONAKO).
- 2001–2008: Vice President, Senior Vice President of LUKOIL Overseas Holding Ltd.
- 2008–2012: Vice President of OAO LUKOIL, General Director of OOO LUKOIL-West Siberia.
- 2012–2013: Vice President of OAO LUKOIL for Oil and Gas Production.
- Since 2013: Senior Vice President of PJSC LUKOIL for Oil and Gas Production.



**REMUNERATION SYSTEM OF MEMBERS OF THE COMPANY'S GOVERNANCE BODIES**

When shaping the remuneration system and determining the particular size of remuneration for members of PJSC LUKOIL governance bodies, the actual amounts payable are expected to be sufficient to attract, motivate and retain persons having competencies and qualifications required by the Company.

**BOD REMUNERATION SYSTEM**

The guidelines on remuneration and compensation of members of Board of Directors, including the related payment procedure are set out in the Board of Directors Compensation and Expense Reimbursement Policy of PJSC LUKOIL (hereafter, the "Remuneration Policy," approved by the Board of Directors of PJSC LUKOIL on November 22, 2016, Minutes No. 24) approved in 2016 (has not been formalized as a standalone document).

The Remuneration Policy has been developed based on the Corporate Governance Code and reflects the practices of remuneration and compensation accrual currently in place in the Company.

The Company seeks to ensure that Directors' remunerations of members of the

BoD are consistent with their contributions to the Company's performance. Appropriate level of remuneration makes it possible to attract high-calibre individuals and implies proper compensation for their time and efforts spent on preparing for and participating in the meetings of the Board of Directors.

The Company believes that its preferred form of monetary remuneration payable to the members of the Board of Directors is fixed annual remuneration not linked to any operational, financial or other performance of the Company. Remuneration amounts 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. In addition, the Company is flexible in terms of participation of its Directors in the proceedings of the Committees, discharge of his functions by the Chairman of the Board of Directors and Chairmen of the Committees, attendance at conferences and other events, for all of which the Company pays additional remuneration. The Company also compensates costs incurred by members of the Board of Directors to perform their duties.

The Annual General Shareholders Meeting held on June 23, 2016 resolved to pay the following amounts of remuneration components to elected members of the Board of Directors (in 2016–2017):

- Remuneration to the member of the Board of Directors – RUB 6,000,000;
- Remuneration to the BoD Chairman – RUB 1,500,000;
- Remuneration to the Chairman of a BoD Committee – RUB 700,000;
- Remuneration for in-person attendance at the BoD Committee meeting to a Committee member – RUB 150,000;
- Remuneration for in-person attendance at an either BoD or BoD Committee meeting requiring a transcontinental flight – RUB 350,000;
- Remuneration for attendance at conferences and other events as instructed in writing by the Chairman of the Board of Directors – RUB 150,000.

In 2016, remuneration amounts paid to the members of the Board of Directors totaled RUB 192,421,000.

**Payments to the Board of Directors\*, RUB thousand**

	<b>2014</b>	<b>2015</b>	<b>2016</b>
Salary	25,705	25,683	28,523
Bonus	51,925	43,568	53,935
Remuneration	63,855	98,340	71,920
Other types of remuneration	6,719	10,673	9,944
Compensation of costs	13,165	25,477	28,099
<b>Total</b>	<b>161,369</b>	<b>203,741</b>	<b>192,421</b>

\* For Directors who concurrently sit on the Management Committee remuneration includes only payments related to performing their duties of Directors; remuneration for performing the duties of Management Committee members and other payments are included in the Management Committee Payroll table.

## TOP MANAGEMENT REMUNERATION SYSTEM

The Top Management Remuneration System\* was developed to ensure delivery of business targets, promote strategic businesses, support a uniform, systemic and consistent approach to financial incentives for key executives. The balance of interests of the Company's management and shareholders is one of the key principles of the Top Management Remuneration System in place with the Company.

The Top Management Remuneration System is included in the Regulations on PJSC LUKOIL Management Remuneration and Incentive System (approved by resolution of the Board of Directors dated November 28, 2016, Minutes No. 25) and in the Regulations on Long-term Incentives

for Employees of PJSC LUKOIL and its Subsidiaries (approved by resolution of the Board of Directors dated December 4, 2012, Minutes No. 24).

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 duties of other temporarily absent key executives and additions to salary accrued at the living adjustments rate. The salaries are in line with the market, which ensures retention of key executives.

**The variable component** consists of annual bonuses and long-term incentive payments. This may also include one-off and other bonuses, as well as target bonus 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 environment. To determine annual bonus amounts, performance against the pre-set Key Performance Indicators is analyzed and approved.

 For more details see Performance Assessment System.

There are two types of KPIs: corporate (team performance) and individual (key executive's performance against personal goals and objectives).

### Key Performance Indicators used for annual bonus payments to key executives

Item Group	Item	Item Group weight
Corporate	<ul style="list-style-type: none"> <li>• LUKOIL Group net income</li> <li>• Hydrocarbon production volumes</li> <li>• LUKOIL Group free cash flow</li> <li>• Ensuring HSE compliance by LUKOIL Group entities</li> </ul>	<b>From 50% to 100%</b>
Individual	Personalized for each key executive in accordance with goals and objectives of their business line.	<b>Under 50%</b>

\* Top manager (executive employee) – President, First Executive Vice President, First Vice Presidents, Senior Vice Presidents, Vice Presidents of the Company.

The balance of the corporate and individual components is determined depending on corporate function that the key executive is responsible for. The weight of the corporate and individual components and target annual bonus amounts are set out in the Regulations on PJSC LUKOIL Management Remuneration and Incentive System approved by the Resolution of the Board of Directors of PJSC LUKOIL.

**Long-term bonuses** are set out in the Regulations on Long-term Incentives for Employees of PJSC LUKOIL and its Subsidiaries to stimulate and achieve higher mid-term and long-term performance. These payments are intended to build strategic interest in the Company's performance, enhance its investment appeal and create shareholder value.

The Long-Term Incentive Program involves assigning shares for participants and consists of two components: annual bonuses in the form of annual conditional dividends paid on phantom shares assigned to executives, and bonuses paid at the end of the program based on the difference between the opening and closing share prices and the number of phantom shares assigned to the executives.

In 2016, the Company had in place its Long-Term Incentive Program, effective for 2013–2017. As of the end of reporting year, more than 700 people participated in the Program with 19 million assigned shares. According to the terms of the Program, at least 50% of received bonus amounts are to be spent on buying PJSC LUKOIL shares in the open market.

**MANAGEMENT COMMITTEE REMUNERATION SYSTEM**

In the reporting year, each of the Management Committee members received remuneration for performing the duties of a Management Committee member, 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 corporate KPIs over the reporting period. On top of that, the Management Committee members received:

- base salaries in their main positions;
- annual bonuses for their year-round performance;
- long-term bonuses in the form of annual conditional dividends paid on assigned shares under the Long-Term Incentive Program;
- additional social benefits.

**Payments to the Management Committee\*, RUB thousand**

	<b>2014</b>	<b>2015</b>	<b>2016</b>
Salary	474,942	487,733	528,028
Bonuses (annual and long-term bonuses)	902,931	761,050	907,871
Remuneration to Management Committee members	39,953	39,953	46,236
Other types of remuneration	110,422	134,203	154,154
<b>Total</b>	<b>1,528,248</b>	<b>1,422,939</b>	<b>1,636,289</b>

\* Including remuneration to the President of PJSC LUKOIL.

**SEVERANCE PAY FOR TOP MANAGEMENT**

In the event of early termination of the employment contract, the key executive officer is entitled to a severance pay in the amount of the basic salary for the twelve months.

The contract of the President of PJSC LUKOIL has the term of five years and may be terminated earlier subject to written notice of termination at least one month in advance. In the event of early termination of the employment contract, the President is entitled to a severance pay in the total amount of the basic salary for 24 months.



## PERFORMANCE ASSESSMENT SYSTEM

Starting from 2003, the Company has in place a corporate performance assessment system based on Key Performance Indicators (KPIs).

KPIs are a set of indicators that characterize key success factors and determine the level of strategic goals achievement.

The corporate performance assessment system is governed by the following internal documents:

- Main Principles for Designing the Corporate Performance Assessment System – define the main principles for and approaches to designing the KPI system;
- Set of Key Performance Indicators – a document stipulating the list of KPIs by LUKOIL Group's business segment, business sector and entity, along with the procedure for their calculation. Approved by the Management Committee of PJSC LUKOIL and reviewed once every two years. In 2015, changes to investment KPIs were approved to align the calculation procedure with IFRS requirements.

The procedure for using KPIs in separate corporate processes is governed by relevant internal regulations:

- LUKOIL Group's Growth Strategy Development Regulations,
- LUKOIL Group's Corporate Planning Regulations,
- LUKOIL Group's Corporate Management Reporting Regulations.

By introducing KPIs in its system of corporate governance, the Company can:

- formalize goals and objectives as a specific set of indicators at different planning horizons (strategic, mid-term, current planning and budgeting);
- assess the performance of LUKOIL Group in general, as well as individual performance of its business segments, business sectors and assets;
- motivate managers and employees to achieve goals and objectives by incorporating KPIs into the incentive system.

☞ For more details see page 40.

The KPIs composition is adjusted and updated as required, taking into account reviewed strategic goals and targets of the Company, changes in its asset portfolio, and external environment. LUKOIL Group's Set of KPIs during the reporting year contained about 60 unique indicators. The total number of KPIs for LUKOIL Group across business segments, business sectors and entities is around 400.

### KPIs IN PLANNING

To ensure connection between goals and objectives at different timelines a designated set of indicators within the KPI system is applicable at all planning stages. As the planning horizon becomes shorter, the set of applicable KPIs expands.

In budget planning, KPIs are used as goal setting tools both at the stage of target guidance development (within the concept of top-down planning) and at the stage of final formalization of goals and objectives in the form of benchmark indicators against which subsequent performance assessment is carried out.

### PERFORMANCE MANAGEMENT THROUGH KPIs

KPIs are an essential instrument for managing the performance of LUKOIL Group in general and the individual performance of the Company's 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, are subject to factor analysis that implies identification of controllable and uncontrollable factors. It enables objective evaluation of the influence that the Company's executives have on the results of operations of entities within LUKOIL Group.



**RISK MANAGEMENT, INTERNAL CONTROL, AND INTERNAL AUDIT**

**RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM**

The Company has in place a Risk Management and Internal Control System (RMICS). The RMICS is organized and operates to assure that the following goals and objectives are achieved despite uncertainties and negative factors:

- the Company's strategic and business objectives;
- asset integrity;
- compliance of all types of reports with established requirements;
- compliance with the applicable laws and regulations of LUKOIL Group entities.

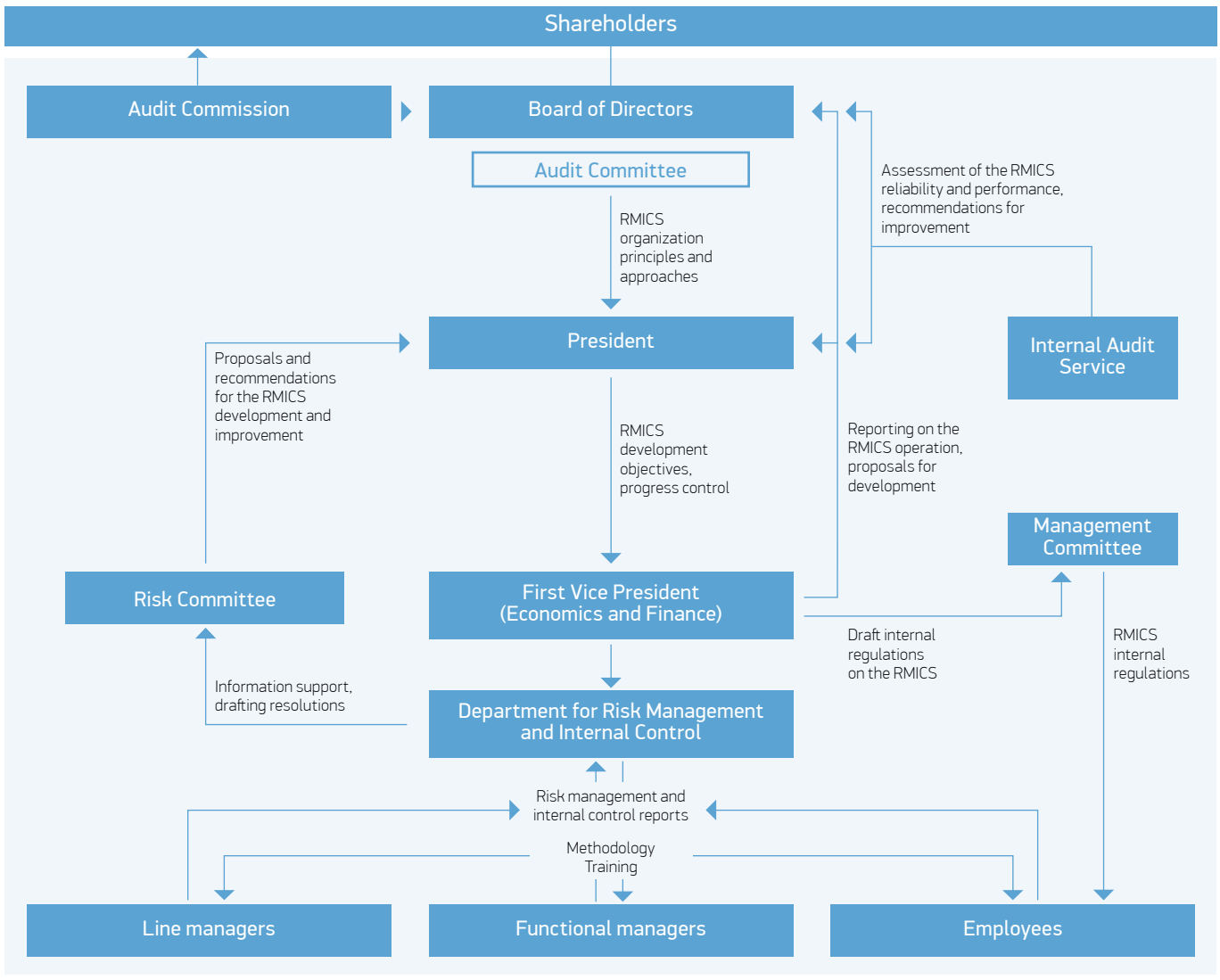
The RMICS is organized and operates in accordance with the following key principles:

- Integration with the corporate governance system
- Focus on risk
- Business continuity
- Full coverage of the Company's business
- Adaptivity through self-improvement and development
- Uniform methodology
- Employee responsibility for risk management and internal control performance
- Sufficient actions to achieve goals
- Economic feasibility
- Division of roles, duties and responsibilities
- Process formalization
- Informative value

Risk management and internal control processes 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 puts a strong focus on promoting interaction between process members.

**PJSC LUKOIL RMICS Structure**

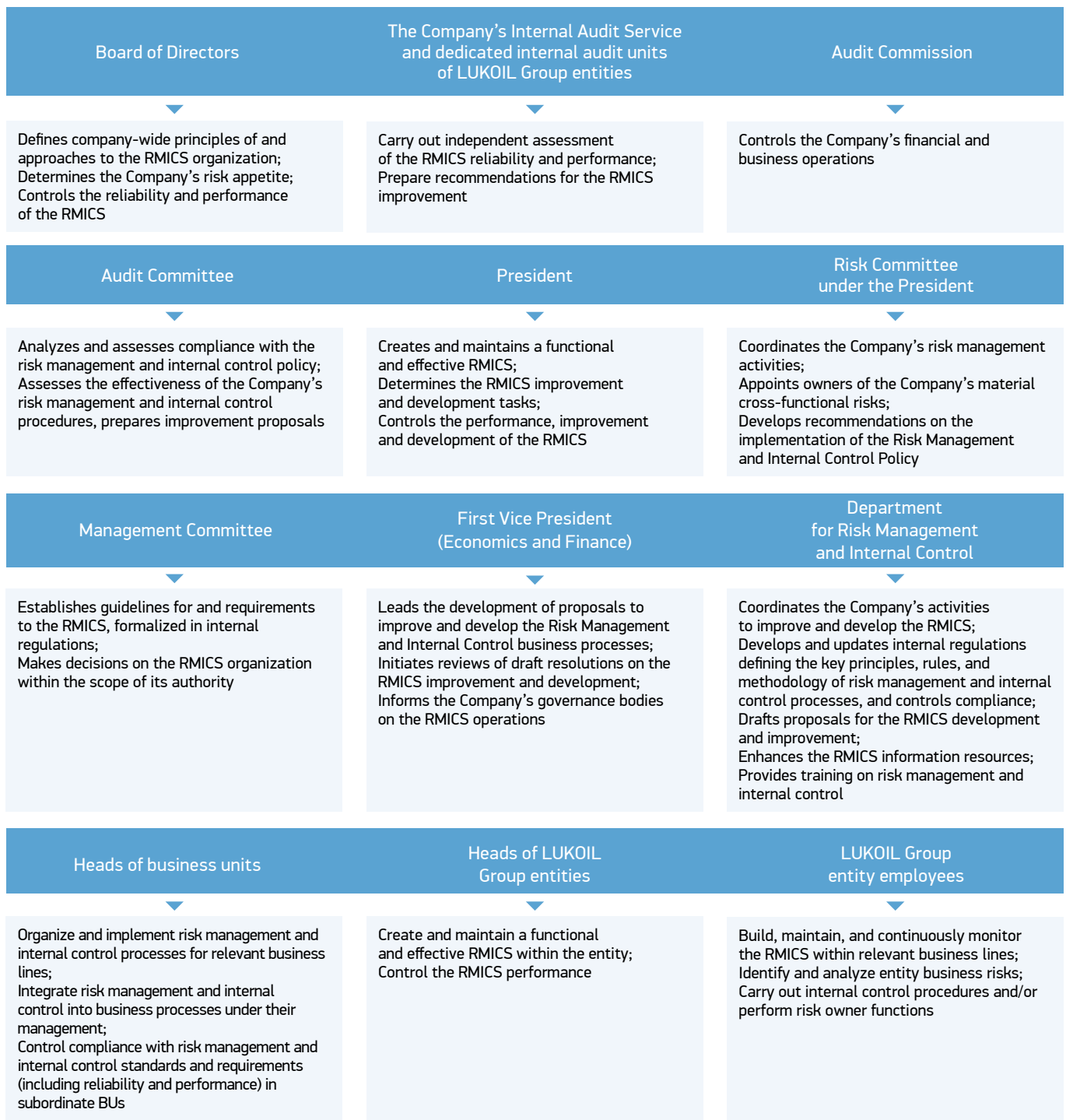


At the beginning of 2016, the Company made a number of changes to the RMICS set up to further improve and develop it as well as to comply with the Corporate Governance Code. In particular, responsibility for coordinating the development and improvement of the RMICS was transferred to the Company's Finance Division, within which the Department for Risk

Management and Internal Control was set up. As part of developing the RMICS in accordance with the generally accepted concepts, such as "Enterprise Risk Management – Integrated Framework" and "Internal Control – Integrated Framework," developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the Company developed

the Risk Management and Internal Control Policy of PJSC LUKOIL, approved by the Board of Directors in October 2016. The document sets forth the key principles of and approaches to organizing the RMICS, its main goals, and the main objectives of its stakeholders, which are uniform and binding across LUKOIL Group.

**Functional map of RMICS members**



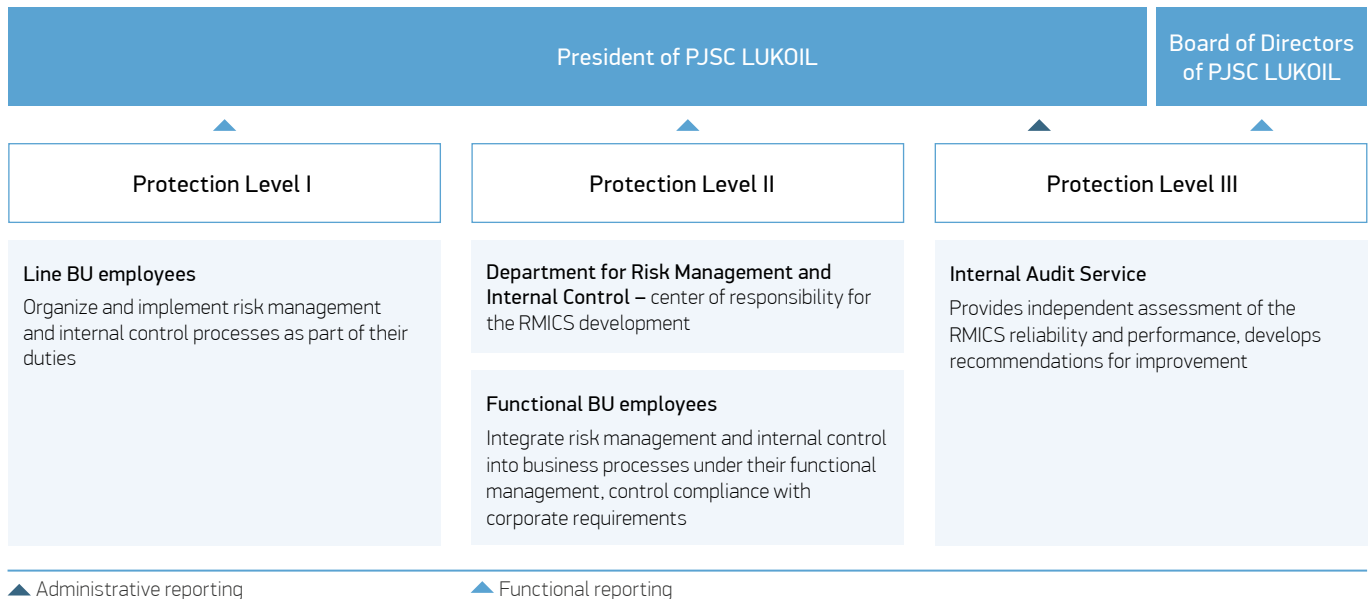


The Company has implemented an approach to organizing the RMICS as a three-level system to protect the Company's interests. In the Company's opinion, organizing the

system of responsibility for achievement of the Company's goals is justified by its enhanced reliability achieved through eliminating redundancies, with each level

complementing the others by focusing on specialized dedicated functions.

**The Company's interests protection system**



**INTERNAL CONTROLS IN PREPARING FINANCIAL STATEMENTS**

The Company uses different internal controls at each stage of organizing the accounting process and preparing its consolidated financial statements, thereby ensuring the reliability of financial information, both published and used by the Company management. The following are the key procedures and methods for organizing internal controls.

**Distribution of roles and responsibilities.** LUKOIL Group has clear distribution of responsibilities at each stage of preparing its financial statements (both at the standalone subsidiary and consolidated levels). Entities may prepare RAS statements independently or procure respective services from the Company's Regional Accounting Centers. IFRS statements of the Company's subsidiaries may be prepared either independently or by the Accounting Service of PJSC LUKOIL, or by European Settlement Centers. The Company's President and Vice President, Chief Accountant, are responsible for preparing its consolidated financial statements.

**Internal audits.** In performing audits in accordance with the approved annual action plan, the Internal Audit Service assesses the effectiveness of internal control over the reliability of accounting (financial) statements and management reports of LUKOIL Group entities.

In addition, the Company's accounting service employs its own procedures ensuring additional control over the correctness of its entities' financial statements. They include:

- on-site audits;
- accounting advisory services to Group entities;
- organizing auditing and reconciliation procedures, controlling the correctness and reliability of the Group entities' statements;
- follow-up audit of financial and operating figures on a regular basis.

**Business unit interaction.** Consolidated IFRS financial statements are prepared in close collaboration between the Department for International Accounting of PJSC LUKOIL and various business units

both within the Company and the Group entities. The process stakeholders regularly exchange and additionally verify relevant information.

**The Group's unified accounting policy.** The Company has in place an IFRS accounting policy approved by the Management Committee, which is reviewed at least once a year. The IFRS accounting policy is binding for all LUKOIL Group entities that prepare their IFRS statements independently.

The Company's President approves, on an annual basis, the corporate RAS accounting policy and requirements to the accounting policies of the Company's Russian subsidiaries.

Centralized development of RAS and IFRS accounting policies ensures application of unified principles of accounting and reporting of similar transactions and the comparability of results of LUKOIL Group entities.

**Centralized decision-making.** The Group makes centralized decisions on the following matters related to accounting and reporting:

- the method of organizing the activities of subsidiary accounting services (independently or through a dedicated subsidiary);
- selecting the auditor (for the Company's material subsidiaries);
- dates of preparation of the Group entities' financial (accounting) statements, end dates of their audit;

- RAS and IFRS accounting policies;
- appointment of subsidiary chief accountants;
- accounting process automation.

**Employee training.** All employees of the Company's Accounting Service engaged in the preparation of IFRS consolidated financial statements have a degree in accounting or finance. 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.

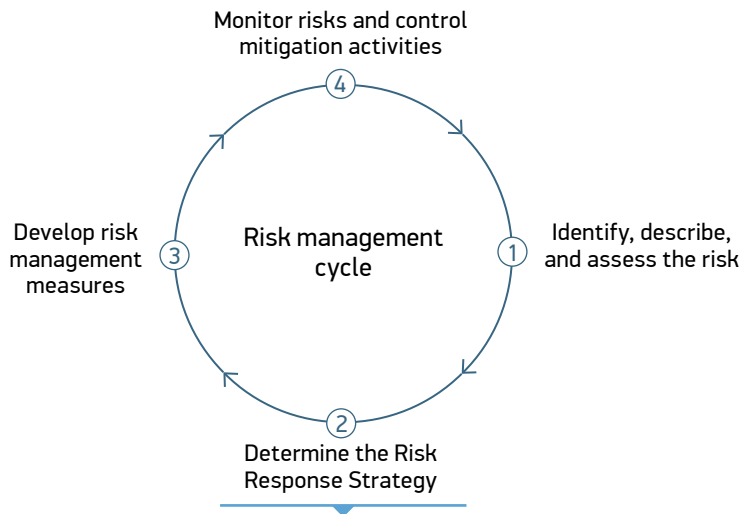
The Company strives to continuously enhance the qualifications of its Accounting Service employees. Employees engaged in the preparation of IFRS consolidated financial statements regularly enhance their qualifications both through the Company organizing trainings and consulting workshops, and independently.

The Company is committed to developing its risk management framework and is currently improving its corporate enterprise risk management (ERM) system to match the international best practice.

The Company regularly improves its regulations on risk management, which establish requirements to end-to-end organization of the risk management process across LUKOIL Group entities and

determine management standards for certain most significant risk categories.

**Risks**



Risk response methods		
Risk to be avoided	Risk to be accepted	Risk to be mitigated
It is not possible or feasible to mitigate the adverse effects of the risk to an acceptable level	Risk has no material implications, while efforts and costs to mitigate the risk exceed potential losses	It is not possible or feasible to avoid or accept the risk; however, due to its materiality, its probability and/or possible effect need to be reduced to an acceptable level
Measures to terminate activities exposed to risk	Risk mitigation measures are not necessary	Measures reducing probability and/or magnitude of potential risk implications

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

- automation of the processes 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 reports on risks for the Company's governance bodies.

PJSC LUKOIL continuously identifies, describes, assesses, and monitors risks and develops measures to mitigate their adverse effect on the Company’s business. At the same time, the Company’s risk management forms an essential part of its business activities and corporate governance system and involves the Company’s employees at all management levels.

The Company regularly assesses the aggregate risks of LUKOIL Group entities, with the risk profile included in annual reports reviewed by the Board of Directors. The Company identified most material risk categories and conducted their quantitative assessment, determined acceptable levels for each material risk, and developed measures to mitigate or prevent their adverse effect. The Company monitors the progress and effectiveness of risk mitigation measures.

Taking into account the probabilistic nature of risks, external to the Company, the Company cannot fully guarantee that its risk management measures will reduce their adverse impact to an acceptable level. When disclosing identified risks, the Company informs stakeholders about certain circumstances inherent to its operations, which may probably have an adverse effect on its business performance.

The Company takes all possible measures to monitor and prevent such events, and if they occur, takes measures to mitigate their implications with the minimum possible damage to the Company.

For more details on risks see Appendix 2 “Risks” to PJSC LUKOIL Annual Report 2016.

**RISK COMMITTEE**

The Company established the Risk Committee in 2011 to address the matters of improving the risk management system and the effectiveness of the risk management process. It is a collegial risk management body under the Company’s President.

The goal, functions, rights, responsibilities, and procedures of the Risk Committee are determined by the Regulations on the Risk Committee. The membership structure of the Risk Committee is approved by the Company’s President and includes Vice Presidents in charge of business lines. 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.

**AUDIT COMMISSION**

The Audit Commission of PJSC LUKOIL is a permanent elective body in control of the Company’s financial and business

operations. Its activities are regulated by the Charter and the Regulations on the Audit Commission of OAO LUKOIL (approved by the Resolution of the Annual General Shareholders Meeting of OAO LUKOIL dated June 27, 2002, as amended). The Annual General Shareholders Meeting elects the three members of the Audit Commission on an annual basis, for a term of office expiring upon the convocation of the next Annual General Shareholders Meeting.

In 2016, the Company’s Audit Commission made the conclusion about the reliability of data contained in the Company’s annual accounting (financial) statements and the Annual Report 2015. The Company’s governance bodies or holders of not less than 10% of voting shares in PJSC LUKOIL initiated no unscheduled audits. The Audit Commission held four meetings in the reporting year.

In 2016, the Annual General Shareholders Meeting established remuneration for newly elected Audit Commission members in the amount of RUB 3,500,000 for each member.

Audit Commission set-up in 2016	Position
<b>Pavel Suloev</b> Chairman of the Audit Commission	Internal Control and Audit Director of CJSC Management Center Managing Company
Ivan Vrublevsky	Managing Director of LUKOIL Accounting and Finance Europe s.r.o.
Alexander Surkov	CEO at LLC LUKOIL-Volgograd Regional Accounting Center

“The Audit Commission confirms that PJSC LUKOIL Annual Report 2016 is true to fact, i.e. presented in a way to ensure that the information subject to disclosure in accordance with the requirements of Russian regulatory agencies is presented fairly in all material respects”

Chairman  
of the Audit Commission  
**Pavel Suloev**

Audit Commission members:  
**Ivan Vrublevsky**  
**Alexander Surkov**

## INTERNAL AUDIT

The key purpose of Company's internal audit is to protect the Company's shareholder rights and interests, assist in achieving strategic goals and objectives through applying a holistic consistent approach to assessment and improvement of corporate governance, risk management and internal control processes.

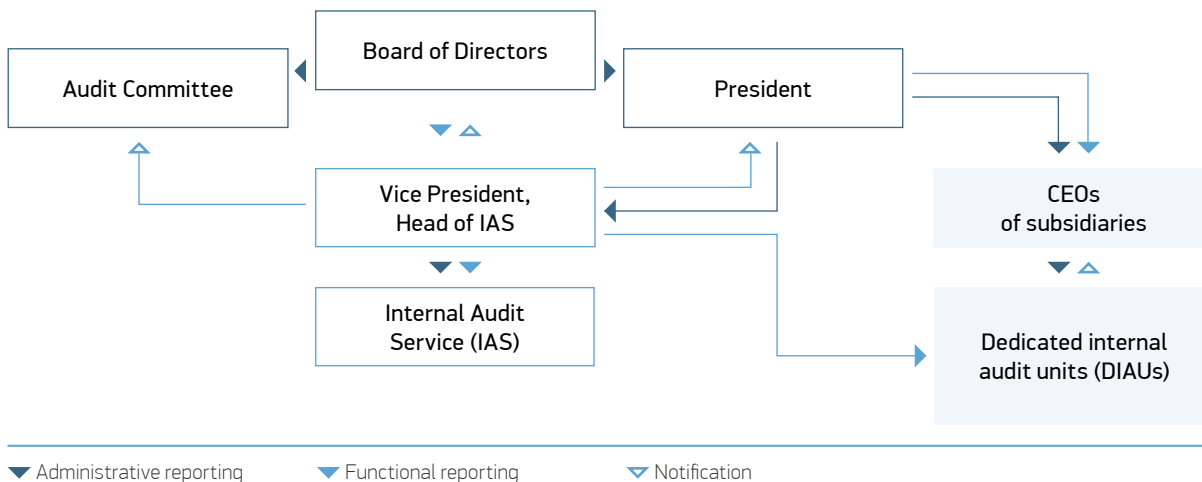
The Internal Audit Service of PJSC LUKOIL complies with all applicable International Standards for the Professional Practice of Internal Auditing and the Code of Ethics

for internal auditors adopted by the International Institute of Internal Auditors (the USA), and is guided by the internal regulations on internal audit approved at PJSC LUKOIL (approved by the Resolution of the Board of Directors of PJSC LUKOIL dated January 13, 2016 (Minutes No. 1)).

In 2016, the Company completed migration to the generally accepted conceptual model of internal audit complying with the International Standards for the Professional Practice of Internal Auditing. This resulted in separation of internal audit functions from internal control and risk management,

function previously performed by internal audit units. As a result, a special mode of functional and administrative reporting and accountability was 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 internal controls, corporate governance and risk management systems. The Board of Directors and the Audit Committee became more involved in organizing the audit process.

### Corporate internal audit system following 2016 transformations



### INTERNAL AUDIT DEVELOPMENT AT PJSC LUKOIL

To ensure the proper quality of internal audit in line with the International Standards for the Professional Practice of Internal Auditing, PJSC LUKOIL develops a five-year Program to Improve the Quality of Internal Audit detailed in annual action plans to improve the quality of internal audit. In 2016, the Company implemented its Program to Improve the Quality of Internal Audit at PJSC LUKOIL for 2012–2016 (approved by the Resolution of the Board of Directors dated February 3, 2012 (Minutes No. 3) as amended by the resolutions of the Board of Directors dated July 23, 2012 (Minutes No. 15), dated May 24, 2013 (Minutes No. 11) and dated April 28, 2016 (Minutes No. 7).

As a result, by the end of 2016, the Company:

- brought its Internal Audit into compliance with applicable laws, regulations, and the best corporate practice;
- substantiated and put into action the conceptual model of internal audit complying with the best global practices;
- successfully introduced a standard international system of assessment of internal audit performance, with the independent external assessment of Company's internal audit performed in 2014;
- established a real auditor–management partnership based on the commitment of both parties to enhance the Company's performance;
- operated the continuing professional development framework for auditors and audit units, which helped more than 25% of internal audit employees obtain professional certifications under international and national programs;
- saw its Internal Audit Service to gain respect and recognition by professional internal auditors, and its Head of Internal Audit Service to become the best executive at a public company internal audit service in 2015.

Having separated internal audit functions, the Company refocused the priorities of the Internal Audit Service from the matters mainly related to detection of individual violations and gaps in the entities' businesses to comprehensive assessment, and support to improvement, of risk management, internal control and corporate governance across LUKOIL Group.

**2016 RESULTS**

As of the end 2016, dedicated internal audit units operated in 22 entities (including PJSC LUKOIL), with 10 of them providing additional internal audit services to 18 entities of LUKOIL Group. By the end of 2016, the actual headcount was 240 employees (91 employees at the Internal Audit Service (IAS) and 149 employees at dedicated internal audit units (DIAUs)).

In 2016, the Internal Audit Service and internal audit units at subsidiaries achieved the following key results.

- **Improvement of methods and methodology supporting internal audit across LUKOIL Group.** During 2016, LUKOIL Group developed methodology supporting its internal audit processes

based on the best international practice. In development of its methodology of ensuring an objective assessment of the risk management and internal control systems in 2016, the Internal Audit Service:

- developed a Temporary Procedure for Audit Assessment of Internal Controls Performance at LUKOIL Group (approved by Order of PJSC LUKOIL No. 2 dated January 11, 2017);
- commenced the development of a Temporary Procedure for Audit Assessment of Risk Management Performance at LUKOIL Group. The IAS continued to develop procedures for audits (controls & audits) applied by internal auditors.

- **Controls & Audits at LUKOIL Group entities.** In 2016, the Internal Audit Service conducted 18 audits at 23 entities of LUKOIL Group, and dedicated internal audit units auditors conducted 183 audits.

The audits revealed violations/gaps in the operations of LUKOIL Group entities, assessed the monitoring environment, identified persons involved in violations and served as basis for providing audit recommendations on eliminating the

identified violations/gaps to CEOs of relevant Group entities and heads of the Company's business units.

- **Monitoring of initiatives resulting from audits.** Internal audit units (Internal Audit Service and dedicated internal audit units) consistently monitor the development and implementation of initiatives, adopted in line with recommendations of the Internal Audit, to prevent, eliminate or remedy violations and gaps in the operations of LUKOIL Group entities.

**Controls & Audits**

Year	Audits by the Internal Audit Service			Audits by dedicated internal audit units		
	Total	including		Total	including	
		scheduled	unscheduled		scheduled	unscheduled
2014	21	19	2	263	253	10
2015	14	11	3	197	188	9
2016	18	15	3	183	177	6

### PLANS TO FURTHER IMPROVE INTERNAL AUDIT

In 2016, the Company developed and approved the Program to Improve the Quality of Internal Audit at PJSC LUKOIL for 2017—2021 (approved by the Resolution of the Board of Directors dated November 22, 2016, Minutes No. 24). The Program determines key focus areas and initiatives for improvement of the internal audit quality to ensure compliance of the relevant internal audit aspects at LUKOIL Group with best global practice.

The key objectives of the Internal Audit Service set for 2017 and the coming years are as follows:

- consistently implement the Program to Improve the Quality of Internal Audit at PJSC LUKOIL for 2017–2021;
- implement the approved annual audit and 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;
- test the approved temporary procedures for performing audits (controls & audits);
- improve the regulatory and procedural framework for internal audits;
- enhance the performance of dedicated internal audit units at subsidiaries, including through advisory assistance and methodological support provided by the Internal Audit Service of PJSC LUKOIL;
- improve the effectiveness of automation solutions for internal audits following the development of the corporate IT system for automation of risk management, internal control and internal audit processes;
- ensure the continuing professional development of employees at internal audit units;
- prepare for independent external assessment of the Company's internal audit scheduled for 2019.



### EXTERNAL AUDIT

The Company selects its independent auditor on an annual basis. The auditor is approved by the General Shareholders Meeting based on the recommendations of the Board of Directors' Audit Committee. The Company deems it reasonable to select one auditor to audit the financial statements prepared both under RAS and under IFRS.

To maintain independence and comply with audit standards, the Company's auditor

regularly, at least once in seven years, changes its key audit partner. Rotation of the auditor's partner was last made in 2014.

In June 2016, the Annual General Shareholders Meeting approved AO KPMG as the auditor of PJSC LUKOIL.

The share of remuneration unrelated to audits in the overall auditor remuneration package may not exceed 30%.



## SUSTAINABLE DEVELOPMENT MANAGEMENT SYSTEM

The Company’s long-term development model aims to meet the energy needs of society in an economically, environmentally and socially acceptable way. Environmental, industrial, social and personal safety has always been a top priority for the Company. The Company conducts its business in a sustainable way, seeking to strike a balance between social and economic development and environmental sustainability. Key aspects of sustainable development are incorporated into the Company’s strategy. The Company’s sustainability management

system is certified to ISO 14001:2004 Environmental Management Systems – Requirements with Guidance for Use and OHSAS 18001:2007 Occupational Health and Safety Management Systems – Requirements.

Achieving sustainability objectives is controlled strategically (by the Board of Directors, the Strategy and Investment Committee of the Board of Directors, the Management Committee, the Presidential Health, Safety and Environment Committee)

and operationally (by heads of functions and business units at the Head Office; executives of LUKOIL Group entities are responsible for application of sustainable development tools at their relevant entities). Tools for sustainable development are included in the employee motivation system. They are applicable to employees at all levels across the Head Office of the Company, and to executives and managers at LUKOIL Group entities.

The corporate management system on sustainable development comprises the following governance bodies of PJSC LUKOIL:

Governance Body	Role
<b>Board of Directors</b>	<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 tasks, plans and development programs.</li> </ul>
<b>Strategy and Investment Committee of the Board of Directors</b>	<ul style="list-style-type: none"> <li>• Prepares recommendations on setting up strategic objectives;</li> <li>• Prepares recommendations on determining business priorities;</li> <li>• Analyzes the existing corporate development concepts, programs and plans, as well as the competitive environment.</li> </ul>
<b>HR and Compensation Committee of the Board of Directors</b>	<ul style="list-style-type: none"> <li>• Develops corporate talent-related core businesses;</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 the Corporate Secretary, Management Committee members and the President of the Company.</li> </ul>
<b>Management Committee</b>	<ul style="list-style-type: none"> <li>• Elaborates targeted, mid-term and annual development programs and plans;</li> <li>• Develops and approves sustainability budgets and investment programs;</li> <li>• Performs day-to-day monitoring of implementation of the targeted development programs and plans.</li> </ul>
<b>Health, Safety and Environment Committee of PJSC LUKOIL</b>	<ul style="list-style-type: none"> <li>• Develops the HSE Policy, objectives, goals 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 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>



## BUSINESS ETHICS

### PREVENTING CONFLICTS OF INTEREST INVOLVING BOD MEMBERS

The Company puts a strong focus on prevention and mitigation of potential conflicts of interest involving its BoD members. To prevent potential conflicts of interest, the Company introduced certain limitations and requirements to its BoD members.

In accordance with the Regulations on the Board of Directors of PJSC LUKOIL, BoD members shall 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' Committee meeting, prior to the discussion of the relevant agenda item.

In case of a conflict of interest, a member of the Board of Directors shall abstain from voting on any item in connection with which they have a conflict of interest. In addition, for the avoidance of a conflict of interest, BoD members shall notify the Board of Directors about their intention to serve on the governance bodies of other entities (apart from entities controlled by the Company and other entities with the Company's participation) and of being elected (appointed) to such governance bodies.

### PREVENTING ABUSE AND FRAUD BY THE COMPANY EMPLOYEES

Pursuant to the LUKOIL Group Corporate Security Policy (approved by the Resolution of the Management Committee of PJSC LUKOIL dated May 30, 2016 (Minutes No. 13), abuse of official position, fraud, and 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.

Pursuant to recommendations of 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.

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 conditions of violations committed.

The Company's employees comply with the requirements of internal regulations on corporate security and assist in identifying risks and security threats.

To ensure compliance with the requirements of the Code of Business Conduct and Ethics 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.

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. Employees and their managers shall report any existing conflict of interest situation immediately, as soon as the employee or his/her manager becomes aware of such conflict of interest (is reasonably certain about the conflict). Any actions related to consideration of a conflict of interest situation are performed subject to the terms of confidentiality and on a case-by-case basis.

If a manager comes to the conclusion that a conflict of interest exists or is possible in the future, his/her written report shall contain proposals regarding measures required to prevent the conflict of interest and its negative impact on the operations of a Group entity.

A conflict of interest situation is assessed through industry (line) and functional internal control and through audits carried out by the Internal Audit Service of PJSC LUKOIL. The facts and risks of negative implications of employees' conflicts of interest identified through internal control and internal audit are duly reported to the Company's President and, if necessary, to the Business Ethics Commission.

The Company accepts anonymous and confidential reports (written, electronic, via the "hotline") on abuse of official position or violations of the Code of Business Conduct and Ethics. Such reports may be submitted via communication channels available on a 24-hour basis.



The Company's employees undergo regular professional trainings, trainings on ethical standards and anti-corruption conduct. Key executives of LUKOIL Group entities and employees of corporate security units are examined annually for the knowledge of methods to identify and respond to conflict of interest situations.

The Company's business ethics policy applies to its subsidiaries. In their relations with business partners, the Company's employees are required to comply with the Code of Business Conduct and Ethics.

In 2016, the Business Ethics Commission registered four reports from employees of LUKOIL Group entities. Pursuant to the Regulations on the Business Ethics Commission, necessary steps were taken to duly consider the reports and investigate all circumstances. In each case, relevant measures were adopted to prevent further development of negative situations.

**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 misuse of insider information.

The activities of PJSC LUKOIL related to insider information 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;
- FCA Disclosure Guidance and Transparency Rules;
- EU Market Abuse Regulation, which took effect in July 2016.

The Company applies the Insider Information Regulations of PJSC LUKOIL (Approved by the Board of Directors on June 27, 2015, Minutes No. 14) and a number of other internal regulations governing the procedures for disclosing insider information and performing transactions with the Company's securities, including the procedure for insiders' reporting such transactions to the Company.

Pursuant to the EU Market Abuse Regulation, a special procedure applies to transactions with the Company's securities performed by Directors and the Management Committee members. Newly elected Directors and the Management Committee members are informed about requirements regarding the circulation of insider information and the procedure and timing for notifying regulatory agencies and the Company about securities transactions applicable to them, as well as

about the prohibition to perform transactions with the Company's securities during close periods. Pursuant to the best international practices, limitations on securities transactions during close periods are also set for insiders who are not members of the Company's governance bodies.

The Company is constantly raising awareness of the applicable statutory requirements. The Company's employees who have access to insider information are also informed through the Company's website and the intranet.

The Board of Directors controls due disclosure of information by the Company and implementation of the Company's information policy. In particular, the Board of Directors performs annual reviews of compliance with the laws countering the misuse of insider information and market manipulation.

The Company's First Vice President is the appointed official authorized to ensure the Company's compliance with the rules of securities transactions performed by persons having access to insider information.

The Company monitors the processes of and procedures for insider information control to prevent, detect, and stop its misuse and/or market manipulation. Monitoring measures carried out in 2016 did not reveal any material violations.

☞ For more details on transactions with shares of PJSC LUKOIL by members of the Company's governance bodies in 2016, see Appendix 4 "Information on Transactions with the Company's Shares/DRs Performed by Members of the Governance Bodies of PJSC LUKOIL."



## SUBSIDIARY MANAGEMENT SYSTEM AT PJSC LUKOIL

The Company's governance bodies at all levels are involved in the management of subsidiaries of PJSC LUKOIL within their respective authority.

### STRATEGIC SUBSIDIARY MANAGEMENT

The Board of Directors determines the priority areas for the Company's operations. Accordingly, the Board of Directors approves the key targets for LUKOIL Group's Budget, Investment Program, and Performance Benchmarks of LUKOIL Group, its business segments and business sectors. Thus, the Board of Directors determines development areas across the Group, including through approval of quantitative targets.

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 participation in other entities, as well as decisions on acquiring subsoil licenses, which may result in investments exceeding \$150 million, and on termination of subsoil licenses at the initiative of the subsoil user, except for termination for the purpose of subsoil use rights to conduct geological surveys;
- coordinating the operations of the Company's subsidiaries, including the approval of documents governing their operations.

The President (or his/her authorized representative) represents the Company at general shareholders (members) meetings of subsidiaries and other entities in which the Company holds an interest and votes on agenda items.

Therefore, decisions made by the Management Committee in respect of subsidiaries are implemented afterwards in the decisions of the governance bodies of the subsidiaries in which the President acts as the Company's representative.

### IMPROVEMENT OF THE GROUP'S ORGANIZATION

The Management Committee consistently works to improve the organization of LUKOIL Group and enhance control over the operations of the Group entities, including through adopting internal regulations determining the procedure for decision-making on participation in other entities.

LUKOIL Group has established Restructuring Commission. The purpose of the Commission is to assist in shaping the Group's organizational structure to ensure optimal conditions for pursuing its strategic goals. The Commission reports to the Management Committee on the restructuring process on an annual basis.

The LUKOIL Group Restructuring Commission previews participation in other entities. The Management Committee makes decisions on the Company's participation in other entities within the scope of authority determined by the Company's Charter. In addition, the Management Committee approves measures for further restructuring of LUKOIL Group entities and other entities in which they directly hold an interest.

Decisions on participation of LUKOIL Group entities in other entities are made in accordance with the relevant resolution of the Management Committee.

### APPROVAL OF SUBSIDIARIES' MATERIAL TRANSACTIONS

For the purpose of enhancing control over material transactions made by its subsidiaries, the Company employs the Procedure for

Material transactions of subsidiaries include transactions of the Company's subsidiaries where they acquire or dispose of, directly or indirectly, fixed assets and/or intangible assets with a (book) value exceeding \$20 million, or 10% of the book value of the subsidiary's fixed assets as of the most recent reporting date if the said value is below \$20 million; provide loans, credit facilities, guarantees, sureties, and special-purpose financing for amounts exceeding \$20 million or to receive loans and credit facilities for an amount exceeding \$20 million, except for short-term (below 1 year) loans and credits facilities obtained in the ordinary course of business on an arm's length basis.

Approving Material Transactions Made by Subsidiaries. Such transactions are made by subsidiaries only after their consideration and approval by the Management Committee in accordance with the Procedure. The Procedure does not apply to intra-group transactions.

At the same time, the Management Committee of PSJC LUKOIL approves material transactions made as part of approved investments projects according to the procedure established by the Company's internal regulations governing the Group's investment activities. Material transactions covering transactions with shares and/or interest in the charter capital of other entities are approved in accordance with the Procedure for Decision-Making on Participation in Other Entities.

**DEVELOPMENT OF THE SUBSIDIARY MANAGEMENT SYSTEM**

For the purpose of improving the corporate planning, preparing and reviewing management reports in LUKOIL Group, the Company's Management Committee adopted the following documents in 2016:

- LUKOIL Group's Policy for Working Capital Management;

- LUKOIL Group's Regulations on Determining the Size of Working Capital;
- Regulations on Monitoring Settlements in LUKOIL Group Entities.

In addition, certain amendments were made to a number of internal regulations for the same purposes. In particular, the following documents were updated:

- Policy for Development of the Investment and Corporate Planning Strategy;
- LUKOIL Group's Corporate Planning Regulations;
- LUKOIL Group's Regulations on Cash Flow Calendar Planning;
- Regulations on Financing the Working Capital of LUKOIL Group Entities.



**SHARE CAPITAL**

**Major shareholders of PJSC LUKOIL as of December 31, 2016\***

	% of shares as of December 31, 2015	% of shares as of December 31, 2016
National Settlement Depository (nominal shareholder)**	92.09	92.15
SDK Garant (nominal shareholder)	2.52	2.52

\* Holding more than 1% of the charter capital, as per the shareholder register.

\*\* Non-Banking Credit Organization Joint-Stock Company National Settlement Depository. Status of the central depository granted by Decree of the Federal Financial Markets Service of Russia No. 12-2761/pz-i dated November 6, 2012.

The Company has a charter capital of 850,563,255 ordinary shares with a par value of RUB 0.025 each. As of December 31, 2016, DRs have been issued to represent 58.5% of ordinary shares in the Company.

shareholders (holders of shares) holding more than 5% in the Company's charter capital.

LUKOIL ranks among the TOP-5 companies with the highest free-float among the issuers listed on the Moscow Exchange.

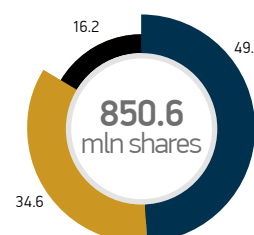
Except for the persons listed above, the Company management is not aware of any

**Major institutional investors**

Name	Share in the charter capital
VANGUARD GROUP	1.9%
BLACKROCK	1.3%
JPMORGAN CHASE & CO	0.9%
ABERDEEN	0.8%
LAZARD LTD	0.7%
SCHRODERS PLC	0.6%
FMR LLC	0.5%
STATE OF CALIFORNIA	0.5%
LSV ASSET MANAGEMENT	0.5%
VAN ECK ASSOCIATES CORPORATION	0.4%

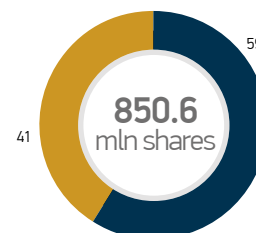
Source: Bloomberg, as of December 31, 2016.

**PJSC LUKOIL equity capital breakdown as of December 31, 2016, %**



● Free float ● Shares held by controlled entities  
● Management\*\*\*

**Shares and depository receipts of PJSC LUKOIL as of December 31, 2016, %**



● Depository receipts ● Shares

\*\*\* Shares of Directors, including Vagit Alekperov – 22.98%, Leonid Fedun – 9.88%, and shares of the members of the Management Committee, including direct and indirect ownership.



## SECURITIES

### Ordinary share and depositary receipts tickers of PJSC LUKOIL

Ticker	Exchange	Type	Listing
LKOH	Moscow Exchange	Ordinary shares	1st level

The ordinary shares are admitted to the Moscow Exchange, included into the A1 quotation list and are one of the most liquid instruments in the Russian equity market.

LKOD	London Stock Exchange	Depositary receipts	Standard
------	-----------------------	---------------------	----------

The depositary receipts (DRs) of PJSC LUKOIL are listed on the London Stock Exchange where the largest part of the Company's securities are traded. One DR issued by PJSC LUKOIL equals one ordinary share issued by PJSC LUKOIL. The Company's depositary receipts are one of the most liquid Eastern European stocks.

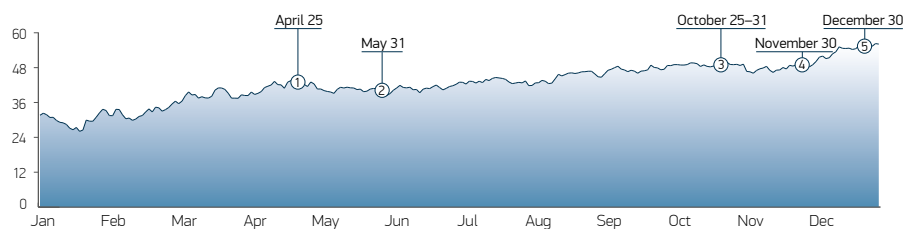
LUK	Frankfurt Stock Exchange	Depositary receipts
LUKOY	US OTC market	

On top of that, the Company's depositary receipts trade on the Frankfurt, Munich and Stuttgart Stock Exchanges and on the US OTC market.

### Indices which include the stock of PJSC LUKOIL

Index	The Company's weight as of December 31, 2016
Bloomberg World Oil & Gas	1.7%
MSCI Emerging Markets EMEA	3.6%
MSCI Emerging Markets Eastern Europe	9.7%
FTSE Russia IOB	18.0%
MSCI Russia	13.5%
MICEX	12.9%

### PJSC LUKOIL DR price on the LSE in 2016, US dollars



① The Board of Directors decided to develop a new progressive dividend policy and recommended dividend per share for 2015 in the amount of RUB 177 (+15% year-on-year)

② Russia's largest vacuum gas oil refining facility at the Volgograd Refinery was commissioned

⑤ V. Filanovsky and Pyakyakhinskoye fields were launched

④ OPEC countries, Russia and other independent oil producers signed a historic arrangement to limit oil production

③ LUKOIL capitalization reached a historic high of RUB 2.5 trillion

**Stock Price Performance.** In 2016, the US dollar-denominated RTS index went up by 52%, and the Russian Ruble-denominated MICEX Index was up by 27%. Higher oil prices, along with political and economic recovery in 2016 were major growth drivers for the Russian equity market. The Company's shares on the Moscow Exchange went up by 47% to RUB 3,449 per share and reached new record highs. On the LSE, the Company's shares went up by 74%, to \$56.1 per DR.

**Bonds.** The Company pursues a flexible debt portfolio management policy and borrows in the Russian and international capital markets. In 2016, the Company successfully placed 10-year Eurobonds on the most favorable terms and at a record low premium to Russian sovereign Eurobonds. The issue totaled \$1 billion at a coupon rate of 4.75% p.a. The bond was assigned “BBB-” rating by Fitch and Standard & Poors.

As of the end of 2016, three leading international rating agencies assign credit ratings to the Company:

- **Fitch:** “BBB-”, stable;
- **Standard & Poors:** “BBB-”, stable;
- **Moody’s:** “Ba1”, negative.

In February 2017, Moody’s revised upwards its outlook on the Company’s rating, changing it from negative to stable.

In March 2017, Standard & Poors also revised upwards its outlook on the Company’s rating, changing it from stable to positive.

**Outstanding Eurobonds as of December 31, 2016**

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
April 24, 2013/ April 24, 2018	5	3.416	semiannual	1,500,000,000	XS0919502434/ US549876AG58
November 9, 2010/ November 9, 2020	10	6.125	semiannual	1,000,000,000	XS0554659671/ US549876AE01
November 5, 2009/ November 5, 2019	10	7.250	semiannual	600,000,000	XS0461926569/ US549876AD28
June 7, 2007/ June 7, 2022	15	6.656	semiannual	500,000,000	XS0304274599/ US549876AA88
June 7, 2007/ June 7, 2017	10	6.356	semiannual	500,000,000	XS0304273948/ US549876AB61

The bonds were issued by LUKOIL International Finance B.V., a 100% subsidiary indirectly owned by PJSC LUKOIL and registered in the Netherlands.



## DIVIDENDS

LUKOIL's Dividend Policy is based on balancing the interests of the Company and its shareholders. The Board of Directors of PJSC LUKOIL approved the Regulations on the Dividend Policy of the Company on October 28, 2016, which established the following principles:

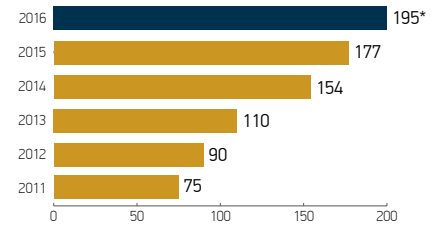
- Priority of dividends over other payments;
- Commitment to provide the dividend payout ratio of not less than 25% of the consolidated IFRS net income which can be adjusted for non-recurring losses and gains;

- Intention to provide annual growth of ruble-denominated dividend per share at least in line with ruble inflation in the reporting period.

To maintain steady dividend payments the Company strives to pay out dividends to its shareholders at least twice a year.

Based on 2016 full-year results, the Board of Directors recommended to the General Shareholders Meeting to increase the amount of dividend per share by 10.2% to RUB 195 (taking into account the interim dividend).

### Dividend per share, RUB



\* Total dividends recommended by the Board of Directors on 2016 results.

### The report on dividends accrued and paid

Period	2014			2015			2016		
	9M FY2014	FY2014	TOTAL	9M FY2015	FY2015	TOTAL	9M FY2016	FY2016	TOTAL
Accrued dividend per share, RUB	60	94	154	65	112	177	75	120	195
Accrued dividend, RUB million	51,034	79,953	130,987	55,287	95,263	150,550	63,792		
The issuer's governing 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 governing body deciding on the dividend payout	December 12, 2014, Minutes No. 2 dated December 16, 2014	June 25, 2015, Minutes No. 1 dated June 29, 2015		December 14, 2015, Minutes No. 2 dated December 16, 2015	June 23, 2016, Minutes No. 1 dated June 27, 2016		December 5, 2016, Minutes No. 2 dated December 7, 2016		
Declared dividend payout period	up to January 19, 2015 / up to February 9, 2015***	up to July 27, 2015 / up to August 17, 2015***		up to January 14, 2016 / up to February 4, 2016***	up to July 25, 2016 / up to August 15, 2016***		up to January 12, 2017 / up to February 2, 2017***		
Ratio of unpaid to accrued dividends, %**	0.105815	0.090446	0.096434	0.097132	0.101283		0.073299		

\*\* Dividends that have not been paid to the shareholders who provided no data for dividend payment transactions in accordance with clause 5 of Article 44 of Federal Law On Joint-Stock Companies No. 208-FZ dated December 26, 1995. Dividends accrued on shares held by anonymous holders are paid as soon as title to securities is established.

\*\*\* Nominee shareholders and trustees (professional security traders as per the applicable Russian law) whose names are on the shareholder register of PJSC LUKOIL / other shareholders whose names are on the shareholder register of PJSC LUKOIL.

Total accrued dividends are calculated through multiplication of the total number of shares of PJSC LUKOIL by the amount of dividends per share.

The dividend amount as of the end of FY2016 is based on the recommendation of the Board of Directors and subject to approval by the Annual General Shareholders Meeting.



**INFORMATION OPENNESS AND TRANSPARENCY**

As an issuer of publicly traded securities, PJSC LUKOIL performs regular mandatory disclosures, providing equal access to all stakeholders in accordance with Russian laws and with the requirements of the Moscow Exchange and the London Stock Exchange. The Company makes regular and timely publications of press releases and disclosures of material facts on major developments within the Group.

The Company strives to continuously increase its informational openness and transparency through publishing a wide range of information products beyond

applicable statutory requirements. For example, in addition to the mandatory annual publication of its Annual Report, the Company publishes the Analyst Databook containing detailed digital data on its operational and financial performance. On a quarterly basis, in addition to statutory financial statements prepared under Russian and international standards, the Company publishes financial presentations and aggregated financial and operating performance results in Excel format. Also, as an initiative to improve the informational transparency in sustainable development, the Company prepares its Sustainability

Report and participates in the Carbon Disclosure Project (CDP) on an annual basis.

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 interviews. The Company regularly responds to inquiries made by stakeholders, including the media, institutional investors, environmental organizations, and shareholders.

**2017 Financial Calendar**

<b>Financial results announcement</b>	
FY2016	March 14, 2017
Q1 2017	May 2017
Q2 2017	August 2017
Q3 2017	November 2017
<b>2016 Dividends</b>	
Recommendation by the Board of Directors	April 26, 2017
Dividend record date	July 10, 2017
<b>General Shareholders Meeting</b>	
Annual General Shareholders Meeting	June 21, 2017
<b>Annual publications</b>	
Annual report	May 2017
Analyst Databook	May 2017



## REFERENCE INFORMATION

### ABOUT THIS REPORT

PJSC LUKOIL Annual Report presents key information on LUKOIL Group's overall performance in 2016 by business area, as well as corporate governance and corporate responsibility. The report complies with the requirements of the Russian securities market regulations, recommendations of the Corporate Governance Code, Disclosure and Transparency Rules of the UK Financial Conduct Authority and based on the Group's consolidated financial statements under IFRS.

### OTHER COMPANY REPORTS

- Analyst Databook (digital information on the Company's business lines and financial results, xls version)
- Sustainability Report (information on the Company's environmental efforts and social responsibility in the Russian Federation)
- Global Trends in the International Oil Market to 2030 (the Company's strategic vision of the oil & gas industry in Russia and across the world), pdf version is available at: <http://www.lukoil.ru/FileSystem/PressCenter/78037.pdf>

The reports are available on the Company's website at: <http://www.lukoil.com> under the Investors section.

To order a free printed version of the Annual Report, please fill in the relevant form on the Company's website at: <http://www.lukoil.ru/InvestorAndShareholderCenter/ReportsAndPresentations/Order>.

### FEEDBACK

You are welcome to send any comments and/or suggestions as regards the Group's reports to our IR e-mail [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 2016 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 2016 (RUB 67.0/USD) is used for converting figures in rubles into US dollars, unless otherwise indicated.

1 boe = 6,000 cubic feet of gas

The segment split used in the Report is in line with the information in the Group's IFRS consolidated financial statements.

Largest international privately owned oil & gas companies include Royal Dutch Shell, Total, ConocoPhillips, Chevron, BP, 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.



**TERMS, ACRONYMS AND ABBREVIATIONS**

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

- APG** – Associated petroleum gas
- BoD** – Board of Directors
- boe** – barrel of oil equivalent
- CCGT** – Combined-cycle gas turbine
- CDP** – Carbon Disclosure Project
- CHPPs** – central heating and power plants
- CIS** – Commonwealth of Independent States
- CPP** – Central Processing Platform
- DR** – depositary receipts
- EBITDA** – Earnings before Interest, Taxation, Depreciation & Amortization
- EOR** – Enhanced oil recovery
- ERM** – Enterprise risk management
- FEED** – front-end engineering design
- GDP** – Gross Domestic Product
- GPP** – gas processing plant
- GPU** – gas processing unit
- HOF** – Head Onshore Facilities
- HPP** – hydroelectric power plant
- HPPs** – hydro power plants
- HSE** – Health, safety and environment
- IAS** – Internal Audit Service
- IEA** – International Energy Agency
- IFRS** – International Financial Reporting Standards
- ILO** – International Labor Organization
- IR** – Investor relations
- IRP** – Ice-resistant platform
- JSC** – Joint Stock Company
- KPI** – Key performance indicator
- LLC** – Limited Liability Company
- LQP** – Living Quarters Platform
- MET** – Mineral extraction tax
- MZHF** – Multi-zone hydrofracturing
- NPS** – Net Promoter Score
- OAO** – Open Joint Stock Company
- OGPB** – Oil and Gas Production Board
- OPEC** – Organization of Petroleum Exporting Countries
- OPEC** – Organization of Petroleum Exporting Countries
- PJSC** –Public Joint Stock Company
- R&D** – Research and development
- RAS** – Russian Accounting Standards
- RF** – Russian Federation
- RITEK** – Russian Innovation Fuel and Energy Company
- RMICS** – Risk Management and Internal Control System
- RUB** – Rubles
- SEC** – Securities and Exchange Commission
- TTS** – Texas Two Steps
- UN** – the United Nations
- UNDP** – United Nations Development Programme
- USD, \$** – US dollars
- WWF** – World Wide Fund for Nature

## LUKOIL GROUP ENTITIES AND THEIR NAMES USED IN THE REPORT

To view the full list of entities, please visit the Company's website at:  
<http://www.lukoil.com/Company/BusinessOperation>.

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Stavrolen	LLC Stavrolen
Burgas Refinery (Bulgaria)	LUKOIL Neftochim Bourgas AD
Nizhny Novgorod Refinery	LLC LUKOIL-Nizhegorodnefteorgsintez
Perm Refinery	LLC LUKOIL-Permnefteorgsintez
Ploiești Refinery (Romania)	PETROTEL-LUKOIL S.A.
Volgograd Refinery	LLC LUKOIL-Volgogradneftepererabotka
Ukhta Refinery	LLC LUKOIL-UNP
Saratovorgsintez	LLC Saratovorgsintez
Terminal in Vysotsk	JSC RPK-Vysotsk LUKOIL-II
Lokosovsky GPP	Lokosovsky GPP
Varandei terminal	LLC Varandei terminal
ISAB Refinery	ISAB S.r.l.
Zeeland Refinery	Zeeland Refinery N.V.
Usinsky GPP	LLC LUKOIL-Komi
Korobkovsky GPP	LLC LUKOIL-KGPZ
Karpatneftekhim	LLC KARPATNEFTEHIM (Ukraine)
L-Energy and Gas Bulgaria, Energy and Gas Bulgaria	LUKOIL Energy & Gas Bulgaria EOOD
L-Energy and Gas Romania Energy and Gas Romania	S.C. LUKOIL ENERGY & GAS ROMANIA S.R.L.
L-Astrakhanenergo LUKOIL-Astrakhanenergo	LLC LUKOIL-Astrakhanenergo
L-Volgogradenergo, LUKOIL-Volgogradenergo	LLC LUKOIL-Volgogradenergo
L-Rostovenergo, LUKOIL-Rostovenergo	LLC LUKOIL-Rostovenergo
L-Kubanenergo, LUKOIL-Kubanenergo	LLC LUKOIL-Kubanenergo
L- Stavropolenergo, LUKOIL-Stavropolenergo	LLC LUKOIL-Stavropolenergo
LITASCO	LITASCO SA
L- Ecoenergo	LLC LUKOIL-Ecoenergo

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The Annual Report of PJSC LUKOIL is preliminarily approved by the Board of Directors of PJSC LUKOIL (Minutes No. 1 dated May 15, 2017).

The Audit Commission of PJSC LUKOIL has confirmed the reliability of data contained in this Annual Report.

**President and Chairman  
of the Management Committee  
of PJSC LUKOIL**

**Vagit Alekperov**



## ABOUT THE COMPANY

Public Joint Stock Company "Oil company "LUKOIL" (hereinafter referred to as the "Company") was established in accordance with Decree No. 1403 of the President of the Russian Federation On Specific Features of the Privatization and Transformation into Joint Stock Companies of State Enterprises and Industrial and Research-Industrial Associations in the Oil and Oil-Refining Industries and Oil Product Supply, dated November 17, 1992 and Directive No. 299 of the Council of Ministers – Government of the Russian Federation On the Establishment of Open Joint Stock Company "Oil company "LUKOIL," dated April 5, 1993, for the purpose of industrial, economic and financial – investment activity.

PJSC LUKOIL is the corporate center of LUKOIL Group (hereinafter also the "Group") which coordinates the operations of Group companies. It focuses on coordination and management of subsidiaries in terms of organizational set-up, investments and financial operations.

### Legal Address and Head Office

11, Sretensky Boulevard, Moscow, 101000, Russia  
Website: [www.lukoil.ru](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.: +7 800 200 9402  
Fax: +7 495 627 4564  
E-mail: [shareholder@lukoil.com](mailto:shareholder@lukoil.com)  
Shareholder's Personal Account:  
<https://lk.reggarant.ru/lkaluk/Account/Login>

### Investor Relations

Tel.: +7 495 627 1696  
E-mail: [ir@lukoil.com](mailto:ir@lukoil.com)

### Press Service

Tel.: +7 495 627 1677  
E-mail: [media@lukoil.com](mailto:media@lukoil.com)

### Filling Stations Hotline

Tel.: +7 800 100 0911  
E-mail: [hotline@lukoil.com](mailto:hotline@lukoil.com)

### Lukoil Stock Consulting Center

PJSC LUKOIL  
11, Sretensky Boulevard, Moscow, 101000, Russia  
Tel.: +7 495 780 1943, +7 800 200 9402  
E-mail: [fkc@lukoil.com](mailto:fkc@lukoil.com)

### Registrar Company

LLC Registrar "Garant"  
6, Krasnopresnenskaya Embankment, Moscow, 123100, Russia  
Tel.: +7 495 221 3112, +7 800 500 2947  
Fax: +7 495 646 9236  
E-mail: [mail@reggarant.ru](mailto:mail@reggarant.ru)

### Auditor

JSC KPMG (Joint Stock Company KPMG),  
18/1, Olimpiyskiy Avenue, office. 3035, Moscow, 129110, Russia  
Tel.: +7 495 937 4477  
Fax: +7 495 937 4499  
E-mail: [moscow@kpmg.ru](mailto:moscow@kpmg.ru)

### Self-Regulating Organization of Auditors

Russian Union of Auditors (Association)  
8, Petrovskiy Side Street, Building 2, Moscow, 107031, Russia  
Tel.: +7 495 694 0156  
Fax: +7 495 694 0108

### Business Proposals

Postal Address: 11, Sretensky Boulevard, Moscow, 101000, Russia  
Fax.: +7 495 625 7016, +7 495 627 4999

Business proposals will only be considered if submitted in writing on the official letterhead and sent by mail or fax. Business proposals submitted by e-mail will not be considered.



**LUKOIL**

**APPENDICES  
PJSC LUKOIL  
ANNUAL  
REPORT 2016**



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# **Appendix 1.**

**Corporate Governance Code Compliance Report**

# 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 30 December 2014.

Incorporated in Russia, PJSC "LUKOIL" is guided in its business by the corporate governance principles recommended for implementation by Russian securities market regulators. The Company also seeks to implement the best international practices.

The Code is the key document regulating national corporate governance standards and is available on the Bank of Russia's website at: [http://www.cbr.ru/sbrfr/files/legislation/letters/2014/Inf\\_apr\\_1014.pdf](http://www.cbr.ru/sbrfr/files/legislation/letters/2014/Inf_apr_1014.pdf).

The recommended Corporate Governance Code is an extensive document that considerably exceeds many of its foreign counterparts in terms of size and level of detail. It is also substantially different from the Corporate Governance Code that was in effect before 2014 and was recommended as a guidance by Russia's Federal Commission for the Securities Market, which implies a certain transition period for changing some of corporate governance principles applied by Russian companies.

At present, the Board of Directors may confirm that all basic principles of the Code (i.e. principles specified in the Code under two-digit numbers) are met by the Company.

Along with the basic principles, Part A of the Code lays down 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, in particular:

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

the HR and Compensation Committee of the Board of Directors, acting as prescribed by the Code for the remuneration committee and the nomination committee (the combination of their functions is allowed by the Code), is made up of two independent directors (including the Committee Chairman) and one non-executive director. This set-up ensures full compliance with the Code recommendation for the nomination committee but only partial compliance with the recommendation for the remuneration committee, which provides for independent directors only;

the Company's Charter does not lay down any list of material (as defined by the principles and recommendations of the Code) corporate actions that would be subject to special consideration and approval rules, with such list providing for additional procedures, restrictions and obligations exceeding the requirements of laws currently in effect.

In 2016, the Company took significant measures to achieve higher compliance of its corporate governance with the Code's principles,

including the introduction of the role of Corporate Secretary in line with the Code recommendations: the Regulations on the Corporate Secretary of PJSC "LUKOIL" were approved, whereby the Corporate Secretary is independent of the Company's executive bodies and has the powers and resources required to perform his/her tasks, and the Company's Corporate Secretary was appointed by resolution of its Board of Directors.

Some internal documents, including those regulating the activities of the Board of Directors and its Committees, were also updated to comply with the Code. As a result, the functions and tasks of the Board Committees defined by relevant committee regulations were brought in line with the Code as close as possible.

The Company continued the process of transforming the internal audit functions and separate internal control and risk management functions from internal audit. In April 2016, the head of the Internal Audit Service was removed from the Management Committee as he is directly accountable to the Board of Directors and to ensure his independence of the executive bodies. As part of development and improvement of the Risk Management and Internal Control System, the Board of Directors of PJSC "LUKOIL" approved its Risk Management and Internal Control Policy.

An overview of the most relevant aspects of the corporate governance model and practices in PJSC LUKOIL is presented in the Corporate Governance section of the Annual Report.

The table template included in the Bank of Russia's Letter No. IN-06-52/8 dated 17 February 2016 has been used to assess compliance with the principles and recommendations of the Corporate Governance Code subject to filling-out guidelines set out in the letter.

The Board of Directors certifies that data in this Report contain full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2016.



N	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1	The company ensures fair and equitable treatment of all shareholders in exercising their corporate governance right.			
1.1.1	The company ensures the most favourable conditions for its shareholders to participate in the general meeting, develop an informed position on agenda items of the general meeting, coordinate their actions, and voice their opinions on items considered.	1. The company's internal document approved by the general meeting of shareholders and governing the procedures for holding the general meeting is publicly available. 2. The company provides accessible means of communication via hotline, e-mail or online forum for shareholders to voice their opinions and submit questions on the agenda in preparing 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 enables 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 specifies the meeting venue and documents required for admission. 3. Shareholders were given access to the information on who proposed the agenda items and who proposed 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 complied with. The Company's shareholders were not given access to the information on who proposed the agenda items and who nominated candidates to the Board of Directors and the Audit Commission prior to the annual General Shareholders Meeting. However, this information was presented in the reports of the Vice-President, Chief of Staff of PJSC "LUKOIL" at the Annual General Shareholders Meeting in 2016 on the agenda items on elections to the Company's Board of Directors and Audit Commission.
1.1.3	In preparing for, and holding of, the general meeting, shareholders were able to receive clear and timely information on the meeting and related materials, put questions to the company's executive bodies and the board of directors, and to communicate with each other.	1. In the reporting period, shareholders were able to put questions to members of executive bodies and directors before and during the annual general meeting. 2. The position of the board of directors (including dissenting opinions entered into the minutes) on each agenda item of general meetings held in the reporting period was included in the materials for the general shareholders meeting. 3. The company gave duly authorized shareholders access to the list of persons entitled to attend the general meeting, as from the date of its receipt by the company, for all general meetings held in the reporting period.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	

<p>1.1.4 There were no unjustified difficulties preventing shareholders from exercising their right to request that a general meeting be convened, to propose nominees to the company's governing bodies, and to make proposals for the agenda of the general meeting.</p>	<p>1. In the reporting period, shareholders were able to submit, within at least 60 days after the end of the relevant calendar year, proposals for the agenda of the annual general meeting.</p> <p>2. In the reporting period, the company did not reject any proposals for the agenda or nominees to the company's governing 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 was able to freely exercise their voting right in the simplest and most convenient way.</p>	<p>1. An internal document (internal policy) of the company provides that each participant of the general meeting may request a copy of the ballot filled out by them and certified by the counting commission before the end of the relevant meeting.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>	
<p>1.1.6 The procedure for holding a general meeting set by the company provides equal opportunities for all persons attending the meeting to voice their opinions and ask questions.</p>	<p>1. General shareholders meetings held in the reporting period in the form of a meeting (i.e. joint presence of shareholders) provided for sufficient time for making reports on and for discussing agenda items.</p> <p>2. Nominees to the company's governing and control bodies were available to answer questions of shareholders at the meeting at which their nominations were put to vote.</p> <p>3. When passing resolutions on preparing and holding general shareholders meetings, the board of directors considered using telecommunication means for remote access of shareholders to general meetings in the reporting period.</p>	<p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p>	<p>Criterion 2 is partially complied with.</p> <p>Under the effective Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting of PJSC "LUKOIL", the Company's Board of Directors distributes invitations to attend the General Shareholders Meeting to nominees when the General Shareholders Meeting is supposed to consider election of the Company's President, members of the Company's Board of Directors, members of the Company's Audit Commission, and approval of the Company's Auditor.</p> <p>As a rule, all nominees (with limited exceptions) are present at the General Meeting and available to answer questions of shareholders. The Company may not guarantee that each and all nominees would be present at the General Meeting and recognizes that certain nominees may be absent for a good reason.</p> <p>Criterion 3 is not complied with.</p> <p>Until now, when passing resolutions on the preparation and holding of General Shareholders Meetings, the Board of Directors has not considered the use of telecommunications means to provide shareholders with remote access to general meetings. At the Annual General Shareholders Meeting in 2017, the Company is planning to amend the Charter of PJSC "LUKOIL" so as to put in place electronic registration and voting solutions at its General Shareholders Meetings.</p>
<p>1.2 Shareholders are given equal and fair opportunities to share profits of the company in the form of dividends.</p>			
<p>1.2.1 The company has designed and put in place a transparent and clear mechanism to determine the dividend amount and payout procedure.</p>	<p>1. The company has drafted and disclosed a dividend policy approved by the board of directors.</p> <p>2. If the company's dividend policy uses reporting figures to determine the dividend amount, then relevant provisions of the dividend policy take into account the consolidated financial statements.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>	
<p>1.2.2 The company does not resolve to pay out dividends if such payout, while formally compliant with law, is economically unjustified and may lead to a false representation of the company's performance.</p>	<p>1. The company's dividend policy clearly identifies financial/economic circumstances under which the company shall not pay out dividends.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>	

1.2.3	The company does not allow for 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 makes every effort to prevent its shareholders from using other means to profit (gain) from the company other than dividends and liquidation value.	1. To prevent shareholders from using other means to profit (gain) from the company other than dividends and liquidation value, the company's internal documents provide for controls to timely identify and approve deals with affiliates (associates) of the company's substantial shareholders (persons entitled to use votes attached to voting shares) where the law does not formally recognize such deals as related-party transactions.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially complied with.</p> <p>The Company's internal documents provide for a procedure for approval of transactions recognized as related-party transactions only for relationships covered by the Federal Law On Joint-Stock Companies.</p> <p>The Company's internal documents, however, provide for additional transaction control mechanisms.</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. They provide for a uniform procedure for avoiding conflicts of interest, and if such a situation arises – for measures to avoid its adverse impact on the process and business performance of LUKOIL Group's entities.</p> <p>Moreover, the Contracting Rules of the Company provide that 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>
1.3	The corporate governance framework and practices ensure equal conditions for all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equal treatment by the company.			
1.3.1	The company has created conditions for fair treatment of each shareholder by the company's governing and control bodies, including conditions that rule out abuse by major shareholders against minority shareholders.	1. In the reporting period, procedures for management of potential conflicts of interest among substantial shareholders were efficient, while the board of directors paid due attention to conflicts, if any, between shareholders.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
1.3.2	The company does not take any actions that lead or may lead to artificial redistribution of corporate control.	1. No quasi-treasury shares were issued or used to vote in the reporting period.	<input type="checkbox"/> Full <input type="checkbox"/> Partial <input checked="" type="checkbox"/> None	<p>Criterion 1 is not complied with.</p> <p>The Company believes that at the time being refusal to participate in the voting using quasi-treasury shares carries a risk for reaching a quorum at the General Shareholders Meeting. This would impede the passing of necessary resolutions (including on dividend payout) and adversely impact corporate governance processes. This might also cause the need to re-convene the General Meeting, which would lead to additional expenses for the Company and eventually affect shareholders' income.</p>
1.4	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.			
1.4	Shareholders are provided with reliable and efficient means of recording their rights to shares and are able to freely dispose of their shares without any hindrance.	1. The company's registrar maintains the share register in an efficient and reliable way that meets the needs 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 provides strategic management of the company, determines key principles of, and approaches to, setting up a corporate risk management and internal control framework, monitors performance by the company's executive bodies, and performs other key functions.			
2.1.1	The board of directors is responsible for appointing and dismissing executive bodies, including for improper performance of their duties. The board of directors also ensures that the company's executive bodies act in accordance with the company's approved development strategy and core lines of business.	<p>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.</p> <p>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.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	

2.1.2	The board of directors sets key long-term targets for the company, assesses and approves 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. At its meetings in the reporting period, the board of directors reviewed strategy implementation and updates, approval of the company's financial and business plan (budget), and criteria and performance (including interim) 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 defines the company's principles and approaches to risk management and internal controls.	1. The board of directors defined the company's principles and approaches to risk management and internal controls.  2. The board of directors assessed the company's risk management and internal controls in the reporting period.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
2.1.4	The board of directors determines the company's remuneration and reimbursement (compensation) policy for its directors, members of executive bodies and other key executives.	1. The company developed and put in place a remuneration and reimbursement (compensation) policy (policies), approved by the board of directors, for its directors, members of executive bodies and other key executives.  2. At its meetings in the reporting period, the board of directors discussed matters related to such policy (policies).	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
2.1.5	The board of directors plays a key role in preventing, identifying and resolving internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and resolving internal conflicts.  2. The company set up mechanisms to identify transactions leading to a conflict of interest and to resolve such conflicts.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
2.1.6	The board of directors plays a key role in ensuring that the company is transparent, timely and fully discloses its information, and provides its shareholders with unhindered access to the company's documents.	1. The board of directors approved the company's information policy regulations.  2. The company identified persons responsible for implementing the information policy.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
2.1.7	The board of directors controls the company's corporate governance practices and plays a key role in material corporate events of the company.	1. In the reporting period, the board of directors reviewed the company's corporate governance practices.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
<b>2.2. The board of directors is accountable to the company's shareholders.</b>			
2.2.1	Performance of the board of directors is disclosed and made available to the shareholders.	1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings.  2. The annual report discloses key performance assessment results of the board of directors in the reporting period.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None
2.2.2	The chairman of the board of directors is available to communicate with the company's shareholders.	1. The company has in place a transparent procedure enabling shareholders to forward questions and express their position on such questions to the chairman of the board of directors.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None

2.3	The board of directors manages the company in an efficient and professional manner and is capable of making fair and independent judgements and adopting resolutions in the best interests of the company and its shareholders.			
2.3.1	Only persons of impeccable business and personal reputation who have knowledge, expertise and experience required to make decisions within the authority of the board of directors and essential to perform its functions in an efficient way are 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 directors.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors for required experience, expertise, business reputation, absence of conflicts of interest, etc.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 2 is partially complied with.</p> <p>In the reporting period, the HR and Compensation Committee assessed nominees to the Board of Directors for their independence (which, among other things, implies the absence of conflicts of interest).</p> <p>The Company believes that biographical details of the nominees to the Board of Directors, which were provided to shareholders in the reporting period as part of preparations for the General Meeting, were sufficient proof that the nominees have the required experience and expertise.</p> <p>In order to comply with recommendations of the Code, the HR and Compensation Committee of the Board of Directors assessed the nominees to the Board of Directors for required experience, professional qualifications, expertise, and business reputation in 2017.</p>
2.3.2	The company's directors are elected via a transparent procedure that enables shareholders to obtain information on nominees sufficient to judge on their personal and professional qualities.	<p>1. Whenever in the reporting period 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>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially complied with.</p> <p>When electing members of the Board of Directors at the General Meeting, the Company provided its shareholders with biographical details of the nominees and information on whether they meet independence criteria and whether they gave their written consent to be elected to the Board of Directors. No information on the assessment of nominees for other criteria was provided as no such assessment was made for each nominee in 2016 (see also notes to paragraph 2.3.1).</p> <p>Information on the assessment of nominees for required experience, professional qualifications, expertise, and business reputation will be submitted to shareholders when preparing for the Annual General Shareholders Meeting in 2017.</p>
2.3.3	The board of directors has a balanced membership, including in terms of directors' qualifications, experience, expertise and business skills, and enjoys its shareholders' trust.	<p>1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors reviewed its requirements to professional qualifications, experience and business skills.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
2.3.4	The company has a sufficient number of directors to organize the board of directors' activities in the most efficient way, including ability to set up committees of the board of directors and enable the company's substantial minority shareholders to elect a nominee to the board of directors for whom they vote.	<p>1. As part of assessment of the board of directors' performance run in the reporting period, the board of directors considered whether the number of directors met the company's needs and shareholders' interests.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	

2.4	The board of directors includes a sufficient number of independent directors.	
2.4.1	An independent director is a person who is sufficiently professional, experienced and independent to develop their own position, and capable of making unbiased judgements in good faith, free of influence by the company's executive bodies, individual groups of shareholders or other stakeholders. It should be noted that a nominee (elected director) who is related to the company, its substantial shareholder, substantial counterparty or competitor of the company, or is related to the government, may not be considered as independent under normal circumstances.	<p>1. In the reporting period, all independent directors met all independence criteria set out in Recommendations 102–107 of the Code, or were deemed independent by resolution of the board of directors.</p> <p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>
2.4.2	The company assesses compliance of nominees to the board of directors and reviews compliance of independent directors with independence criteria on a regular basis. In such assessment, substance should prevail over form.	<p>1. In the reporting period, the board of directors (or its nomination committee) made a judgement on independence of each nominee to the board of directors and provided its opinion to shareholders.</p> <p>2. In the reporting period, the board of directors (or its nomination committee) reviewed, at least once, the independence of incumbent directors listed by the company as independent directors in its annual report.</p> <p>3. The company has in place procedures defining the actions to be taken by directors if they cease to be independent, including the obligation to timely notify the board of directors thereof.</p> <p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>
2.4.3	Independent directors make up at least one third of elected directors.	<p>1. Independent directors make up at least one third of directors.</p> <p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>
2.4.4	Independent directors play a key role in preventing internal conflicts in the company and in ensuring that the company performs material corporate actions.	<p>1. Independent directors (with no conflicts of interest) run a preliminary assessment of material corporate actions implying a potential conflict of interest and submit the results to the board of directors.</p> <p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p> <p>Criterion 1 not fully 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 the currently ongoing reforms of corporate legislation and the absence of a uniform approach to defining "material corporate actions", the Company believes it premature to amend its internal documents.</p> <p>As part of initiatives described in the Central Bank's report On Proposed Corporate Governance Improvements at Public Joint-Stock Companies in 2015, as well as the Action Plan (roadmap) on Improving Corporate Governance approved by the Russian Government, the legislative reforms will continue, inter alia, to improve regulation of acquisition of large shareholdings in public joint-stock companies.</p> <p>The Company organizes meetings of its President with Directors prior to each scheduled in-person meeting of the Board of Directors, to brief them on ongoing material transactions, negotiations underway, etc., to enable the Directors to assess their decisions, including for possible conflicts of interest.</p>

2.5 The chairman of the board of directors ensures that the board of directors discharges its duties in the most efficient way.		
2.5.1	The board of directors is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the chairman of the board of directors is chosen from among the elected independent 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> <p><input type="checkbox"/> Full  <input checked="" type="checkbox"/> Partial  <input type="checkbox"/> None</p>
		<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 members of the Board of 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 maintains a constructive environment at meetings, enables free discussion of agenda items, and supervises the execution of resolutions passed by the board of directors.	<p>1. Performance of the chairman of the board of directors was assessed as part of assessment of the board of directors' performance in the reporting period.</p> <p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>
2.5.3	The chairman of the board of directors takes all steps necessary for the timely provision to directors of information required to pass resolutions on agenda items.	<p>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 directors of materials for the agenda of a board meeting.</p> <p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>
2.6 Directors act reasonably and in good faith in the best interests of the company and its shareholders, on a fully informed basis and with due care and diligence.		
2.6.1	Directors pass resolutions on a fully informed basis, with no conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks.	<p>1. The company's internal documents provide that a director should notify the board of directors of any existing conflict of interest as to any agenda item of the meeting of the board of directors or its committee, prior to discussion of the relevant agenda item.</p> <p>2. The company's internal documents provide that a director should abstain from voting on any item in connection with which they have 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 complied with.</p> <p>The Annual General Shareholders Meeting of OAO "LUKOIL" held on 24 June 2004 determined types of expenses to be reimbursed to Directors during their tenure, 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 reimbursement of members of the Board of Directors for their actual expenses on advisors and experts, and their relevant opinions on activities of the Board of Directors is set out in the Guidelines on Remuneration and Compensation of Members of the Board of Directors and Audit Commission of PJSC "LUKOIL".</p> <p>Regulations on committees of the Board of Directors entitle committees to accept professional services from third-party organizations within the Committee's budget.</p>
2.6.2	The rights and duties of directors are clearly stated and incorporated in the company's internal documents.	<p>1. The company adopted and published an internal document that clearly defines the rights and duties of directors.</p> <p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>
2.6.3	Directors have sufficient time to perform their duties.	<p>1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, were recorded as part of the procedure for assessing the board of directors in the reporting period.</p> <p>2. Under the company's internal documents, directors notify the board of directors of their intentions to be elected to governing bodies in other entities (apart from the entities controlled by, or affiliated to, the company), and of their election to such bodies.</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. Under the company's internal documents, directors are entitled to access documents and make requests on the company and its controlled entities, while executive bodies of the company should furnish all relevant information and documents.</p> <p>2. The company has in place a formalized onboarding program for newly elected directors.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 2 is partially complied with.</p> <p>The Company does not have in place any formalized onboarding program for newly elected directors, the development of which is scheduled for completion in 2017.</p> <p>However, the Company organizes orientation sessions for newly elected directors, mainly focused on:</p> <ul style="list-style-type: none"> <li>one-on-one meetings of newly elected directors with the Company's President, Corporate Secretary, top management and/or heads of corporate business units;</li> <li>familiarization with key corporate documents;</li> <li>visits to LUKOIL Group's production facilities.</li> </ul>
<b>2.7 Meetings of the board of directors, preparation for such meetings and participation of directors ensure efficient performance by the board of directors.</b>				
2.7.1	Meetings of the board of directors are held as needed, taking into account the scale of operations and goals of the company at a particular time.	1. The board of directors held at least six meetings in the reporting year.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
2.7.2	Internal regulations of the company formalize a procedure for the preparation and holding of the board meetings, enabling members of the board of directors to properly prepare for such meetings.	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 is to be given, as a rule, at least five days prior to such meeting.	<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 is determined taking into account the importance of its agenda items. The most important matters are dealt with at meetings of the board of directors held in person.	1. The company's charter or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially complied with.</p> <p>The Regulations on the Board of Directors of PJSC "LUKOIL" sets out a list of matters to be discussed 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 incorporates specific elements of the Company's corporate governance and the distribution of roles among its governance bodies.</p>
2.7.4	Resolutions on most important matters relating to the company's operations are passed at a meeting of the board of directors by a qualified majority or by a majority of all elected directors.	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 directors.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially 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 unanimously by all Directors.</p> <p>As of now, there is no need for the Company to make amendments to the Company's Charter to fully comply with the said Code recommendation.</p>
<b>2.8 The board of directors sets up committees for preliminary consideration of the most important matters related to the company business.</b>				
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>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. In the reporting period, meetings of the audit committee were held at least once a quarter.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	



2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee was set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	<p>1. The board of directors set up a remuneration committee comprised solely of independent directors.</p> <p>2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors.</p> <p>3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially complied with.</p> <p>The Company combines functions of the remuneration committee and the nomination committee within the HR and Compensation Committee of the Board of Directors.</p> <p>As of the end of the reporting year, the HR and Compensation Committee of the Board of Directors included two directors fully compliant with the independence criteria of the Code (one of them being the Chairman of the Committee while not being the Chairman of the Board of Directors) and one non-executive director.</p> <p>The Board of Directors aims to maximize involvement of independent directors in the activities of the Board's committees. However, the ratio between the number of independent directors (nominated and elected by the Company's shareholders) and the strength of committees provided for in the Company's internal documents, which exceeded the number of independent directors in the reporting year, is seen as a natural limit.</p> <p>The Company also believes that membership of independent directors in several committees at a time results in higher pressure on independent directors while removing non-executive directors from activities of committees. This might prevent such independent directors from concentrating on matters considered by the relevant committee.</p> <p>When establishing committees, the Board of Directors also takes into account (along with the independence factor) the personal professional expertise and track record of the director and their preference for a certain Committee, which would enhance their performance in the work of the Committee.</p> <p>Criterion 3 is partially complied with.</p> <p>The functions and tasks of the HR and Compensation Committee, provided for by the Regulations on the HR and Compensation Committee of the Board of Directors of PJSC "LUKOIL", include the tasks listed in Recommendation 180 of the Code, save for the task specified in paragraph 5 of Recommendation 180 – selection of an independent advisor on matters relating to remuneration of members of executive bodies and other key executives.–</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 financial expenses for the Company and eventually affect shareholders' income. However, the Company may engage such independent advisor should any substantial shareholders express their interest.</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 and HR) committee was set up, predominantly comprised of independent directors.	<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>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 2 is partially complied with.</p> <p>The Company combines 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, provided for by the Regulations on the HR and Compensation Committee of the Board of Directors of PJSC "LUKOIL", include the (slightly revised) tasks listed in Recommendation 186 of the Code, save for the task specified in paragraph 4 of Recommendation 186 (description of individual duties of directors and the chairman of the board of directors).</p> <p>The Company believes that time commitments of directors considerably depend on the Board of Directors' and Committees' action plans, the number of ad hoc meetings which can not 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 Committees' tasks have also lately been enhanced to incorporate requirements of the Code.</p> <p>Therefore, it is difficult for the Company to reliably assess time commitment to estimate general hours for all directors in the long term.</p>

2.8.4	<p>Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).</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>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
2.8.5	<p>Committees shall be composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.</p>	<p>1. Committees of the board of directors are headed by independent directors.  2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee, and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
2.8.6	<p>Committee chairmen inform the board of directors and its chairman on the work of their committees on a regular basis.</p>	<p>1. In the reporting period, committee chairmen reported to the board of directors on the work of committees on a regular basis.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
<p>2.9 The board of directors shall ensure performance assessment of the board of directors, its committees and members of the board of directors.</p>				
2.9.1	<p>The board of directors' performance assessment is aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's growth requirements, as well as of bolstering the work of the board of directors and identifying areas for improvement.</p>	<p>1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual directors, and the board of directors in general.  2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board of directors.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially complied with.  The self-assessment of the Board of Directors' performance carried out in the reporting period included the assessment of performance by committees and the Board of Directors in general, but did not include assessment of individual members (except for assessment of performance of the Board of Directors' Chairman).  As of now, the Company does not deem it necessary to introduce a procedure for assessment of individual directors. 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 of their individual assessment.</p>
2.9.2	<p>Performance of the board of directors, its committees, and members is assessed regularly at least once a year. An external advisor is engaged at least once in three years to conduct an independent assessment of the board of directors' performance.</p>	<p>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.</p>	<input type="checkbox"/> Full <input type="checkbox"/> Partial <input checked="" type="checkbox"/> None	<p>Criterion 1 is not complied with.  For the last three years, the Company did not engage an external entity to conduct an independent assessment of the Board of Directors' performance since such procedure would require additional time commitments of directors, disclosure of documents to such external entities, some of which might be confidential, and would also involve additional financial expenses for the Company.  At the same time, the 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>

3.1	The company's corporate secretary ensures efficient ongoing interaction with shareholders, coordinate the company's efforts to protect shareholder rights and interests and support efficient performance of the board of directors.			
3.1.1	The corporate secretary has the expertise, 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 the company's directors and executives.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 2 is not complied with.</p> <p>The resolution on appointment of the Corporate Secretary of PJSC "LUKOIL" in accordance with the procedures complying with the Code's recommendations was first passed in August 2016.</p> <p>Information on the Corporate Secretary of PJSC "LUKOIL" in 2017 was posted on the Company's official websites at: www.lukoil.ru, www.lukoil.com.</p> <p>The Company's Annual Report 2016, posted on its website, also include the biography of the Corporate Secretary.</p>
3.1.2	The corporate secretary is sufficiently independent of the company's executive bodies and has the powers and resources required to perform his/her tasks.	1. The board of directors approves the appointment, dismissal and additional remuneration of the corporate secretary.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	<p><u>Note.</u></p> <p>In accordance with paragraph 5.1 of the Regulations on the Corporate Secretary of PJSC "LUKOIL", the size of remuneration (official salary) for the Corporate Secretary is determined by the Board of Directors of PJSC "LUKOIL"; in accordance with paragraph 5.2 of these Regulations, the cost of living adjustments and bonus payments for the Corporate Secretary are made in compliance with the Company's internal regulations on remuneration, unless otherwise established by resolution of the Board of Directors.</p>
4.1	Remuneration payable by the company is sufficient to attract, motivate, and retain people with competencies and qualifications required by the company. Remuneration payable to directors, executive bodies and other key executives of the company is in compliance with the approved remuneration policy of the company.			
4.1.1	The amount of remuneration paid by the company to directors, executive bodies and other key executives creates 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 avoids unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company's employees.	1. The company has in place an internal document (internal documents) – the policy (policies) on remuneration of directors, executive bodies and other key executives, which clearly defines (define) the approaches to remuneration of the above persons.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
4.1.2	The company's remuneration policy is devised by the remuneration committee and approved by the board of directors. The board of directors, assisted by the remuneration committee, ensures control over the introduction and implementation of the company's remuneration policy, revising and amending it as required.	1. During one reporting period, the remuneration committee considered the remuneration policy (policies) and its (their) introduction practices to provide relevant recommendations to the board of directors as required.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
4.1.3	The company's remuneration policy includes transparent mechanisms for determining the amount of remuneration due to directors, executive bodies and other key executives of the company, and regulates 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 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 defines a policy on reimbursement (compensation) of expenses detailing a list of reimbursable expenses and specifying service levels that directors, executive bodies and other key executives of the company may claim. Such policy can make part of the company's remuneration policy.	1. The remuneration policy (policies) defines (define) the rules for reimbursement of expenses incurred by 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 Remuneration system for directors ensures alignment of financial interests of directors with long-term financial interests of the shareholders.				
4.2.1	<p>The company pays fixed annual remuneration to its directors. The company does not pay remuneration for attending particular meetings of the board of directors or its committees.</p> <p>The company does not apply any form of short-term motivation or additional financial incentive for its directors.</p>	1. Fixed annual remuneration was the only form of monetary remuneration payable to directors for their service on the board of directors during the reporting period.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially complied with.</p> <p>In accordance with the resolution of the Company's General Shareholders Meeting, all directors are paid fixed annual remuneration for performing their duties as directors.</p> <p>The Chairman of the Board of Directors is paid fixed annual remuneration for performing his functions as Chairman of the Board of Directors, and chairmen of Committees are paid fixed annual remuneration for performing their functions as committee chairmen.</p> <p>Directors are also paid fixed additional remuneration for in-person participation in meetings of a committee of the Board of Directors and for in-person participation in meetings of the Board of Directors or a committee of the Board of Directors involving a transcontinental flight, and fixed additional remuneration for participation in conferences and other events on written instruction by the Chairman of the Board of Directors. The specific amount of additional remuneration payable is calculated As of the date of the General Shareholders Meeting on the basis of actual attendance of meetings and conferences (and other events) by directors.</p> <p>The Company believes that these remunerations are a fair compensation for additional time and arrangement costs of the members of the Board of Directors given that some of them are not Russian residents and may need a transcontinental flight to attend.</p>
4.2.2	Long-term ownership of the company's shares helps align the financial interests of directors with long-term interests of shareholders to the utmost. At the same time, the company does not link the right to dispose of shares to performance targets, and directors do 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 a director, clear rules for share ownership by directors are to 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><u>Note.</u></p> <p>Internal documents of PJSC "LUKOIL" do not stipulate provision of shares to its members of the Board of Directors.</p>
4.2.3	The company does not provide for any extra payments or compensations in the event of early termination of directors' tenure, 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 directors' tenure, 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 considers its performance and the personal contribution of each executive to the achievement of such performance when determining the amount of a fee payable to members of the executive bodies and other key executives of the company.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<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>	
4.3.1	Remuneration due to members of executive bodies and other key executives of the company is 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.	<p>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.</p> <p>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.</p> <p>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.</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>	
4.3.2	The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	<p>1. The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares).</p> <p>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 takes 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.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 2 is not complied with.</p> <p>The terms of the current Long-Term Incentive Plan for Employees of PJSC "LUKOIL" and its Subsidiaries for 2013–2017 approved by the Company's Board of Directors do not provide for the right to dispose of shares used in the plan taking effect at least three years after such shares are granted.</p> <p>However, the Company believes that the long-term (five-year) incentive plan currently in effect sufficiently supports the interest of the plan members in achieving long-terms goals and sustainable development of the Company, creating incentives for improving corporate governance in the Company and its subsidiaries, which will drive profit, increase their capitalization and boost their investment case.</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, does not exceed the double amount of the fixed part of their annual remuneration.	<p>1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
5.1	The company has in place an effective risk management and internal controls providing reasonable assurance in the achievement of the company's goals.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None		
5.1.1	The company's board of directors determined the principles of and approaches to organizing risk management and internal controls at the company.	<p>1. Functions of different management bodies and business units of the company in risk management and internal controls are clearly defined in the company's internal documents / relevant policy approved by the board of directors.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	

5.1.2	The company's executive bodies ensure establishment and continuous operation of efficient risk management and internal controls at the company.	1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal controls between the heads (managers) of business 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 controls ensure an objective, fair and clear view of the current state and future prospects of the company, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place an approved anti-corruption policy. 2. The company established an accessible method of notifying the board of directors or the board's audit committee of breaches or any violations of the law, the company's internal procedures and code of ethics.	<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 put into effect the Code of Business Conduct and Ethics of Open Joint-Stock Company "Oil Company 'LUKOIL'". This document is a compilation of standards and rules for individual and collective behavior and contains, among other things, standards and rules for anti-corruption relations with business partners, government authorities and public organizations and 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.</p> <p>The Company, however, has no internal document in place that would focus exclusively on anti-corruption, and the Company does not believe it necessary to adopt such a document in the short term as it would substantially overlap with the above documents.</p>
5.1.4	The company's board of directors takes necessary measures to make sure that the company's risk management and internal controls are consistent with the principles of, and approaches to, its setup 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 controls. Key results of this assessment are included in the company's annual report.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
5.2 The company performs internal audit for regular independent assessment of the reliability and efficiency of risk management and internal controls and the corporate governance practice.				
5.2.1	The company set up a separate business unit or engaged an independent external organization to carry out internal audits. Functional and administrative reporting lines of the internal audit department are delineated. The internal audit unit functionally reports to the board of directors.	1. To perform internal audits, the company set up a separate business unit – internal audit division, functionally reporting to the board of directors or to the audit committee, or engaged an independent external organization with the same line of reporting.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
5.2.2	The internal audit division assesses the performance of the internal controls, risk management, and corporate governance. The company applies generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal controls and risk management 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 operations are transparent for its shareholders, investors and other stakeholders.				
6.1.1	The company has developed and implemented an information policy ensuring efficient exchange of information by 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 the 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	

<p>6.1.2 The company discloses information on its corporate governance and practice, including detailed information on compliance with the principles and recommendations of the Code.</p>	<p>1. The company discloses information on its corporate governance and general principles of corporate governance, including disclosure on its website.</p> <p>2. The company discloses information on the membership of its executive bodies and board of directors, independence of the directors and their membership in the board of directors' committees (as defined by the Code).</p> <p>3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out this person's plans for the company's corporate governance.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>
<p>6.2 The company makes timely disclosures of complete, updated and reliable information to allow shareholders and investors to make informed decisions.</p>		
<p>6.2.1 The company discloses information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness and comparability of disclosed data.</p>	<p>1. The company's information policy sets out approaches to, and criteria for, identifying 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.</p> <p>2. If the company's securities are traded on foreign organized markets, the company ensured concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting year.</p> <p>3. If foreign shareholders hold a material portion of the company's shares, the relevant information was disclosed both in the Russian language and one of the most widely used foreign languages in the reporting period.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>
<p>6.2.2 The company avoids a formalistic approach to information disclosure and discloses material information on its operations, even if disclosure of such information is not required by law.</p>	<p>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 included annual financial statements prepared under the IFRS, along with the auditor's report.</p> <p>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 corporate website.</p>	<p><input checked="" type="checkbox"/> Full  <input type="checkbox"/> Partial  <input type="checkbox"/> None</p>

6.2.3	The company's annual report, as one of the most important tools of its information exchange with shareholders and other stakeholders, contains information enabling assessment of the company's annual performance results.	<p>1. The company's annual report contains information on the key aspects of its operating and financial performance.</p> <p>2. The company's annual report contains information on the environmental and social aspects of the company's operations.</p>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	
6.3 The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.				
6.3.1	The company provides information and documents requested by its shareholders in accordance with principles of fairness and ease of access.	<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>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially complied with.</p> <p>The Company's information policy establishes the procedure for providing the Company's shareholders with easy access to information and documents where shareholders are entitled to receive such information. The procedures for providing the Company's 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 provide shareholders with information on legal entities controlled by it.</p> <p>The Company discloses concise 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>
6.3.2	When providing information to shareholders, the company ensures 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 competitive edge.	<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>	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Partial <input type="checkbox"/> None	



7.1	Actions that materially affect or may affect the company's share capital structure and its financial position and accordingly the position of its shareholders ("material corporate actions") are taken on fair terms ensuring that the rights and interests of the shareholders and other stakeholders are observed.			
7.1.1	Material corporate actions include restructuring of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of major transactions, increase or decrease of the company's charter capital, listing or de-listing of the company's shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The company's charter provides for a list (criteria) of transactions or other actions classified as material corporate actions within the authority of the company's board of directors.	<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 jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general shareholders meeting, the board of directors presents relevant recommendations to shareholders.</p> <p>2. According to the company's charter material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in major transactions, increase or decrease of the company's charter capital, listing or de-listing of the company's shares.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially complied with.</p> <p>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 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 that the Code recommends considering as material and that are specified in Recommendation 307 of the Code.</p> <p>Due to the large number of the Company's subsidiaries, coordination of their operations, including preliminary approval of resolutions of the Company's subsidiaries related to their participation in other entities, and decisions to terminate the Company's participation in other entities are referred by the Charter to the jurisdiction of the Management Committee.</p> <p>Decisions to acquire subsoil licenses which may involve investment expenditures in the amount exceeding an amount in rubles equivalent to \$150 million, and decisions to approve material transactions by the Company's subsidiaries shall be made by the Management Committee.</p> <p>The Company also notes that the term "controlled legal entity material to the company" is used in the applicable Russian laws only for disclosure purposes. Therefore, until this term is consolidated in the corporate law, the Company's Charter cannot refer this matter to the jurisdiction of the Board of Directors.</p>
7.1.2	The board of directors plays a key role in passing resolutions or making recommendations on material corporate actions, relying on the opinions of the company's independent directors.	<p>1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially 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 or legitimate interests of shareholders, equal terms and conditions are guaranteed for all shareholders of the company; if the statutory procedure designed to protect shareholders' rights proves insufficient, additional measures are taken to protect their rights and legitimate interests. In doing so, the company is guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	<p>1. Due to specifics of the company's operations, the company's charter contains less stringent minimal criteria for material corporate actions than required by law.</p> <p>2. In the reporting period, all material corporate actions were subject to the approval procedure before they were taken.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<p>Criterion 1 is partially 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 performs 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 is 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 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"; increase or decrease in the charter capital; listing or delisting of shares in PJSC "LUKOIL"; or other actions that could lead to in material changes in the rights of shareholders or in violation of their interests.</p> <p>The Company 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 Issue-Grade Securities Issuers.</p>
7.2.2	Rules and procedures related to material corporate actions taken by the company are set out in the company's internal documents.	<p>1. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of assets either disposed of or acquired in a major transaction or a related-party transaction.</p> <p>2. The company's internal documents set out a procedure for engaging an independent appraiser to estimate the value of shares acquired and bought back by the company.</p> <p>3. The company's internal documents 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 related parties to the company's transactions.</p>	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Partial <input type="checkbox"/> None	<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 related parties to the Company's transactions.</p> <p>Due to the corporate legislation reform currently ongoing in the Russian Federation (see also note to paragraph 2.4.4), which covers, inter alia, the procedure for approving related-party transactions, the Company believes it premature to formalize the expanded list of grounds in its internal documents that may require adjustment due to further legislative changes.</p>

# **Appendix 2.**

**Risks**

# Appendix 2. Risks

## Macroeconomic risks

Risk description	Risk management
<p>Macroeconomic changes due to volatility of global energy prices, FX fluctuations and inflation may have an adverse effect on the Company's financial performance. Despite positive trends in the global economy during 2016, macroeconomic risks remain high. The following key risks should be highlighted:</p> <ul style="list-style-type: none"> <li>• Uncertainty about the policies of the newly elected US President, Donald Trump;</li> <li>• Growing political uncertainty in Europe;</li> <li>• Ongoing process of the UK's exit from the European Union;</li> <li>• Rise in protectionist sentiment around the world;</li> <li>• Problems related to the financial instability in the European banking sector;</li> <li>• Slowdown in economic growth and the high level of debt in China;</li> <li>• Key rate increase by the US Federal Reserve (FRS) resulting in significant appreciation of the US dollar. The FRS plans several more rate increases in 2017, which may contribute to further strengthening of the US dollar and therefore put pressure on oil prices.</li> </ul> <p>Oil prices can be expected to grow in the mid-term due to the delayed effect of oil and gas companies reducing investment budgets and focusing on cost optimization. Growth in oil demand will mainly be supported by continued motorization and industrial development in emerging markets. At the same time, electric vehicles are unlikely to have any significant impact on the demand for oil in the coming years as the global fleet of such vehicles is very small.</p>	<p>The Company uses a scenario approach to macroeconomic forecasting. One of the scenarios is chosen as the base scenario and describes the most likely course of macroeconomic developments according to the Company's management. Additionally, the Company develops the best-case and stress scenarios to assess potential consequences of macroeconomic changes for the Company.</p> <p>The Company makes every effort to minimize the adverse impact of the said macroeconomic risks. The stress scenario helps identify the assets and investment projects with the highest sensitivity to macroeconomic changes. Based on this analysis, the Company makes management decisions aimed at optimizing its asset portfolio.</p>

## Country risks

Risk description	Risk management
<p>PJSC "LUKOIL" operates in a number of countries with high political and economic risks which, if realized, may seriously affect its operations in a certain region or even cause them to be discontinued. In particular, the Company pursues a number of projects in such countries as Iraq, Egypt, Uzbekistan, and West African countries, where country risks are assessed as high.</p> <p>The Company seeks to further diversify its operations, implementing projects in Europe and the US, where country risks are viewed as minimal, alongside with its operations in unstable regions.</p> <p>The majority of the Company's production and refining assets are located within Russia. The political environment in Russia is characterized by sufficient levels of stability and high level of public confidence in the policies pursued by the President and the Government.</p> <p>The key factors that may have an adverse effect on PJSC "LUKOIL"'s business are as follows:</p> <ul style="list-style-type: none"> <li>• Political disruption in countries where the Company implements its investment projects due to regime changes;</li> <li>• Escalation of armed conflicts in the regions where the Company operates;</li> <li>• Macroeconomic instability in the regions where the Company operates;</li> <li>• Expropriation of the Company's assets;</li> <li>• Weaknesses in the legal framework regulating economic relations and in the judicial system.</li> </ul>	<p>When implementing its projects in the regions with high country risks, the Company expects higher returns from such projects. Additionally, in case of adverse changes in the political or social and economic environment in a region of its operation, PJSC "LUKOIL" implements a number of anti-crisis measures, including production cost reduction, optimization of the investment program to adapt to a new environment, reducing its stake in a project, engaging partners to share project risks.</p>

Industry risks	
Risks related to well construction and development of fields with hard-to-recover hydrocarbon reserves	
Risk description	Risk management
<p>The ban on the imports of equipment and materials currently used in well construction is relevant for the Company. Since the Company and its contractors purchase most of their equipment and materials used in well construction from Western partners, the ban is a risk factor.</p>	<p>The bulk of reagents required to prepare and condition drilling mud and grouting mixture and currently sourced from the EU and US may be substituted by products from China, Thailand, Russia, and Belarus. Chemical products currently sourced from the EU and US are low-tonnage purchases.</p> <p>According to the Company's well construction service partners, at present the Company has an one-year stock of spare parts, equipment and materials to be used for its projects.</p> <p>Due to the sanctions imposed against Russia there is a risk of constraints arising as hard-to-recover-hydrocarbon fields are developed with application of the multi-zone hydro-fracturing (MZHf) technique. The equipment for MZHf used today as part of the Company's projects is unparalleled by any Russian or Chinese enterprises.</p>
Risks of tariff and vendor price hikes	
Risk description	Risk management
<p>The Company's tariff risks are associated with OAO RZD, PJSC Gazprom and other monopolies operating across the Company's geography. Their prices are revised upwards on a regular basis.</p> <p>Logistic costs driven up by higher output immediately impact the profit of PJSC "LUKOIL".</p> <p>The Company is also exposed to the risk of higher prices for other services, such as vehicle transportation, customs brokerage, warehousing, etc.</p>	<p>Measures to minimize risks of higher tariffs from OAO RZD and similar monopolies operating across the Company's geography include:</p> <ul style="list-style-type: none"> <li>• Diversifying transportation channels for Company's products;</li> <li>• Cooperating with other consumers to prevent accelerated tariff growth;</li> <li>• Using tender procedures to enter into long-term contracts with vendors.</li> </ul>
Risk of a limited access to petroleum product transshipment infrastructure	
Risk description	Risk management
<p>This risk depends on the following factors:</p> <ul style="list-style-type: none"> <li>• Failure by a natural monopoly in the petroleum product pipeline transportation market to ensure safety of goods in transport;</li> <li>• Limited technical capability due to increased volumes of supplies by third-parties and changes in the quality of transported products.</li> <li>• Political environment.</li> </ul>	<p>The Company invests considerable effort in mitigating the above risks by:</p> <ul style="list-style-type: none"> <li>• Diversifying modes of transport and export destinations for petroleum product supplies;</li> <li>• Consistently engaging natural monopolies in pipeline transportation to increase volume of supplies transported via PJSC Transneft's system against rising oil production at the Company and/or growing volume of oil refining at the Group's oil refineries;</li> <li>• Developing in-house logistic infrastructure to support oil and petroleum product shipments.</li> </ul>
Financial risks	
Price risks	
Risk description	Risk management
<p>Fluctuations in prices of oil and petroleum products may have a significant impact on the Issuer's financials and its securities value. The Issuer has limited influence over the prices of its products which largely depend on the market environment and regulatory actions.</p> <p>In the short run, oil prices are expected to remain highly volatile due to global economy growth uncertainty, interruptions of oil supplies to the market, and global oil supply/demand imbalance, as well as due to high levels of geopolitical tensions.</p>	<p>The Issuer is a vertically integrated company (VIC) that combines production, oil refining and distribution assets. This structure serves as a natural hedging mechanism, where diverse risk factors cancel each other out.</p> <p>Additionally, the Company implements a range of measures to mitigate the price risks:</p> <ul style="list-style-type: none"> <li>• The Company's strategic development programs factor in several price scenarios, while its investment project portfolio is managed depending on the price sensitivity of respective projects;</li> <li>• A commodity supply management system has been implemented which makes it possible to promptly respond to market changes and conduct arbitrary shipments;</li> <li>• In its trading activities, the Company uses hedging operations which help significantly reduce the negative impact of the price fluctuations in oil and petroleum product markets as part of the Group operations.</li> </ul>

Liquidity risks		
	Risk description	Risk management
	<p>High volatility of oil prices, exchange rates of foreign currencies to the US dollar, refining margin, petrochemistry and power generation margin, growth of tariffs and suppliers' prices, as well as possible international economic sanctions over Russia's policies may create an imbalance in the figures included into the plans, budgets and investment programs of LUKOIL Group, thus leading to the shortage of liquidity and financing sources.</p>	<p>This risk is managed through sensitivity assessment of the performance figures included in the plans, budgets and investment programs to the changes in macroeconomic indicators. The Company also develops proposals on plan adjustments, possible sequestering of expenses associated with the transition to the stress scenario, shifting of due dates and project implementation dates or inclusion of optional projects in the plan in case of improvements in the macroeconomic situation, as well as the proposals to ensure timely financing of business activities. Much attention is paid to cost minimization by means of tender procedures.</p> <p>LUKOIL Group has a centralized and efficient Group-wide liquidity management in place, which incorporates automatic cash concentration and disbursement, corporate dealing, rolling cash flow forecasts. The liquidity ratios are continuously monitored.</p> <p>Despite an unfavorable market environment for Russian borrowers, the Company maintains the required level of bilateral standby credit facilities to ensure sufficient liquidity to meet the requirements of rating agencies.</p> <p>PJSC "LUKOIL" currently has investment-grade ratings from two major international rating agencies – S&amp;P (BBB- rating, which is higher than Russia's sovereign rating) and Fitch (BBB-). The Company regularly monitors its financials to make sure they meet the requirements of rating agencies.</p> <p>A credit rating higher than Russia's sovereign rating clearly indicates the high financial stability of PJSC "LUKOIL".</p>
FX risks		
	Risk description	Risk management
	<p>The fact that the Company's assets are mostly concentrated within Russia makes its financials dependent on changes in the ruble to US dollar exchange rate. The Company's proceeds are mainly formed by US dollar proceeds from oil and petroleum product sales, while the majority of operating and capital expenses are denominated in rubles. The Company has to sell foreign currency to finance ruble-denominated expenses. When the ruble appreciates, in order to finance ruble-denominated expenses the Company needs to sell an extra amount of its foreign currency proceeds, which will have an adverse effect on the Company's net profit in rubles.</p> <p>The Company's currency mix of proceeds and costs acts as a natural hedge. E.g. declines in oil prices are usually followed by ruble's depreciation, which allows the Company to partially offset the negative impact from the drop in oil prices on the Company's financials.</p>	<p>To mitigate the adverse impact of changes in the currency exchange rates, the Company takes advantage of its geographic diversification. The Company also applies hedging instruments to its currency proceeds.</p>
Counterparty default and non-payment risk		
	Risk description	Risk management
	<p>The risk means delayed payments for products supplied by the Company. In terms of exports, delayed payments and/or underpayments may require the Company to raise additional funding to be able to meet its financial obligations.</p>	<p>To mitigate these risks, the Company has contracts with third parties (non-Group entities) that provide for pre-payment terms or letters of credit or bank guarantees from end customers. Banks that can issue letters of credit and guarantees are subject to PJSC "LUKOIL" corporate center approval.</p>

Legal risks	
Tax and customs regulation risks	
Risk description	Risk management
<p>Changes in tax and customs regulation initiated by the Russian Government primarily depend on the current state of the national budget system and domestic market regulation policy. The financial performance of LUKOIL Group may be adversely affected by a heavier tax burden, unexpected revisions of tax rates and duties, and cancellation of preferential customs duties applied to a number of LUKOIL Group's fields.</p> <p>In the wake of significant RUB/USD rate fluctuations over the last months and continued ruble weakening, PJSC "LUKOIL" may be forced to pay additional duties when filing a periodic customs declaration for exported oil and petroleum products beyond the established amounts (excluding pipeline supplies).</p> <p>At the same time, in accordance with the Russian Law On Customs Tariff, the Government of the Russian Federation reviews export customs duties for oil and petroleum products on a monthly basis. Customs duties are calculated based on oil prices on global petroleum feedstock markets and, therefore, falling oil prices are followed by reduced duty rates, although taking effect from the next calendar month.</p> <p>High ruble-rate volatility continues to bear significant risks and uncertainty in terms of amounts of export duties paid in rubles.</p>	<p>To manage these risks, the Company constantly keeps track of changes in tax and customs regulation, participates in discussing legislative initiatives, timely assesses the impact of prospective changes in tax and customs laws on LUKOIL Group's performance, and takes steps to minimize or offset negative consequences of changes in the tax and customs regulation, for example, when possible, submitting customs declarations while the RUB/USD exchange rate is growing.</p>
Risks related to amended legislation on joint-stock companies and securities market	
Risk description	Risk management
<p>Amendments to laws and regulations of the Russian Federation relating to corporate governance, including those concerning the structure and competencies of joint-stock company governance bodies, as well as transition to the Corporate Governance Code implementation (recommended by the Bank of Russia in its Letter No. 06-52/2463 dated 10 April 2014) (in particular, concerning the restriction to vote the quasi-treasury shares) with reference to the recommendations on preparing Corporate Governance Code Compliance Report (provided by the Bank of Russia in its Letter No. IN-06-52/8 dated 17 February 2016) may lead to changes in the Company's structure and corporate governance, with a potential adverse impact on its decision-making processes and performance.</p>	<p>The Company closely monitors the respective legislative changes. The Company takes steps to obtain the information about such changes at the stage of preliminary discussions and seeks to ensure that the Company's representatives participate in such discussions to clarify the Company's views on such matters, as well as the risks and uncertainties arising out of the said changes.</p> <p>Efforts are also underway to make sure that the Company's representatives are involved in activities aimed at developing effective ways of applying new laws.</p>
Securities trading risks	
Risk description	Risk management
<p>The Company's securities are traded on regulated markets in Russia and abroad. Changes to the issuer requirements and listing structure brought in by regulatory authorities and stock exchanges may require the Company to modify its corporate governance framework and assume additional obligations with respect to disclosure and shareholder relations. If the Company fails to comply with these requirements and meet the respective obligations in due time, this may lead to the Company's securities transferred to lower listing segments or to be delisted, which, accordingly, could adversely affect the liquidity and value of such securities.</p>	<p>The Company keeps track of changes in listing rules and other stock exchange and regulatory requirements to issuers whose securities are admitted to trading. The Company's representatives participate in workshops and other events for issuers organized by stock exchanges and other organizations that provide consulting and awareness raising services to issuers of securities traded on regulated markets. The Company also strives to adhere to international best practices of corporate governance and shareholder relations.</p>
Geological risks	
Risk of reserves non-discovery or discovery below the expected level	
Risk description	Risk management
<p>Another type of risk borne by the Company is related to non-discovery of productive oil and gas reserves or lower than expected levels of such reserves discovered during prospecting drilling or implementing new projects. This may lead the Company to incur additional costs or discontinue operations at some of its license blocks.</p>	<p>PJSC "LUKOIL" manages the risk at the level required to timely respond to this risk, through conducting additional exploration activities.</p>
Subsoil use and licensing risks	
Risk description	Risk management
<p>Oil producers face certain risks associated with the Russian legislation on subsoil use, exploration and mining. The key risks include:</p> <ul style="list-style-type: none"> <li>• early termination of subsoil use rights;</li> <li>• no equal access to offshore resources;</li> <li>• no legislative guarantees of subsoil use rights being granted to the company that has discovered a subsoil deposit of federal significance or a field within subsoil areas of federal significance (the Russian continental shelf, Russian inland and territorial sea waters, as well as the Russian sector of the Caspian Sea shelf), including subsoil users with foreign capital;</li> <li>• non-acceptance of tender/auction application documents filed by LUKOIL Group entities on formal grounds;</li> <li>• administrative fines due to breach of license agreements.</li> </ul>	<p>To minimize the adverse impact of the said risks, the Company:</p> <ul style="list-style-type: none"> <li>• monitors changes in legislation on subsoil use and licensing and makes proposals on updating the existing legal framework;</li> <li>• drafts a list of sites which are included in the unallocated subsoil reserve fund and are of interest to the Company to ensure timely decision-making with respect to tender/auction participation. Feasibility studies for development of new prospects are prepared for base case common scenario conditions;</li> <li>• has permanent work groups in place responsible for preparing tender/auction applications and license renewal documents across the Group's entities;</li> <li>• runs annual professional development training courses for licensing and subsoil use experts, participates in seminars attended by government officials;</li> <li>• monitors subsoil use by means of a dedicated information system;</li> <li>• liaises with regulatory authorities to mitigate the risk of early termination of subsoil use rights.</li> </ul>

Risk of terrorist acts and unlawful acts of third parties	
Risk description	Risk management
<p>Given the growing number of terrorist organizations and escalating terrorist activity in the regions in which the Company operates, there is a probability of terrorist and other criminal acts against the Company's assets.</p> <p>Developments in the military and political situation in Syria and possible further aggravation of the situation in the Middle East pose additional risks to the Company.</p> <p>The Company is also exposed to the risk of unlawful acts from competitors (including unfair competition risks), financial or other abuse by LUKOIL Group's employees and embezzlement or theft of moneys or tangible assets.</p>	<p>To manage these risks, the Company:</p> <ul style="list-style-type: none"> <li>• participates in the counter-terrorism events organized by the National Anti-Terrorism Committee, Federal Security Service, and the Ministry of Internal Affairs of the Russian Federation;</li> <li>• identifies employees who intentionally damage the Company's interests in favour of its competitors and other third parties (including criminal organizations) and individuals;</li> <li>• plans and conducts information security enhancing events;</li> <li>• implements the Information Security Program across LUKOIL Group;</li> <li>• acquires licenses from the Federal Security Service to use information encryption tools.</li> </ul>
Environmental and industrial safety risks	
Risk description	Risk management
<p>The Company's hazardous production facilities are exposed to the risk of equipment failures, which may cause process disruptions, hazardous releases, environmental damage, fires, and accidents, including those occurring in the development of offshore oil and gas offshore fields. This risk may result in unscheduled idle time at the Company's production facilities, with a subsequent reduction in operating income.</p>	<p>To minimize this risk, the Company has put in place an effective industrial safety system which includes:</p> <ul style="list-style-type: none"> <li>• use of corporate standards, including for environmental safety;</li> <li>• industrial control over the operation of hazardous production facilities;</li> <li>• training of relevant staff;</li> <li>• diagnostics (non-destructive testing) and monitoring of equipment performance;</li> <li>• workplace certification;</li> <li>• repair and timely replacement of equipment;</li> <li>• maintaining a pool of emergency personnel and resources to ensure continuous preparedness to respond to emergency situations;</li> <li>• other measures to reduce the number of emergencies at the Company's facilities.</li> </ul> <p>The Environmental Protection, Occupational Health and Safety Management System in place in the Company is certified to ISO 14001 and OHSAS 18001 and ensures timely detection of non-compliance in working practices or operation of equipment, as well as development and implementation of target corporate programs and plans to ensure industrial and fire safety, and provision of training in emergency response to operating personnel and emergency response teams.</p>
Risks of the investment program non-delivery	
Risk description	Risk management
<p>When implementing its investment projects, the Company is exposed to the risks of cost overruns and delays in commissioning of production facilities.</p> <p>Project delays related, inter alia, to preparing design documentation and cost estimates, obtaining permits, entering into contracts, failing to meet deadlines and changing field development roadmaps based on the new geological data may cause the Company to be unable to implement its investment program, with a potentially deteriorating operating and investment project performance in the coming years and excessive fund raising.</p>	<p>PJSC "LUKOIL" pays considerable attention to managing this risk by monitoring project implementation on a quarterly basis in case of investment program adjustments. New construction projects not supported by design documentation and cost estimates are excluded from the capex plan for the next year.</p>
Risk of shortages of qualified personnel	
Risk description	Risk management
<p>Inadequate skills or qualifications of new hires may have an adverse effect on the Company's financial performance.</p>	<p>To mitigate this risk, the Company focuses on comprehensive development of its talent pool, maintaining and growing its succession pool, which consists of the most experienced and talented employees, as well as attracting young talent and university graduates.</p>



# **Appendix 3.**

**Major and related / interested party transactions**

## Appendix 3. Major and related / interested party transactions

List of transactions made by PJSC "LUKOIL" in 2016 and recognised as major transactions in accordance with the Federal Law On Joint Stock Companies


In 2016 PJSC "LUKOIL" did not perform any transactions that are recognised as major transactions in accordance with the Federal Law On Joint Stock Companies.

The Charter of Public Joint Stock Company "Oil company "LUKOIL" does not prescribe approval of other transactions covered by the approval procedure for major transactions.

List of transactions made by PJSC "LUKOIL" in 2016 and recognised as interested-party transactions in accordance with the Federal Law On Joint Stock Companies that are subject to approval by an authorized governing body of a joint stock company under Chapter XI of the Federal Law On Joint Stock Companies

Interested-party transactions of PJSC "LUKOIL" approved by the Board of Directors of PJSC "LUKOIL" and made by LUKOIL in 2016

1. Transaction No.	1
2.1. Price (amount in USD)	USD 2,500
2.2. Price (amount in RUB)	RUB 177,800
3. Names of parties	PJSC "LUKOIL" (Licensor) LUKOIL EURASIA PETROL ANONIM ŞİRKETİ (Licensee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to License Agreement No. 1010633 of 20.10.2010 (hereinafter the "Agreement").
6. Subject of the transaction	Pursuant to the Agreement, the Licensor provides to the Licensee, for a fee and for the effective term of the Agreement, a non-exclusive license to use on the territory of the Republic of Turkey the trademarks of OAO "LUKOIL" produced in accordance with Certificates Nos. 914086, 914088 with priority right of 21 November 2006, No. 907153 with priority right of 4 October 2006 issued by the International Bureau of World Intellectual Property Organization (WIPO), to be used by the Licensee for identifying the following goods of Class 4 of the International Classification of Goods and Services (ICGS) «fuels, including motor fuels». In accordance with the Supplemental Agreement to the Agreement: 1. In order to bring the name of the Licensor in line with the norms of Chapter 4 of Part 1 of the Civil Code of the Russian Federation (set out in the revised version of Federal Law No.99-FZ of 05.05.2014), the words Open Joint Stock Company "Oil company "LUKOIL" and OAO "LUKOIL" will be replaced throughout the text with the words Public Joint Stock Company "Oil company "LUKOIL" and PJSC "LUKOIL", respectively. 2. The effective term of the Agreement will be extended by five years from 20.01.2016. 3. After the effective term of the Agreement is extended, the Licensee shall pay a one-off license fee to the Licensor for the use of the non-exclusive license to use trademarks for the period from the date the Supplemental Agreement enters into force through 19.01.2021, in an amount of USD2,500. The fee will be paid by the Licensee in US dollars once, not later than 30 calendar days from the date the invoice is issued by the Licensor. The deadline for issuing the invoice is not later than 30 calendar days from the date the Supplemental Agreement enters into force. The date of payment shall be the date the funds are credited to the Licensor's transit foreign currency account.
7. Interested parties	Vadim Nikolaevich Vorobyov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL EURASIA PETROL ANONIM ŞİRKETİ.
8. Other material terms of the transaction	The Licensor undertakes to extend the validity of the trademark certificates indicated in Section 1 of the Agreement and ensure that an entry on a non-exclusive license to use trademarks is made in the International Trademark Register of the International Bureau of World Intellectual Property Organization (WIPO), and to ensure that the entry on the non-exclusive license to use trademarks is extended after the trademark certificates are extended as follows: No. 907153 – not later than 04.10.2016; Nos. 914086, 914088 – not later than 21.11.2016. The Supplemental Agreement will enter into force for the Parties from the date of its signing, and for third parties, from the date an entry is made on the non-exclusive license to use trademarks in the International Trademark Register of the International Bureau of the World Intellectual Property Organization.
1. Transaction No.	2
2.1. Price (amount in USD)	USD 242,370,000.
2.2. Price (amount in RUB)	RUB 18,514,644,300
3. Names of parties	PJSC "LUKOIL" (Seller) IOOO LUKOIL Belorussia (Buyer)

4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Supply Contract No. 1010063 of 26 February 2010 (hereinafter the "Contract")
6. Subject of the transaction	<p>The Contract stipulates that the Seller supplies the Buyer, on CPT terms to railway terminals Zlynka, Krasnoye, Surazh, Rudnya, with the following products: bitumen, bituminous mixes, and bitumen stock – up to 50,000 metric tonnes, fuel oil 100 – up to 50,000 metric tonnes, diesel fuel – up to 50,000 metric tonnes, motor gasoline - up to 50,000 metric tonnes, electrode coke for the aluminium industry FEM - up to 10,000 metric tonnes, of the following producers: 000 LUKOIL-Permnefteorgsintez, 000 LUKOIL Nizhegorodnefteorgsintez, 000 LUKOIL-Volgoogradneftepererabotka, 000 LUKOIL-UNP, OAO UNPZ, OAO Novoil, OAO Ufaneftekhim. The total Contract value in US Dollars calculated at the average price of the product supplied equals USD 103,120,000. Price calculation, terms of payment and the product quality are determined in accordance with Appendices 1 and 2 making an integral part of the Contract.</p> <p>In accordance with the Supplemental Agreement to the Contract:</p> <ul style="list-style-type: none"> <li>- article «PRODUCER, NAME AND QUANTITY OF GOODS» is revised to stipulate an increase in the quantity of diesel fuel to 300,000 metric tonnes and motor gasoline, to 150,000 metric tonnes;</li> <li>- supplies under the Contract will be extended till 31 March 2017 inclusive;</li> <li>- article «OVERALL CONTRACT VALUE» is being revised to stipulate that the overall contract value in US Dollars calculated at the average price of the product supplied equals USD 242,370,000, where USD 136,250,000 is the value of the diesel fuel to be supplied, USD 66,000,000 is the value of the motor gasoline supplied, USD 20,000,000 is the value of the fuel oil 100 supplied, USD19,000,000 is the value of the bitumen, bituminous mixes, and bitumen stock, and USD 1,120,000 is the value of the coke supplied.</li> </ul>
7. Interested parties	Vadim Nikolaevich Vorobyov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of IOOO LUKOIL Belorussia.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the time of signing.
1. Transaction No.	3
2.1. Price (amount in USD)	The approximate amount of the annual agency fee will equal USD 138.64, plus VAT of USD 24.96. The approximate amount of the Agent's reimbursable expenses for the year will equal USD 277,282.27, plus VAT of USD 49,910.81.
2.2. Price (amount in RUB)	The approximate amount of the annual agency fee will equal RUB 10,570, plus VAT of RUB 1,902.6. The approximate amount of the Agent's reimbursable expenses for the year will equal RUB 21,140,000, plus VAT of RUB 3,805,200.
3. Names of parties	PJSC "LUKOIL" (Agent) Joint Stock Company «Russian innovative fuel and energy company» (RITEK) (Principal)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Agency agreement No.1510619 of 02.12.2015 (hereinafter, the "Agreement").
6. Subject of the transaction	<p>Pursuant to the Agreement, at the request of the Principal the Agent undertakes to enter into a contract with JSC KPMG in its own name but at the expense of the Principal, on the performance of an audit of the Principal's financial statements for 2015 in accordance with Russian legal requirements regarding preparation of financial statements.</p> <p>In accordance with the Supplemental Agreement to the Agreement:</p> <ul style="list-style-type: none"> <li>- in connection with the entry made on 04.12.2015 in the Unified State Register of Legal Entities recording the state registration of the new version of the Principal's Charter changing the name of the Principal, RITEK will be deemed the Party to the Agreement;</li> <li>- point 3.1 of the Agreement is being revised to increase the amount of the Agent's fee under the Agreement from 0.01% to 0.05% of the amount of the Agent's expenses incurred during execution of the Agent's duties (exclusive of VAT), plus VAT of 18%.</li> </ul>
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing, and applies to the legal relations of the Parties arising from 04.12.2015.
1. Transaction No.	4
2.1. Price (amount in USD)	USD 1,967.47, plus VAT of USD 354.14, in aggregate – USD 2,321.62
2.2. Price (amount in RUB)	RUB 150,000, plus VAT of RUB 27,000, in aggregate – RUB 177,000
3. Names of parties	000 Bashneft-Polyus (Licensee) PJSC "LUKOIL" (Licensor)
4. Names of beneficiaries	-
5. Name of transaction	License Agreement on providing a non-exclusive license to use trademarks (hereinafter the "Agreement")
6. Subject of the transaction	The Licensor provides to the Licensee, for a fee and for the effective term of the Agreement, a non-exclusive license to use the trademarks of PJSC "LUKOIL" issued in accordance with Certificates Nos. 141748, 141747 with priority right of 20.07.1995 for the Licensee to identify goods of Classes 4, 6 and 7 of the International Classification of Goods and Services (ICGS) and services of ICGS Classes 37, 39, 42.
7. Interested parties	Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of 000 Bashneft-Polyus.
8. Other material terms of the transaction	<p>The Licensee has the right to use the trademark  only in an integrated combination with the verbal trademark "LUKOIL". An integrated combination is deemed to be a composition where all signs are optically clear and recognizable and are in visual proximity on each and every object.</p> <p>The use (placement) by the Licensee of the Licensor's trademarks along with other parties' trademarks and identifications, with the exception of the trademarks of PJSC Bashneft listed in Appendix to the Agreement, will be inadmissible.</p> <p>The license fee of 150,000, plus VAT of RUB 27,000 will be paid by the Licensee once, not later than 30 calendar days from the date the invoice is issued by the Licensor.</p> <p>Should the Licensee fail to pay the license fee on time, it will pay the Licensor a penalty of 1/10 of the license fee for each calendar day due.</p> <p>All duties, taxes and other expenses associated with the conclusion and execution of the Agreement, and with the registration of the transfer of the right to use trademarks will be borne by the Licensee.</p> <p>Granting of the right to use the said trademarks is subject to state registration with the Federal Service on Intellectual Property. Failure to comply with the state registration requirement will render the granting of the right to use the trademarks by the Licensee invalid.</p> <p>The Licensee's right to use the trademarks arises from the moment the Agreement becomes effective. The Agreement enters into force from the date of signing and will remain valid for a term of five years.</p>

1. Transaction No.	5
2.1. Price (amount in USD)	USD 30,254,766.75, plus VAT of USD 5,445,858.01
2.2. Price (amount in RUB)	RUB 2 372,881,355.93, plus VAT of RUB 427,118,644.07
3. Names of parties	OOO Futbolny Klub Spartak-Moskva [Spartak Moscow Football Club] (the Club) PJSC "LUKOIL" (Sponsor)
4. Names of beneficiaries	-
5. Name of transaction	Sponsorship Agreement (hereinafter the "Agreement").
6. Subject of the transaction	Under the Agreement, the Sponsor provides sponsorship assistance to the Club aimed at preparing the Club's professional sportsmen for national competitions (the Russian Championship, the Russia Cup) and international competitions in accordance with the official match schedule, on terms of distribution of the Sponsor's advertising in accordance with the Agreement.
7. Interested parties	Leonid Arnoldovich Fedun, a member of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of OAO Futbolny Klub Spartak-Moskva, and his brother, Andrei Arnoldovich Fedun, is a member of the Board of Directors of OAO Futbolny Klub Spartak-Moskva. Alexander Kuzmich Matysyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of OAO Futbolny Klub Spartak-Moskva. Lyubov Nikolaevna Khoba, a member of the Management Committee of PJSC "LUKOIL", is the spouse of Alexander Kuzmich Matysyn, a member of the Board of Directors of OAO Futbolny Klub Spartak-Moskva. Sergei Anatolievich Mikhailov, a member of the Board of Directors of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of OAO Futbolny Klub Spartak-Moskva
8. Other material terms of the transaction	The cost of advertising services for each calendar year equals RUB 338,983,050.85, plus VAT of RUB 61,016,949.15. In total, the sponsorship assistance for the entire term of the Agreement will be RUB 2,800,000,000, including VAT. Payment of the funds will be made by the Sponsor via an advance payment to the Club's settlement account. The Club is obligated to assign the Sponsor the status of a General Sponsor of OAO Futbolny Klub Spartak-Moskva [Spartak Moscow Football Club] and place the Sponsor's trademarks listed in Appendix No.1 to the Agreement in accordance with the terms of the Agreement. The Club is obligated to submit draft layouts and samples of advertising materials to the Sponsor for approval, which materials are stipulated by the Agreement. Distribution and placement of the said advertising materials is only admissible after their approval by the Sponsor in writing. The Club will provide photographic and video materials confirming the Club's performance of its obligations under the Agreement. The Agreement will enter into force from the date of signing, extends to the legal relations between the Parties arising from 01 January 2016 and will remain in force till 31.12.2022, and with regard to settlements, until the Parties have discharged their obligations under the Agreement in full.
1. Transaction No.	6
2.1. Price (amount in USD)	The approximate fees for the services USD 63,259.11, plus VAT of USD 11,386.64.
2.2. Price (amount in RUB)	The approximate fees for the services RUB 5,000,000, plus VAT of RUB 900,000.
3. Names of parties	RITEK (Client) PJSC "LUKOIL" (Contractor)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Service Contract No.1210628 of 18.09.2012 (hereinafter the "Contract").
6. Subject of the transaction	Pursuant to the Contract, the Contractor undertakes to provide real-time well construction monitoring services according to the procedure and on the terms stipulated by the Contract (hereinafter the "services"), and the Client undertakes to provide the Contractor with all information and documents required to provide the said services in a timely manner, to accept the services rendered, and to pay the Contractor for the services provided. In accordance with the Supplemental Agreement, the Contractor undertakes to perform real-time well construction monitoring at the V.N. Vinogradov field.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The services will be provided by the Contractor at wells where construction is performed as part of the V.N.Vinogradov Field Investment Project (the Project's investment classification code is U063A0694A). The Supplemental Agreement enters into force from the time of signing by the Parties, extends to the legal relations between the Parties arising from 1 January 2016 and will remain in effect through the term of validity of the Contract.
1. Transaction No.	7
2.1. Price (amount in USD)	The approximate fee for the services is USD 25,303.64, plus VAT of USD 4,554.66
2.2. Price (amount in RUB)	The approximate fee for the services is RUB 2,000,000, plus VAT of RUB 360,000
3. Names of parties	RITEK (Client) PJSC "LUKOIL" (Contractor)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Contract No.1210628 of 18.09.2012 (hereinafter the "Contract").
6. Subject of the transaction	Pursuant to the Contract, the Contractor undertakes to provide real-time well construction monitoring services according to the procedure and on the terms stipulated by the Contract (hereinafter the "services"), and the Client undertakes to provide the Contractor with all information and documents required to provide the said services in a timely manner, to accept the services rendered, and to pay the Contractor for the services provided. In accordance with the Supplemental Agreement, the Contractor undertakes to perform real-time well construction monitoring at the Aprelskoye field.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.

8. Other material terms of the transaction	The services will be provided by the Contractor at wells where construction is performed as part of the Aprelskoye Field Investment Project (the Project's investment classification code is U063A0690A). The Supplemental Agreement enters into force from the time of signing by the Parties, extends to the legal relations between the Parties arising from 1 January 2016 and will remain in effect through the term of validity of the Contract.
1. Transaction No.	8
2.1. Price (amount in USD)	USD 56,603.77
2.2. Price (amount in RUB)	RUB 4,500,000
3. Names of parties	PJSC "LUKOIL" (Company) Russian Public Organisation Russian Union of Industrialists and Entrepreneurs (Union)
4. Names of beneficiaries	-
5. Name of transaction	Donation Contract (hereinafter the "Contract")
6. Subject of the transaction	In accordance with the Contract, the Company will provide the Union with charitable assistance in the form of a donation of monetary funds in the amount of RUB 4,500,000. The Union undertakes to use the funds received for the performance of charter activities in 2016.
7. Interested parties	Vagit Yusufovich Alekperov, President of PJSC "LUKOIL", a member of the Board of Directors of PJSC "LUKOIL" and Chairman of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Management Board's Executive Bureau of the Russian Public Organisation Russian Union of Industrialists and Entrepreneurs. Leonid Arnoldovich Fedun, a member of the Board of Directors of PJSC "LUKOIL", is simultaneously a member of the Management Board of the Russian Public Organisation Russian Union of Industrialists and Entrepreneurs.
8. Other material terms of the transaction	The date of transfer of funds is the day when they are debited from the Company's settlement account. The Contract enters into force from the time of signing, and shall remain in effect until the Parties perform their obligations in full.
1. Transaction No.	9
2.1. Price (amount in USD)	USD 704,000
2.2. Price (amount in RUB)	RUB 55,968,000
3. Names of parties	PJSC "LUKOIL" (Licensor) IOOO LUKOIL Belorussia (Licensee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to License Agreement No.1410704 of 10.10.2014 (hereinafter the "Agreement")
6. Subject of the transaction	Pursuant to the Agreement, the Licensor provides to the Licensee, for a fee and for the effective term of the Agreement, a non-exclusive license to use on the territory of the Republic of Belarus the trademarks of PJSC "LUKOIL" produced in accordance with certificates issued by the International Bureau of World Intellectual Property Organization. In accordance with the Supplemental Agreement to the Agreement: 1. In connection with the change in the name of the Licensor, the words Open Joint Stock Company "Oil company "LUKOIL" and OAO "LUKOIL" will be replaced throughout the text with the words Public Joint Stock Company "Oil company "LUKOIL" and PJSC "LUKOIL", respectively, with the exception of the titles of the Style Book, Album and the Corporate Requirements; 2. Point 7.1 of the Agreements shall be revised to stipulate that: - the Licensee undertakes to pay the Licensor a fee of at least USD 8,100 for each calendar year for the use of the non-exclusive license; - the formula used to calculate the annual fee payable to the Licensor be changed; - if the fee calculated according to the formula is less than USD 8,100, the annual fee that the Licensee will pay to the Licensor will equal USD 8,100; 3. Under sub-point 2.1.7 of the Agreement, the Parties will approve the updated list of Properties where the Licensor's trademarks are used as of 01.01.2015, pursuant to Appendix No.1 to the Supplemental Agreement; 4. Under point 7.3 of the Agreement, the Parties agree to establish new basic rates for the calculation of the aggregate annual fee for the use of the non-exclusive license under the Agreement, revising Appendix No.3 to the Agreement in accordance with Appendix No.2 to the Supplemental Agreement; 5. Proceeding from point 7.1 of the Agreement, in the text of the Supplemental Agreement the Parties have agreed that the fee for the use of the non-exclusive license in 2015 will equal USD 704,000; 6. Section 12 of the Agreement «Legal Addresses and Banking Details» will be set out in a new version.
7. Interested parties	Vadim Nikolaevich Vorobyov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of IOOO LUKOIL Belorussia.
8. Other material terms of the transaction	All other terms remain unchanged.
1. Transaction No.	10
2.1. Price (amount in USD)	The approximate commission fee is USD 1,700,154.56
2.2. Price (amount in RUB)	The approximate commission fee is RUB 132,000,000
3. Names of parties	PJSC "LUKOIL" (Commission Agent) RITEK (Principal)
4. Names of beneficiaries	-
5. Name of transaction	Commission Contract (hereinafter the "Contract")
6. Subject of the transaction	In accordance with the Contract, the Commission Agent undertakes on the instructions of the Principal and for a fee to perform transactions involving the export of oil, hereinafter, the "goods", to the Republic of Belarus in its own name, but using the funds of the Principal.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The Principal must compensate the Commission Agent for all expenses related to the sale of the Principal's goods in accordance with the terms agreed upon in the Contract. The Principal undertakes to pay the Commission Agent a commission fee in the amount of RUB 220 for each net tonne of the goods sold to a Buyer, plus 18% VAT on the amount of the commission fee. The Contract enters into force from the time of its signing and will remain in force until 31 March 2017, and as regards mutual settlements – until they have been completed in full.

1. Transaction No.	11
2.1. Price (amount in USD)	The approximate commission fee is USD 4,222,050.49
2.2. Price (amount in RUB)	The approximate commission fee is RUB 327,800,000
3. Names of parties	PJSC "LUKOIL" (Commission Agent) RITEK (Principal)
4. Names of beneficiaries	-
5. Name of transaction	Commission Contract (hereinafter the "Contract")
6. Subject of the transaction	In accordance with the Contract, the Commission Agent undertakes on the instructions of the Principal and for a fee to perform transactions involving the sale of oil, hereinafter, the "goods", on the export market in its own name, but using the funds of the Principal.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The Principal must compensate the Commission Agent for all expenses related to the sale of the Principal's goods in accordance with the terms agreed upon in the Contract. The Principal undertakes to pay the Commission Agent a commission fee in the amount of RUB 220 for each net tonne of the goods sold to a Buyer, plus 18% VAT on the amount of the commission fee. The Contract enters into force from the time of its signing and will remain in force until 31 March 2017, and as regards mutual settlements – until they have been completed in full.
1. Transaction No.	12
2.1. Price (amount in USD)	USD 2,031.42, plus VAT of 365.66, in aggregate – USD 2,397.07
2.2. Price (amount in RUB)	RUB 150,000, plus VAT of RUB 27,000, in aggregate – RUB 177,000
3. Names of parties	The Fund for Regional Social Programmes "Our Future" (Licensee or the Fund) PJSC "LUKOIL" (Licensor)
4. Names of beneficiaries	-
5. Name of transaction	License Agreement on providing a non-exclusive license to use trademarks (hereinafter the "Agreement")
6. Subject of the transaction	The Licensor provides to the Licensee, for a fee and for the effective term of the Agreement, a non-exclusive license to use the trademarks of PJSC "LUKOIL" issued in accordance with Certificates Nos. 141748, 141747 with priority right of 20.07.1995 for the Licensee to identify goods and services of ICGS Classes 16, 35, 36 and 42.
7. Interested parties	Vagit Yusufovich Alekperov, President, Chairman of the Management Committee, a member of the Board of Directors of PJSC "LUKOIL", is simultaneously Chairman of the Board of the Fund for Regional Social Programmes "Our Future".
8. Other material terms of the transaction	The Licensee has the right to use the trademark  only in an integrated combination with the verbal trademark "LUKOIL". An integrated combination is deemed to be a composition where all signs are optically clear and recognizable and are in visual proximity on each and every object. The use (placement) by the Licensee of the Licensor's trademarks along with other parties' trademarks and identifications, with the exception of the trademarks of the Fund listed in Appendix to the Agreement, will be inadmissible. The Licensee has the right to enter into sub-license agreements with the Licensor's prior written permission. The license fee of 150,000, plus VAT of RUB 27,000 will be paid by the Licensee once, not later than 30 calendar days from the date the invoice is issued by the Licensor. Should the Licensee fail to pay the license fee on time, it will pay the Licensor a penalty of 1/10th of the license fee for each calendar day due. In the event of sub-license agreements with third parties the Licensee undertakes to pay the Licensor an additional fee of RUB 30,000, plus VAT of 18% (RUB 5,400), in aggregate – RUB 35,400 for each sub-license agreement. All duties, taxes and other expenses associated with the conclusion and execution of the Agreement, and with the registration of the transfer of the right to use trademarks will be borne by the Licensee. Granting of the right to use the said trademarks is subject to state registration with the Federal Service on Intellectual Property. Failure to comply with the state registration requirement will render the granting of the right to use the trademarks by the Licensee invalid. The Licensee's right to use the trademarks arises from the moment the Agreement becomes effective. The Agreement enters into force from the date of signing and will remain valid for a term of five years.
1. Transaction No.	13
2.1. Price (amount in USD)	USD 234,942.33
2.2. Price (amount in RUB)	RUB 16,500,000
3. Names of parties	PJSC "LUKOIL" (Company) International Association of Trade Union Organisations of OAO "LUKOIL" (Association)
4. Names of beneficiaries	-
5. Name of transaction	Donation agreement (hereinafter the "Agreement").
6. Subject of the transaction	Pursuant to the Agreement the Company undertakes to transfer a donation to the Association to organize and run the 3 <sup>rd</sup> Young Professionals' Forum of LUKOIL Group organisations from 24 to 27 April 2016 at Snegiry Recreational Complex in the Moscow Region in accordance with its Budget of Expenses (Annex 1 to the Agreement). The amount of the donation will be RUB 16,500,000.
7. Interested parties	Sergei Petrovich Kukura, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of OAO "LUKOIL". Ivan Alexeevich Maslyaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of OAO "LUKOIL". Anatoly Alexeevich Moskalenko, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of OAO "LUKOIL".
8. Other material terms of the transaction	The Company has the right to exercise control over the use of the funds transferred. The Association undertakes to provide the Company with a report on the use of transferred funds by 31 July 2016. If funds are used for purposes other than the designated purpose, the Association undertakes to return the amount received within 10 days from the date it receives the Company's demand for repayment of previously transferred funds. The Agreement enters into force from the time of its signing, and shall remain in effect until the Parties perform their obligations in full.


1. Transaction No.	14
2.1. Price (amount in USD)	USD 405,809.48
2.2. Price (amount in RUB)	RUB 28,500,000
3. Names of parties	PJSC "LUKOIL" (Company) International Association of Trade Union Organisations of OAO "LUKOIL" (Association)
4. Names of beneficiaries	-
5. Name of transaction	Donation agreement (hereinafter the "Agreement").
6. Subject of the transaction	Pursuant to the Agreement the Company undertakes to transfer a donation to the Association to organize and run the 6th Spartakiad (Sports Games) of LUKOIL Group employees from 20 to 23 June 2016 at LUKOIL-PERM facilities in Perm in accordance with its Budget of Expenses (Annex 1 to the Agreement). The amount of the donation will be RUB 28,500,000 (VAT-exempt).
7. Interested parties	Sergei Petrovich Kukura, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of OAO "LUKOIL". Ivan Alexeevich Maslyaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of OAO "LUKOIL". Anatoly Alexeevich Moskalenko, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of OAO "LUKOIL".
8. Other material terms of the transaction	The Company has the right to exercise control over the use of the funds transferred. The Association undertakes to provide the Company with a report on the use of transferred funds by 30 November 2016. If funds are used for purposes other than the designated purpose, the Association undertakes to return the amount received within 10 days from the date it receives the Company's demand for repayment of previously transferred funds. The Agreement enters into force from the time of its signing, and shall remain in effect until the Parties perform their obligations in full.
1. Transaction No.	15
2.1. Price (amount in USD)	USD 1,975.69 per month, plus VAT of USD 355.62
2.2. Price (amount in RUB)	RUB 139,443.90 per month, plus VAT of RUB 25,099.90
3. Names of parties	PJSC "LUKOIL" (Lessor) Independent non-profit organisation LUKOIL Athletic Club (Lessee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Agreement on the lease of non-residential premises No. 0610146 of 01.02.2006 (hereinafter the "Agreement").
6. Subject of the transaction	In accordance with the Agreement and the Supplemental Agreements thereto, the Lessor provides to the Lessee for temporary use the non-residential premises with a total area of 63.6 m <sup>2</sup> , located at the address: Pokrovsky bulvar 3, bldg. 1, Moscow. In accordance with the Supplemental Agreement to the Agreement: 1. Point 4.6 shall be added to the Agreement whereby the interest on the debt amount shall neither be charged nor paid ('interest on pecuniary obligations') for the term of use of the funds as stipulated in article 317.1 of the Civil Code of the Russian Federation. 2. From 01.02.2016, the lease fee will increase to 139,443.90 per month, plus VAT of RUB 25,099.90.
7. Interested parties	Evgeny Leonidovich Khavkin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Supervisory Board of the Independent non-profit organisation LUKOIL Athletic Club.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of its signing, and extends to the legal relations between the Parties arising from 01.02.2016, and with respect to point 1 - from 01.06.2015.
1. Transaction No.	16
2.1. Price (amount in USD)	No financial terms stipulated.
2.2. Price (amount in RUB)	No financial terms stipulated.
3. Names of parties	LLC Bashneft-Polus (Bashneft-Polus) PJSC "LUKOIL" (LUKOIL, Participant) PJSOC Bashneft (Bashneft, Participant)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Contract on the terms for financing by the Participants of the operations of Limited Liability Company Bashneft-Polus No. 1111116 dated 27 December 2011 (hereinafter the "Contract")
6. Subject of the transaction	The Contract determines the procedure and the terms of providing finance to Bashneft-Polus by the Participants and repayment by the former of the funds received. The financing required by Bashneft-Polus for its business operations shall be provided by the Participants by granting loans on the terms and conditions determined in accordance with the Contract, if not otherwise provided by a Unanimous Decision of the Participants. In accordance with the Supplemental Agreement to the Contract: - the terms 'Agreed rate' (p.1.1.54) and 'Financial Obligation' (p.1.1.69) shall be amended; - sub-point «a» of point 3.4.5 of the Contract shall be revised to amend the requirements for the Participant's total loan amount under the loan agreements; - point 5.2 of the Contract shall be set out in a revised version whereby Bashneft-Polus is obligated within three business days to initiate repayment of the current debt under the loan agreements, should the admissible balance is exceeded by over RUB 1,000,000; - point 6.3.2 of the Contract shall be revised to change the payment procedure for the interest due under the loan agreements Bashneft-Polus is to follow; - amendments shall be made to Appendix No. 1 «Form of the Participant's Loan Agreement», «Form of the Designated Borrower's Loan Agreement» and Appendix No. 4 «Form of the Pooling Agreement» to the Contract.
7. Interested parties	Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of LLC Bashneft-Polus.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of its signing by the authorized representatives of the Parties, extends to the legal relations between the Parties arising from 01.06.2015 and remains in effect throughout the term of the Contract (during the entire term of existence of Bashneft-Polus, if the Contract is not terminated early by the Parties in accordance with a Unanimous Decision of the Participants).

1. Transaction No.	17
2.1. Price (amount in USD)	The approximate value of the transaction is USD 409,778,154.59, including loan interest accrued.
2.2. Price (amount in RUB)	The approximate value of the transaction is RUB 29,000,000,000, including loan interest accrued.
3. Names of parties	PJSC "LUKOIL" (Lender) LLC Bashneft-Polus (Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Loan agreement № 1210022 of 19.01.2012 (hereinafter the "Agreement").
6. Subject of the transaction	<p>The Lender will provide monetary funds to the Borrower in an amount of up to RUB 19,171,000,000, pursuant to the terms of the Agreement and the Supplemental Agreements thereto, and in accordance with the conditions and rules established by the Contract on the terms for financing by the Participants of the operations of Limited Liability Company Bashneft-Polus No. 1111116 dated 27 December 2011 (hereinafter the "Contract"), concluded between the Borrower, the Lender and Public Joint Stock Oil Company Bashneft (which is the second participant in LLC Bashneft-Polus), on conditions of repayment, interest payment, maturity and targeted use. The Borrower undertakes to use the monetary funds received for their targeted purpose, and to repay the amount of the loan received to the Lender and to pay the interest accrued thereon by the dates and according to the procedure established by the Agreement and Contract.</p> <p>In accordance with the Supplemental Agreement to the Agreement:</p> <ol style="list-style-type: none"> <li>Point 2.1 of the Agreement shall be set out in a revised version whereby the funds will be granted on a revolving basis, with the total amount of debt determined as the amount in excess of the total amount of the Tranches actually provided over the amount of payments made by the Borrower to repay the Tranches granted thereto (the Debt) at any moment during the effective term of the Agreement may not exceed RUB 19,171,000,000.</li> <li>from 01.01.2016 interest rate under the Agreement shall be revised and point 3.1 of the Agreement shall be set out in a revised version whereby interest will be calculated at a rate equaling a product of the RF Central Bank key rate and the coefficient of 0.76.</li> <li>Point 3.2 of the Agreement shall be set out in a revised version whereby interest shall be accrued on the actual amount of Debt from the date the loan is granted to the date the entire loan is repaid by the Borrower to the Lender.</li> <li>Point 3.4 of the Agreement shall be set out in a revised version whereby interest shall be accrued on the actual amount of Debt daily As of the start of the day.</li> <li>Point 3.5 of the Agreement shall be set out in a revised version changing the procedure of payment for accrued interest under the Agreement.</li> <li>A provision on non-applicability of the norm of point 1 Article 317.1 of the RF Civil Code to legal relations between the Parties that have not been regulated by the terms of the Agreement and (or) the Contract shall be added to point 8.1 of the Agreement.</li> </ol>
7. Interested parties	Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of LLC Bashneft-Polus.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of its signing by the authorized representatives of the Parties and extends to the relations between the Parties arising from 01.06.2015, and with respect to point 2 - from 01.01.2016.
1. Transaction No.	18
2.1. Price (amount in USD)	The approximate value of the transaction is up to USD 14,978,098.06, including loan interest accrued.
2.2. Price (amount in RUB)	The approximate value of the transaction is up to RUB 1,060,000, including loan interest accrued.
3. Names of parties	LLC Bashneft-Polus (Lender) PJSC "LUKOIL" (Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Loan agreement № 1210123 of 01.03.2012 (hereinafter the "Agreement").
6. Subject of the transaction	<p>In accordance with the Agreement and the conditions and rules established by the Contract on the terms for financing by the Participants of the operations of Limited Liability Company Bashneft-Polus No. 1111116 dated 27 December 2011 (hereinafter the "Contract"), concluded between the Borrower, the Lender and Public Joint Stock Oil Company Bashneft (which is the second participant in LLC Bashneft-Polus), the Lender provides the Borrower with a revolving special-purpose loan in lump sum or in instalments (Tranches), whereby the total amount of debt determined as the amount in excess of the total amount of the Tranches actually provided over the amount of payments made by the Borrower to repay the Tranches granted thereto (the Debt) at any moment during the effective term of the Agreement may not exceed RUB 1,000,000,000, while the Borrower undertakes to repay the funds received and pay interest thereon within the deadlines and in accordance with the procedure stipulated in the Agreement.</p> <p>In accordance with the Supplemental Agreement to the Agreement:</p> <ol style="list-style-type: none"> <li>from 01.01.2016 the interest rate under the Agreement shall be revised and point 6.1 of the Agreement shall be set out in a revised version whereby interest will be calculated at a rate equaling a product of the RF Central Bank key rate and the coefficient of 0.76.</li> <li>Point 6.2 of the Agreement shall be set out in a revised version whereby interest will be charged on each Tranche from the day following the day when the Tranche was granted.</li> <li>Point 6.3 of the Agreement shall be set out in a revised version whereby interest will be charged on each part of the Debt repaid by the Borrower within the period ending on the day when the Borrower repays such part of the Debt to the Lender.</li> <li>A provision on non-applicability of the norm of point 1 Article 317.1 of the RF Civil Code to legal relations between the Parties that have not been regulated by the terms of the Agreement and (or) the Contract shall be added to point 12.3 of the Agreement.</li> <li>Article 15 of the Agreement «Addressed and Details of the Parties» shall be set out in a revised version.</li> </ol>
7. Interested parties	Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of LLC Bashneft-Polus.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of its signing by the authorized representatives of the Parties and extends to the legal relations between the Parties arising from 01.06.2015, and with respect to points 1 and 5 - from 01.01.2016



1. Transaction No.	19
2.1. Price (amount in USD)	USD 299,402.18 per month, plus VAT of USD 53,892.39 per month
2.2. Price (amount in RUB)	RUB 20,479,108.83 per month, plus VAT of RUB 3,686,239.59 per month
3. Names of parties	RITEK (Sub-Lessee) PJSC "LUKOIL" (Lessee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Sub-Lease Agreement No.1310855 of 30 December 2013 (hereinafter the "Agreement").
6. Subject of the transaction	In accordance with the Agreement, the Lessee provides to the Sub-Lessee for temporary use the non-residential premises with a total area of 6,639.3 m2, located in the building at the address: 3 Bolshaya Ordynka, Moscow. The outline of the premises is given in floor plans (Appendix 1) to the Agreement. In accordance with the Supplemental Agreement to the Agreement: - on 29.02.2016 the Sub-Lessee returned the Lessee a part of the leased premises located in Premise V of 63.1 m2 on the building's second floor; - from 01.03.2016, the total floor space of the sub-leased premises shall be 6,576.2 m2; - from 01.03.2016, the lease payment for the sub-leased premises shall be RUB 20,479,108.83 per month, plus VAT of RUB 3 686 239.59. From 01.03.2016 the total lease payment under the Agreement shall be RUB 24,165,348.42 per month.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing and extends to the legal relations between the parties in effect since 29.02.2016.
1. Transaction No.	20
2.1. Price (amount in USD)	USD 1,151.66 per month, plus VAT of USD 207.29
2.2. Price (amount in RUB)	RUB 78,773.52 per month, plus VAT of RUB 14,179.23 рублей.
3. Names of parties	PJSC "LUKOIL" (Lessor) Non-Profit Organisation LUKOIL Charitable Foundation (Lessee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Agreement on the lease of non-residential premises No. 0710169 of 16.03.2007 (hereinafter the "Agreement").
6. Subject of the transaction	In accordance with the Agreement the Lessor provides to the Lessee for temporary use the non-residential premises (rooms No. 16 and 17) with a total area of 34.2 m2, located in Premise No.1 on the fourth floor of Building B at the address: Sretensky bulvar 11, Moscow. In accordance with the Supplemental Agreement to the Agreement, 1. From 01.06.2016, the lease fee will increase to RUB 78,773.52 per month, plus VAT of RUB 14,179.23. The total lease payment under the Agreement will be RUB 92,952.75 per month including VAT. 2. Point 4.7 will be added to the Agreement whereby interest on the principal amount (interest on debt) for the period of use of the funds stipulated in Article 317.1 of the Civil Code of the Russian Federation shall be neither accrued nor paid.
7. Interested parties	Vagit Yusufovich Alekperov, President, Chairman of the Management Committee, and member of the Board of Directors of PJSC "LUKOIL", is the brother of Nelli Yusufovna Alekperov, a member of the Foundation Board. Anatoly Alexeevich Moskalenko, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Foundation Board. Alexander Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Foundation Board. Lyubov Nikolaevna Khoba, a member of the Management Committee of PJSC "LUKOIL", is the spouse of Alexander Kuzmich Matytsyn, a member of the Foundation Board.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing, and with regard to point 2, it will extend to the legal relations of the Parties in effect since 01.06.2015.
1. Transaction No.	21
2.1. Price (amount in USD)	The quarterly cost of services is USD 654,770.06, plus VAT of USD 117,855.61
2.2. Price (amount in RUB)	The quarterly cost of services is RUB 44,786,272, plus VAT of RUB 8,061,528.96
3. Names of parties	PJSC "LUKOIL" (Contractor) PJSC RITEK (Client)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Comprehensive Services Contract No. 0811161/09W0017 of 25 December 2008 (hereinafter the "Contract").
6. Subject of the transaction	In accordance with the Contract, the Contractor undertakes, following the procedure and on the terms stipulated by the Contract, to provide the Client with services on coordinating commercial, production and other types of operations of the Client, and the Client undertakes to promptly provide the Contractor with all information and documents necessary to provide the given services, and also to accept the services provided and pay the Contractor the established compensation. In accordance with the Supplemental Agreement to the Contract: - Article 3.1 of the Contract shall be revised to stipulate that from 01.01.2016 the cost of services under the Contract for the period of provision of services shall be determined in the Acts on the provision of services for the same period. The cost for the services provided shall be issued by the Contractor together with the VAT invoice; - from 01.04.2016, a new section on services provided to the Client by the Contractor's Power Generation Block shall be added to the list of services associated with provision, due organization and coordination of commercial, production and other types of operations of the Client to be provided under the Contract (Appendix 1 to the Contract); - Article 9 «Legal addresses and Banking details» of the Contract is being updated with respect of the Client's location from 1 2.02.2016.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	All other terms remain unchanged.

1. Transaction No.	22
2.1. Price (amount in USD)	The approximate amount of the commission fee is USD 284,406.70.
2.2. Price (amount in RUB)	The approximate amount of the commission fee is RUB 18,540,000.
3. Names of parties	RITEK (Principal) PJSC "LUKOIL" (Commission Agent)
4. Names of beneficiaries	-
5. Name of transaction	Commission Agreement (hereinafter the "Agreement").
6. Subject of the transaction	In accordance with the Agreement, the Commission Agent undertakes for a fee and on the instructions of the Principal to carry out transactions on the sale on the external market of the Principal's oil (hereinafter the "Commodity"), in its own name and at the expense of the Principal, on terms of FOB Kamenny (Obskaya Guba) and/or FOB Murmansk.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The amount of the commission fee payable by the Principal to the Agent is RUB 180 for each net tonne of the commodity sold to the Buyer, plus VAT at the rate of 18% of the amount of the commission fee. Prior to loading the Agent shall coordinate with the Principal the terms of the export contract, including the terms of loading tankers, laytime, time of presentation of tankers for loading, expected arrival time for tankers, dead freight, demurrage, quality and quantity of the commodity. The Principal must compensate the Commission Agent for all expenses related to the sale of the Principal's commodity in accordance with the terms agreed upon in the Contract. The Agreement enters into force from the time of its signing and will remain in force until 30 June 2017, and as regards mutual settlements – until they have been completed in full.
1. Transaction No.	23
2.1. Price (amount in USD)	USD 29,719.85 per month, plus VAT of USD 5,349.57
2.2. Price (amount in RUB)	RUB 1,971,317.87 per month, plus VAT of RUB 354,837.23
3. Names of parties	PJSC "LUKOIL" (Lessee) RITEK (Sub-Lessee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Sub-Lease Agreement No.1410186 of 17 April 2014 (hereinafter the "Agreement").
6. Subject of the transaction	In accordance with the Agreement, the Lessee provides to the Sub-lessee for the temporary use of the non-residential premises in the building at the address: 1 ulitsa Bolshaya Ordynka, Moscow, including office premises with a total area of 321.3 m <sup>2</sup> , and public catering premises with a total area of 618.9 m <sup>2</sup> (hereinafter the "Premises"), specifically: - Rooms No. 12, 13, 14, 14a, 15, 16, 17, 18, and 19, located in Premises IX on the second floor (Premises 1); - Rooms No. 22, 23, and 26-42, located in Premises III on the semi-basement (Ts) floor (Premises 2). In accordance with the Supplemental Agreement to the Agreement: - from 02.04.2016 the Lessee transfers to the Sub-Lessee a garage with five car parking units with a total area of 191.0 m <sup>2</sup> , Premises 1 on the floor P located in the building at the address: 1 ulitsa Bolshaya Ordynka, Moscow, in accordance with the Technical Inventory Bureau passport; - point 3.1 of the Agreement shall be revised to stipulate that from 02.04.2016 the Sub-Lessee undertakes to pay the Lessee as follows: for the use of Premises 1 - lease payment of RUB 57,878.81 per m <sup>2</sup> of the total floor space per year, plus VAT of RUB10,418.19, in aggregate - RUB1,549,705.14 per month, plus VAT of RUB278,946.93; for the use of Premises 2 – lease payment of RUB 6,584.75 per m <sup>2</sup> of the total floor space per year, plus VAT of RUB 1,185.26, in aggregate - RUB 339, 608.48 per month, plus VAT of RUB 61,129.53 ; for the use of five car parking units - lease payment of RUB 16,400.85 per car parking unit per month, plus VAT of RUB 2,952.15, in aggregate - RUB 82,004.25 per month, plus VAT of RUB 14,760.77; - from 02.04.2016 the total lease payment for the use of all Premises under the Agreement will be RUB 1,971,317.87 per month, plus VAT of RUB 354,837.23, in aggregate - RUB 2,326,155.10 per month (including VAT).
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	All other terms remain unchanged. The Supplemental Agreement enters into force from the date of signing and extends to the legal relations between the parties in effect since 02.04.2016.

1. Transaction No.	24
2.1. Price (amount in USD)	USD 2,500
2.2. Price (amount in RUB)	RUB 162,675
3. Names of parties	PJSC "LUKOIL" (Licensor) LUKOIL Lubricants Europe GmbH (Licensee)
4. Names of beneficiaries	-
5. Name of transaction	License Agreement on the provision of a non-exclusive license to use the trademarks (hereinafter the "Agreement").
6. Subject of the transaction	The Licensor provides to the Licensee, for a fee and for the effective term of the Agreement, a non-exclusive license to use the trademarks of PJSC "LUKOIL" on the territory of the European Union issued in accordance with Certificates Nos. 691220, with priority right of 6 November 1997, Nos.699471 and 699736 with priority right of 13 May 1998, Nos. 982861, 979101, 978890, 989522, 983059, 983047, 978888 with priority right of 6 March 2008, Nos.1049231, 1045344 with priority right of 29 December 2009, Nos.999217, 999218, 999274, 999291 with priority right of 9 September 2008, issued by the International Bureau of World Intellectual Property Organization, to use by the Licensee with the following products of Class 4 of the International Classification of Goods and Services (ICGS) «industrial oil, industrial grease; lubricating oil; motor oils; greases; lubricants»; in accordance with Certificates Nos.678644, 681461, 678637 with priority right of 12 May 1997 issued by the International Bureau of World Intellectual Property Organization to use by the Licensee with the following products of Class 01 ICGS «chemical preparations for industrial and scientific purposes», and Class 35 ICGS «advertisement; marketing». The Licensee's right to use trademarks shall arise from the time the Agreement enters into force.
7. Interested parties	Anatoly Alekseevich Moskalenko, a member of the Management Committee of PJSC "LUKOIL", is the father of Aleksei Anatolievich Moskalenko, Managing Director of LUKOIL Lubricants Europe GmbH.
8. Other material terms of the transaction	The Licensee has the right to use the trademark  only in an integrated combination with the verbal trademark "LUKOIL" or LUKOIL. An integrated combination is deemed to be a composition where all signs are optically clear and recognizable and are in visual proximity on each and every object. The license fee for the entire term of the Agreement is USD 2,500. In accordance with sub-point 1 of point 1 of Article 146 and sub-point 4 of point 1.1 of Article 148 of the Tax Code of the Russian Federation, provision of a non-exclusive license to use the trademarks outside Russian Federation is not subject to VAT. The fee shall be paid by the Licensee in US dollars in a lump sum not later than 30 (thirty) calendar days from the date the invoice is issued by the Licensor. The Agreement is entered into for five (5) years provided the Licensor extends the validity of the trademarks indicated in Section 1 of the Agreement. The Agreement shall enter into force for the Parties from the day of signing, and for third parties – from the date an entry is made on the non-exclusive license to use trademarks in the International Trademark Register of the International Bureau of the World Intellectual Property Organization. The Licensor undertakes to extend the validity of certificates to trademarks indicated in the Agreement and ensure that the entry is made on the non-exclusive license for the use of trademarks with the International Bureau of World Intellectual Property Organization, and extend the entry on the non-exclusive license after the validity of trademarks certificates is extended.

1. Transaction No.	25
2.1. Price (amount in USD)	The approximate value of the transaction is ca. USD 455,996,352.03, including loan interest.
2.2. Price (amount in RUB)	The approximate value of the transaction is ca. RUB 30,000,000,000, including loan interest.
3. Names of parties	PJSC "LUKOIL" (Lender) 000 Bashneft-Polus (Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Loan Agreement № 1210022 or 19.01.2012 (hereinafter the "Agreement").
6. Subject of the transaction	The Lender will provide monetary funds to the Borrower in an amount of up to RUB 19,171,000,000, pursuant to the terms of the Agreement and Supplemental Agreements thereto and in accordance with the conditions and rules established by the Contract on the terms for financing by the Participants of the operations of 000 Bashneft-Polus No. 1111116 dated 27 December 2011 (hereinafter the "Contract"), concluded between the Borrower, the Lender and Public Joint Stock Oil Company Bashneft (the second participant in 000 Bashneft-Polus), on conditions of repayment, interest payment, maturity and targeted use. The Borrower undertakes to use the monetary funds received for their targeted purpose, and to repay the amount of the loan received to the Lender and to pay the interest accrued thereon by the dates and according to the procedure established by the Agreement and Contract. In accordance with the Supplemental Agreement to the Loan Agreement, point 2.1 of the Agreement is set out in a new version stipulating an increase of the loan amount to RUB 21,180,000,000.
7. Interested parties	Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of 000 Bashneft-Polus
8. Other material terms of the transaction	The Supplemental Agreement will enter into force on its signing by the Parties' authorised representatives.

1. Transaction No.	26
2.1. Price (amount in USD)	No financial terms stipulated.
2.2. Price (amount in RUB)	No financial terms stipulated.
3. Names of parties	PJSC "LUKOIL" (Company) International Association of Trade Union Organisations of PJSC "LUKOIL" (Association)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Uncompensated/Gratuitous Use Contract No. 0310992 of 27.07.2003 (hereinafter the 'Contract').

6. Subject of the transaction	<p>Pursuant to the Contract and Supplemental Agreements thereto and in execution of point 9.1.1 of the Agreement between the Employer and the Trade Union Association of OAO "LUKOIL" for 2015-2017, the Company provides the office equipment, furniture and other office devices (hereinafter the 'Property') on the Company's balance sheet for the gratuitous use of the Association in accordance with the List of Items (Appendix 1) making an integral part of the Contract, in condition suitable for appropriate use.</p> <p>In accordance with the Supplemental Agreement to the Contract:</p> <ul style="list-style-type: none"> <li>- on 30 June 2016 the Association will transfer and the Company shall accept the Property (a laptop), under a transfer and acceptance certificate, earlier given for the gratuitous use of the Association;</li> <li>- on 01 July 2016 the Company will transfer additional Property (a desktop computer) to the Association for the gratuitous use under a transfer and acceptance certificate;</li> <li>- from 01 July 2016 the total value of the Property transferred to the Association under the Contract will be RUB 7,562,768.53.</li> </ul>
7. Interested parties	<p>Sergei Petrovich Kukura, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL".</p> <p>Ivan Alexeevich Maslyayev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL".</p> <p>Anatoly Alexeevich Moskalenko, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL".</p>
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing.
1. Transaction No.	27
2.1. Price (amount in USD)	Approximately not more than USD 618,665,842.64, including the interest accrued.
2.2. Price (amount in RUB)	Approximately not more than RUB 39,959,626,775.96, including the interest accrued.
3. Names of parties	RITEK (Lender) PJSC "LUKOIL" (Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Loan Agreement (hereinafter the 'Agreement').
6. Subject of the transaction	In accordance with the Agreement, 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 38,000,000,000 (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.
7. Interested parties	<p>Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK.</p> <p>Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.</p>
8. Other material terms of the transaction	<p>The revolving loan is granted through 31.12.2016, with an early repayment option on the Lender's request, while the total amount of debt may not exceed RUB 38,000,000,000 at any time during the effective term of the Agreement.</p> <p>If on 30 December of a current year none of the Parties states in writing otherwise, the loan's maturity shall be extended to 31 December of the following calendar year.</p> <p>The Borrower undertakes to pay the Lender an interest determined and calculated by the Lender in accordance with the <i>Marketing Policy for determining interest rates on loans between OAO "LUKOIL" and the Russian organisations of the LUKOIL Group</i> approved by decision of the Management Committee of OAO "LUKOIL" dated 30 August 2006 (Minutes No. 26), with subsequent amendments and addenda, for on-call loans. The Borrower shall be notified by the Lender in writing of any changes to the interest rate for the next interest period. The Borrower's written notice sent to the Lender shall be an integral part of the Agreement.</p> <p>Interest accrued shall be payable by the Borrower monthly from the date the loan is granted to the date of the loan maturity within five business days after the end of the month.</p> <p>The Agreement enters into force from the moment the funds are wire-transferred to the Borrower and shall lose effect after the Parties perform their obligations in full.</p>
1. Transaction No.	28
2.1. Price (amount in USD)	PJSC LUKOIL's guarantee shall be issued in the amount of credit line not exceeding USD 33,000,000.
2.2. Price (amount in RUB)	PJSC LUKOIL's guarantee shall be issued in the amount of credit line not exceeding RUB 2,090,550,000.
3. Names of parties	PJSC LUKOIL (Guarantor) ING Bank N.V. (Amsterdam, the Netherlands), acting via its branch ING Bank N.V., Amsterdam-Bucharest Branch in Bucharest, Romania (Creditor)
4. Names of beneficiaries	PETROTEL- LUKOIL S.A. (Borrower)
5. Name of transaction	Supplemental Agreement No. 3 to Surety Agreement No. 1410154 as of 19 March 2014 (hereinafter - the Agreement).
6. Subject of the transaction	<p>In accordance with the Agreement and Supplemental Agreements No.No.1 and 2 hereto, the Guarantor shall be obliged towards the Creditor to assume jointly with the Borrower the full responsibility for Borrower's fulfillment of all or a portion of its obligations towards the Creditor under Credit Agreement No. 14322 of 06 March 2014 as subsequently amended (hereinafter - the Credit Agreement) in the amount of the credit line not exceeding USD 33,000,000 granted as a collateral for Conditional obligations (guarantees, documentary letters of credit, bill endorsement), with a tenure not exceeding one year, as well as interests, losses and other documented expenses to be reimbursed by the Borrower to the Creditor under financial documents (secured obligations).</p> <p>Under Supplemental Agreement No. 3 hereto the Guarantor shall give its consent to making amendments to the Credit agreement according to which the Creditor and the Borrower agreed that notwithstanding all other terms of the Credit agreement and as an exception hereto, at the Borrower's request the Creditor shall extend the tenure of the bank guarantee in the amount of 514,551.76 Romanian leus issued on July 4, 2016 in favor of ANPM (Agentia Nationala Pentru Protectia Mediului) under No. GI-16/2845 until 2 July 2018.</p>
7. Interested parties	Vadim Nikolaevich Vorobyov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of PETROTEL-LUKOIL S.A.
8. Other material terms of the transaction	The Supplemental Agreement and any related non-contractual obligations shall be governed by the English law.

1. Transaction No.	29
2.1. Price (amount in USD)	No financial terms provided for.
2.2. Price (amount in RUB)	No financial terms provided for.
3. Names of parties	PJSC "LUKOIL" (Company) International Association of Trade Union Organisations of PJSC "LUKOIL" (Association)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Uncompensated/Gratuitous Use Contract No. 0310992 of 27.07.2003 (hereinafter the 'Contract').
6. Subject of the transaction	Pursuant to the Contract and Supplemental Agreements thereto and in execution of point 9.1.1 of the Agreement between the Employer and the Trade Union Association of OAO "LUKOIL" for 2015-2017, the Company provides the office equipment, furniture and other office devices (hereinafter the 'Property') on the Company's balance sheet for the gratuitous use of the Association in accordance with the List of Items (Appendix 1) making an integral part of the Contract, in condition suitable for appropriate use. In accordance with the Supplemental Agreement to the Contract: - On 31 August 2016, the Association shall hand over, while the Company shall accept under the transfer and acceptance certificate the Property formerly provided to the Association through grant; - starting from 01 September 2016, the total cost of the Property handed over to the Association under the Contract shall come to RUB 7,225,538.04
7. Interested parties	Sergei Petrovich Kukura, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL". Ivan Alexeevich Maslyayev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL". Anatoly Alexeevich Moskalenko, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL".
8. Other material terms of the transaction	The Supplemental Agreement hereto shall come into effect on the day it was signed.
1. Transaction No.	30
2.1. Price (amount in USD)	USD 23,800.84 per month, plus VAT in the amount of USD 4,284.15.
2.2. Price (amount in RUB)	RUB 1,542,532.35 per month, plus VAT in the amount of RUB 277,655.83
3. Names of parties	PJSC LUKOIL (Lessee) AO RITEK (Sub-Lessee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Sub-lease Agreement No.1410186 of 17.04.2014 (hereinafter the "Agreement").
6. Subject of the transaction	Under the Agreement and Supplemental Agreement hereto the Lessees shall hand over the Sub-Lessee on a loan basis the non-residential premises at the address: 1, B. Ordynka St., Moscow, specifically: 1. Office premises with a total area of 321.3 sq. m. (Rooms No. 12, 13, 14, 14a, 15, 16, 17, 18, 19, located in Premises IX, floor 2 (hereinafter – Premises 1); 2. Public catering premises with a total area of 618.9 sq. m (rooms No. 22, 23, 26-42, located in Premises III, floor Ts (hereinafter – Premises 2); 3. Garage premises accommodating 5 parking stalls with a total area of 191.0 sq. m. located in Premises I, floor P (hereinafter – Premises 3). In accordance with Supplemental Agreement hereto: - starting from August 01, 2016 the Sub-Lessee shall hand over, while the Lessee shall accept under the transfer and acceptance certificate a portion of Premises 1 with a total area of 88.9 sq. m, specifically rooms No. 14, 14a, 15, 16; - Cl. 3.1 hereof shall be amended and restated to be read as follows: starting from August 02, 2016 the Sub-Lessee shall pay to the Lessee the following sums: Premises 1 with a total area of 232.4 sq. m. - rental payments in the amount of RUB 57, 878.81 per 1 sq. m. of a total area per year, plus VAT in the amount of RUB 10,418.19 - totally due for payment: RUB 1,120,919.62 per month, plus VAT in the amount of RUB 201,765.53; Premises 2 with a total area of 618.9 sq. m. – rental payments in the amount of RUB 6,584.75 per 1 sq. m. of a total area per year, plus VAT in the amount of RUB 1,185.26 - totally due for payment - RUB 339,608.48 per month, plus VAT in the amount of RUB 61,129.53; 5 parking stalls - rental payments in the amount of RUB 16,400.85 for 1 parking stall per month, plus VAT in the amount of RUB 2,952.15 - totally due for payment RUB 82,004.24 per month, plus VAT in the amount of RUB 14,760.77. - starting from August 02, 2016 the total amount of rental payments for all the Premises hereunder shall come to RUB 1,542,532.35 per month, plus VAT in the amount of RUB 277,655.83. Totally due for payment per month - RUB 1,820,188.18 (inclusive of VAT).
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The Supplemental Agreement shall come into effect from the day it was signed and shall apply to the relations of the Parties arising from August 01, 2016.
1. Transaction No.	31
2.1. Price (amount in USD)	USD 894,601.
2.2. Price (amount in RUB)	RUB 58,104,270.
3. Names of parties	PJSC "LUKOIL" (Licensor) IOOO LUKOIL Belorussia (Licensee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to License Agreement No.1410704 of 10.10.2014 (hereinafter the "Agreement")

6. Subject of the transaction	<p>Pursuant to the Agreement, the Licensor provides to the Licensee, for a fee and for the effective term of the Agreement, a non-exclusive license to use on the territory of the Republic of Belarus the trademarks of PJSC "LUKOIL" produced in accordance with certificates issued by the International Bureau of World Intellectual Property Organization.</p> <p>In accordance with the Supplemental Agreement to the Agreement:</p> <ol style="list-style-type: none"> <li>Under sub-point 2.1.7.1 of the Agreement, the Parties shall agree on the adjusted address list of the Properties where the Licensor's trademarks are in use as of January 01, 2016, in accordance to Annex No. 1 to the Supplemental Agreement;</li> <li>The amount of the 2016 fee calculated according to the formula specified in point 7.1 of the Agreement based on the adjusted address list of the Properties comes to USD 894,601;</li> <li>Paragraph one, sub-point 2.1.18, section 2, Obligations of the Parties hereof, shall be redrafted, which provides for the Licensee's obligation in case it retains tax on the income of foreign organizations during the payment of remuneration, as well as the payment of penalties and fines, to provide the necessary documents to the Licensor for offset the tax retained on the income of foreign organizations in accordance with the legislation of the Republic of Belarus in the Russian Federation;</li> <li>Section 6, Liability of the Parties hereof, shall be supplemented with point 6.11, according to which the Licensee upon payment of fines and penalties to the Licensor must withhold tax on the income of foreign organizations at the rate of 15%, provided for by the legislation of the Republic of Belarus on taxes and duties, in accordance with the Agreement between the Government of the Russian Federation and the Government of the Republic of Belarus on the avoidance of double taxation and prevention of fiscal evasion with respect to income and property taxes as of 21 April 1995;</li> <li>Section 12 of the Agreement «Legal Addresses and Banking Details» will be set out in a new version.</li> </ol>
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of IOOO LUKOIL Belorussia.
8. Other material terms of the transaction	All other terms remain unchanged.
1. Transaction No.	32
2.1. Price (amount in USD)	Credit line of USD 7,000,000 plus Bank fee of up to USD 352,013.69
2.2. Price (amount in RUB)	Credit line of RUB 450,380,000 plus Bank fee of up to RUB 22,648,555.02
3. Names of parties	PJSC «LUKOIL» (Guarantor) SOCIETE GENERALE BANKA SRBIJA a.d. Beograd (Lender)
4. Names of beneficiaries	LUKOIL SRBIJA AD BEOGRAD (Borrower)
5. Name of transaction	AMENDMENT DEED NO.7 TO THE DEED OF GUARANTEE No. 0910643 dated 03.09.2009 (Deed of Guarantee).
6. Subject of the transaction	<p>Under the Deed of Guarantee and the Amendment Deeds thereto, the Guarantor unconditionally and irrevocably guarantees the Lender fulfilment of all of the obligations undertaken by the Borrower under the Facility Agreement signed between the Lender and the Borrower on 02.09.2009 (Facility Agreement), for the amount not exceeding USD 5,000,000 plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable by the Borrower under the Facility Agreement.</p> <p>In accordance with the Amendment Deed to the Deed of Guarantee:</p> <ul style="list-style-type: none"> <li>the Guarantor's liabilities under the Deed of Guarantee are confirmed in full and the Deed of Guarantee is confirmed to remain in full force and effect in connection with extension of the validity of the Facility Agreement to 23 September 2019;</li> <li>The Guarantor's liability under the Deed of Guarantee shall be limited to a principal amount of USD 7,000,000 plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable under the Facility Agreement.</li> </ul>
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of LUKOIL SRBIJA AD BEOGRAD.
8. Other material terms of the transaction	Amendment Deed and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.
1. Transaction No.	33
2.1. Price (amount in USD)	Credit line of USD 7,000,000 plus Bank fee of up to USD 352,013.69; Guarantor's fee of USD 24,063.94 plus VAT of USD 4,331.51.
2.2. Price (amount in RUB)	Credit line of RUB 450,380,000 plus Bank fee of up to RUB 22,648,555.02; Guarantor's fee of RUB 1,548,273.9 plus VAT of RUB 278,689.35.
3. Names of parties	PJSC «LUKOIL» (Guarantor) LUKOIL SRBIJA AD BEOGRAD (Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Contract of Indemnification No.0910579 of 03.09.2009 (hereinafter the "Contract").
6. Subject of the transaction	<p>In accordance with the Contract and the Supplemental Agreements thereto, the Parties have agreed to deem the amount paid by the Guarantor to SOCIETE GENERALE BANKA SRBIJA A.D. Beograd (Lender) in fulfillment of obligations under the Guarantee between the Guarantor and the Lender issued as guarantee for meeting the Borrower's liabilities under the Credit Facility dated 02.09.2009 worth USD 5,000,000, plus interest, penalties, fines and other amounts due and payable (the Guarantee) as the amount payable by the Borrower 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>In connection with the increase of the Guarantor's liabilities to USD 7,000,000 and extension of the validity of the Deed of Guarantee dated 03.09.2009 performed under Amendment Deed No.7 to the Deed of Guarantee, the Borrower undertakes to pay, within 180 calendar days from the date the Supplemental Agreement is signed, Guarantor's fee of USD 24,063.94 plus VAT of USD 4,331.51. The Guarantor's fee shall be paid by the Borrower against the invoice issued by the Guarantor.</p>
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of LUKOIL SRBIJA AD BEOGRAD.
8. Other material terms of the transaction	The Guarantor's banking details are being updated. The Supplemental Agreement enters into force from the date of signing by the Parties.
1. Transaction No.	34
2.1. Price (amount in USD)	Credit line of USD 2,739,000, plus Bank fee of up to USD 13,695.
2.2. Price (amount in RUB)	Credit line of RUB 177,898,050, plus Bank fee of up to RUB 889,490.25.
3. Names of parties	PJSC "LUKOIL" (Guarantor) SOCIETE GENERALE BANKA SRBIJA a.d. Beograd (Lender)
4. Names of beneficiaries	LUKOIL SRBIJA AD BEOGRAD (Borrower)
5. Name of transaction	AMENDMENT DEED NO.9 TO THE DEED OF GUARANTEE No. 0810717 dated 20.08.2008 (Deed of Guarantee or Guarantee).

6. Subject of the transaction	Under the Deed of Guarantee and the Amendment Deeds thereto, the Guarantor unconditionally and irrevocably guarantees fulfilment by the Borrower of all of the obligations undertaken thereby under the Contract of Overdraft signed between the Lender and the Borrower on 20.08.2008 (Contract of Overdraft), for the amount not exceeding 300,000,000 Serbian dinars plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable by the Borrower under the Contract of Overdraft. In accordance with the Amendment Deed to the Deed of Guarantee: - the Guarantor's liabilities under the Deed of Guarantee are confirmed in full and the Deed of Guarantee is confirmed to remain in full force and effect in connection with extension of the validity of the Contract of Overdraft to 23 September 2017.
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of LUKOIL SRBIJA AD BEOGRAD.
8. Other material terms of the transaction	Amendment Deed and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.
1. Transaction No.	35
2.1. Price (amount in USD)	Credit line of USD 2,739,000, plus Bank fee of up to USD13,695; Guarantor's fee of USD21,827.09, plus VAT of USD3,928.88
2.2. Price (amount in RUB)	Credit line of RUB177,898,050, plus Bank fee of up to RUB889,490.25; Guarantor's fee of RUB 1,417,669.50, plus VAT of RUB255,180.67.
3. Names of parties	PJSC "LUKOIL" (Guarantor) LUKOIL SRBIJA AD BEOGRAD (Debtor)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Contract of Indemnification No.0810678 of 20.08.2008 (hereinafter the "Contract").
6. Subject of the transaction	In accordance with the Contract and the Supplemental Agreements thereto, the Parties have agreed to deem the amount paid by the Guarantor to SOCIETE GENERALE BANKA SRBIJA a.d. Beograd (Bank) in fulfillment of obligations under the Guarantee between the Guarantor and the Bank of 20.08.2008, issued as guarantee for meeting the Borrower's liabilities under Contract of Overdraft No.00/08 dated 20.08.2008 worth 300,000,000 Serbian dinars, plus interest, penalties, fines and other amounts due and payable (the Guarantee) as the amount payable by the Borrower 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. In connection with the extension of the Guarantee based on Amendment Deed No.9 to the Guarantee, the Debtor undertakes, within 180 calendar days from the date the Supplemental Agreement is signed, to pay the fee established in US dollars and calculated by the Guarantor proceeding from the amount of 2,379,898.85 Serbian dinars, plus VAT of 428,381.79 Serbian dinars, by re-calculating the Serbian dinars into US dollars at the official Serbian dinar to USD average exchange rate of the National Bank of Serbia as of the date the services on the extension of the Guarantee are provided and published on <a href="http://www.nbs.rs">www.nbs.rs</a> on the same date.
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of LUKOIL SRBIJA AD BEOGRAD.
8. Other material terms of the transaction	The Guarantor's fee shall be paid by the Borrower in US dollars against an invoice issued by the Guarantor. The Guarantor's details are being updated. The Supplemental Agreement enters into force from the date of signing by the Parties. Point 6.8 is being added to the Contract whereby no interest is calculated or paid under the Contract on the debt amount ("Interest on a Pecuniary Obligation") for the period of use of the funds provided, as stipulated by article 317.1 of the Civil Code of the Russian Federation. This condition shall apply to relations of the Parties for the period from 01.06.2015 to 01.08.2016.
1. Transaction No.	36
2.1. Price (amount in USD)	USD 16,000,000
2.2. Price (amount in RUB)	RUB 1,041,280,000
3. Names of parties	PJSC "LUKOIL" (Guarantor) Phillips 66 Company (Seller)
4. Names of beneficiaries	LUKOIL NORTH AMERICA LLC (Buyer)
5. Name of transaction	Amended And Restated Guarantee set out in version 3 (hereinafter, the "Guarantee").
6. Subject of the transaction	The Parties decided to amend and restate Guarantee No. 1310784 of 06.12.2013 setting it out in version 3 (the "Amended And Restated Guarantee"), whereby the Guarantor in favour of the Seller unconditionally and irrevocably guarantees timely fulfilment of the obligations undertaken by LUKOIL NORTH AMERICA LLC to the Seller according to the Light Oil Sales Agreement, Contract 358884 with amendments and addenda effective October 1, 2016 and expiring September 30, 2017, and other oil products sales contracts to be concluded prior to 30.09.2017 between the Buyer and the Seller (the "Sales Contracts"). The liability of the Guarantor under this Guarantee is limited to a total aggregate amount of \$16,000,000 plus all reasonable and documented out-of-pocket expenses of enforcing this Guarantee (including, but not limited to, legal service expenses, court expenses, administrations cost of execution of received order if necessary).
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL NORTH AMERICA LLC.
8. Other material terms of the transaction	This Guarantee shall be effective from the moment it is executed to November 30, 2017, with respect to all of the Buyer's payment obligations under the Sales Contracts. The Guarantor's liabilities shall expire if the Buyer completely fulfills its payment obligation to the Seller, provided that any written claims issued by the Seller stating that the Buyer has failed to meet its payment obligations must be received by the Guarantor not later than 30.11.2017. The Guarantor's obligations expire in the following circumstances (whichever is earlier): - if the Buyer performs its payment obligations to the Seller in full under the Sales Contracts; - if the Guarantor fulfills Buyer's payment obligations to the Seller; - and upon expiry of the Guaranty's validity. This Guaranty shall be governed by and construed in accordance with the laws of the State of New York, without reference to its conflicts of laws principle.
1. Transaction No.	37
2.1. Price (amount in USD)	USD 16,000,000 and the cost of the Guarantor's services of USD 48,000, plus VAT of USD 8,640.
2.2. Price (amount in RUB)	RUB 1,041,280,000 and the cost of the Guarantor's services of RUB 3,123,840, plus VAT of RUB 562,291.2.
3. Names of parties	PJSC "LUKOIL" (Guarantor) LUKOIL NORTH AMERICA LLC (Debtor)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Indemnity Contract No.1310786 of 06.12.2013 (hereinafter the "Contract").

6. Subject of the transaction	In connection with the third Amended and Restated Guaranty (Guaranty) signed on 06.12.2013 between the Guarantor and Phillips 66 Company (Seller) extending the Guaranty's validity, the Parties agree to amend the Contract as follows: - point 1.1 of the Contract shall be revised to stipulate that the Contract is entered into in connection with the Guaranty under which the Guarantor undertakes responsibility to the Seller for the due performance of obligations by the Debtor under the Light Oil Sales Agreement, Contract 358884 of 27.09.2013, with later amendments and addenda, and under oil products sales contracts to be concluded prior to 30.09.2017 between the Seller and the Buyer (the "Sales Contracts"), in a total aggregate amount not exceeding \$16,000,000, plus all reasonable and documented out-of-pocket expenses of enforcing this Guaranty (including legal service expenses, court expenses, administrations cost of execution of received order if necessary); - point 3.1 of the Contract shall be revised to restate the cost of the Guarantor's services from 0.6% to 0.3% per annum of the Debtor's debt to the Seller covered by the Guaranty arising under the Sales Contracts for each day of the reporting period, plus VAT in an amount established by the applicable Russian law; - point 6.8 is being added to article 6 of the Contract, whereby no interest is calculated or paid under the Contract on the debt amount ('Interest on a Pecuniary Obligation') for the period of use of the funds provided, as stipulated by article 317.1 of the Civil Code of the Russian Federation. This condition shall apply to relations between the Parties for the period from 01.06.2015 to 01.08.2016; - Article 14 of the Contract sets out the Guarantor's updated details.
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL NORTH AMERICA LLC.
8. Other material terms of the transaction	Other terms of the Contract remain unchanged. The Supplemental Agreement enters into force from the date of signing by the Parties.
1. Transaction No.	38
2.1. Price (amount in USD)	Credit line of USD 15,000,000, plus interest of no more than USD 300,000
2.2. Price (amount in RUB)	Credit line of RUB 976,200,000, plus interest of no more than RUB 19,524,000
3. Names of parties	PJSC "LUKOIL" (Guarantor) Citibank, N.A. (Lender)
4. Names of beneficiaries	LUKOIL NORTH AMERICA LLC (Borrower).
5. Name of transaction	Amended and Restated Guaranty
6. Subject of the transaction	In accordance with Guaranty No. 1110683 of 29 August 2011 (Guaranty), the Guarantor guarantees performance of the Borrower's obligations to the Lender under the Amended and Restated Credit Agreement of 29 August 2011 (Credit Agreement) in the amount of the principal debt of USD15,000,000 plus interest (at the rate of 2.00% per annum for Eurodollar Loans, 1.50% per annum for Loans at the Established Rate), fines, commission fees, costs, expenses and other guaranteed payments. In connection with the extension of the Credit Agreement, under the Amended and Restated Guaranty the Guarantor unconditionally and irrevocably guarantees the prompt payment of the Obligations when due and agrees to pay any and all documented expenses (including reasonable counsel fees and expenses) incurred by the Lender in enforcing any rights. The maximum principal amount of the Obligations (excluding interest, penalties, fees and documented costs, expenses and other amounts payable (or stated to be payable) to the Lender under or in connection with the Credit Agreement) shall be USD15,000,000.
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL NORTH AMERICA LLC.
8. Other material terms of the transaction	This Guaranty shall be construed in accordance with and governed by the law of the State of New York
1. Transaction No.	39
2.1. Price (amount in USD)	Credit line of USD 15,000,000, plus interest of no more than USD 300,000, fee of USD 45,000, plus VAT of USD 8,100
2.2. Price (amount in RUB)	Credit line of RUB 976,200,000, plus interest of no more than RUB 19,524,000, fee of RUB 2,928,600, plus VAT of RUB 527,148.
3. Names of parties	PJSC "LUKOIL" (Guarantor) LUKOIL NORTH AMERICA LLC (Debtor)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Contract of Indemnity No. 1110663 of 29.08.2011 (hereinafter the "Contract").
6. Subject of the transaction	Under the Contract, the Parties agreed to consider an amount paid by the Guarantor to Citibank NA (Bank) in performance of obligations under the Guaranty between the Guarantor and the Bank (Guaranty) issued as security for performance of obligations by the Debtor under the Letter of Credit of 29.08.2011 (Credit Agreement) to be the amount payable by the Debtor to the Guarantor including the interest for the funds' use on the terms, within the deadlines and in accordance with the procedure stipulated in the Contract. In connection with extending the maturity of the Guaranty based on the Amended and Restated Guaranty, the following amendments and addenda are being made to the Contract: - point 3.2 of Article 3 «Payment for the Services of the Guarantor» of the Contract is revised to stipulate that the cost of the service of the Guaranty for the Debtor's obligation (Service) amounts to 0.3% per annum of the amount of the Debtor's obligations to the Bank covered by the Bank under the Credit Agreement and calculated for each day of the reporting period. In calculating the amount payable for the Service provided the actual number of days in a year shall be used (365/366), plus VAT in the amount established by the current Russian law. - point 6.8 is being added to article 6 "Settlements Procedure" whereby no interest is calculated or paid under the Contract on the debt amount ('Interest on a Pecuniary Obligation') for the period of use of the funds provided, as stipulated by article 317.1 of the Civil Code of the Russian Federation. This condition shall apply to relations between the Parties for the period from 01.06.2015 to 01.08.2016; - Article 15 of the Contract sets out the Guarantor's updated details.
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL NORTH AMERICA LLC.
8. Other material terms of the transaction	Other terms of the Contract remain unchanged. The Supplemental Agreement enters into force from the date of signing by the Parties.
1. Transaction No.	40
2.1. Price (amount in USD)	USD 315,118.004 per month, plus VAT of USD 56,721.24 per month
2.2. Price (amount in RUB)	RUB 20,507,879.70 per month, plus VAT of RUB 3,691,418.35 per month
3. Names of parties	RITEK (Sub-Lessee) PJSC "LUKOIL" (Lessee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Sub-Lease Agreement No.1310855 of 30 December 2013 (hereinafter the "Agreement").



6. Subject of the transaction	In accordance with the Agreement, the Lessee provides to the Sub-Lessee for temporary use the non-residential premises with a total area of 6,576.2 m <sup>2</sup> , located in the building at the address: 3 Bolshaya Ordynka, Moscow. The outlay of the premises is given in the floor plans (Annex No.1) to the Agreement. In accordance with the Supplemental Agreement to the Agreement: - from 01.11.2016, the Sub-Lessee undertakes to pay the Lessee lease payment for the use of the Premises proceeding from 37,422 roubles per square meter of total area per year, plus VAT of 6,735.96 roubles, - from 01.11.2016, the total lease payment under the Agreement will be 20,507,879.70 roubles per month, plus VAT of 3,691,418.35 roubles, with the total payment due of 24,199,298.05 roubles per month.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing.
1. Transaction No.	41
2.1. Price (amount in USD)	No financial terms stipulated
2.2. Price (amount in RUB)	No financial terms stipulated
3. Names of parties	PJSC "LUKOIL" (Company) International Association of Trade-Union Organisations of PJSC "LUKOIL" (Association)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Uncompensated/Gratuitous Use Contract No.0310992 of 27.07.2003 (hereinafter the 'Contract').
6. Subject of the transaction	Pursuant to the Contract, Supplemental Agreements thereto and in execution of the Agreement between the Employer and the Trade Union Association of OAO "LUKOIL" for 2015-2017, the Company provides the office equipment, furniture and other office devices (hereinafter the 'Property') on the Company's balance sheet for the gratuitous use of the Association in accordance with the List of Items (Appendix 1) making an integral part of the Contract, in condition suitable for appropriate use. In accordance with the Supplemental Agreement to the Contract: - on 30 September 2016 the Association shall transfer and the Company shall accept the Property earlier transferred to the Association under a transfer and acceptance certificate; - on 01 October 2016 the Company shall transfer additional Property to the Association under a transfer and acceptance certificate; - from 01 October 2016 the total value of the Property transferred to the Association under the Contract will be RUB8,011,327.01.
7. Interested parties	Sergei Petrovich Kukura, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL". Ivan Alexeevich Maslyaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL". Anatoly Alexeevich Moskalenko, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL".
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing.
1. Transaction No.	42
2.1. Price (amount in USD)	USD 272,800
2.2. Price (amount in RUB)	RUB 17,281,880
3. Names of parties	PJSC "LUKOIL" (Licensor) LUKOIL EURASIA PETROL ANONIM ŞİRKETİ (Licensee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to License Agreement No. 1111033 of 15 December 2011 (hereinafter the "Agreement").
6. Subject of the transaction	Pursuant to the Agreement, the Licensor provides the Licensee, for a fee, with a non-exclusive license to use the Licensor's trademarks under certificate Nos. 2011/20829, 2011/20838, and 2011/20848, issued by the Turkish Patent Institute, for the Licensee to identify goods and services under trademark classes 4, 20, 35, 36, 37, 39, 40, 42 of the International Classification of Goods and Services (ICGS) and in accordance with Certificate No.980745 with priority right of 08.08.2008, issued by the International Bureau of World Intellectual Property Organization, to use by the Licensee to identify services of ICGS Classes 35, 37 and 43. In accordance with the Supplemental Agreement to the Agreement: 1. The Parties approve the updated Site Address List where the Licensor's trademarks are used as of 01.01.2016, under the Appendix thereto. 2. For calculating the 2016 annual fee with the formula indicated in point 6.1 of the Agreement, the Parties confirm that: - the Licensee's budgeted advertising costs for 2016 shall be USD 1,246,939; - the difference between the Licensee's actual advertising costs for 2015 substantiated by the Licensee in accordance with sub-point 2.1.18.4 of the Agreement, in an amount of USD 3,861,434 and budgeted advertising costs for 2015 in an amount of USD 3,671,000 will be USD 190,434. 3. In accordance with point 6.1 of the Agreement, the Parties agree that the 2016 fee will be USD 800, based on the updated Site Address List. The fee is not VAT-taxable based on sub-point 4, point 1.1 of Article 148 of the RF Tax Code. 4. Additional fee for the a non-exclusive license under sub-license agreements signed for 2016 calculated in accordance with point 6.2 of the Agreement based on the updated Site Address List (where the Licensor's trademarks are used under the sub-license agreements) submitted by the Licensee and approved by the Licensor under sub-point 2.1.18.2 of the Agreement will be USD 272,000 (Two hundred seventy two thousand). The additional fee is not VAT-taxable based on sub-point 4, point 1.1 of Article 148 of the RF Tax Code. 5. Point 9.2 of Section 9 (Dispute Settlement Procedure) of the Agreement is set out in a new version. 6. Section 11 of the Agreement (Legal addresses and banking details) is set out in a new version.
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL EURASIA PETROL ANONIM ŞİRKETİ.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the time of its signing by the Parties. All other terms of the Agreement remain unchanged.

1. Transaction No.	43
2.1. Price (amount in USD)	USD 11,100
2.2. Price (amount in RUB)	RUB 703,185
3. Names of parties	PJSC "LUKOIL" (Franchisor) LUKOIL SRBIJA AD BEOGRAD (Franchisee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Franchise Agreement No.1610134 of 13.04.2016 (hereinafter the "Agreement").
6. Subject of the transaction	In accordance with the five-year Agreement, the Franchisor grants the Franchisee, for a fee, the right to use a Scope of Exclusive Rights (SER) during the Franchisee's operations. SER includes the following exclusive rights on the part of the Franchisor: a) Exclusive right of PJSC "LUKOIL" to trademarks designed to identify (specify) products, goods and services manufactured/provided in accordance with Certificates Nos.681461, 838719, 838720, 1006104, 1006105, 984215, and 1001044, issued by the International Bureau of World Intellectual Property Organization (ICGS); 6) Exclusive right to <i>The Company Style of OAO "LUKOIL"</i> being a pictorial and design work. The right to use the Franchisor's SER to the said trademarks and the Company Style are non-exclusive in nature. In accordance with the Supplemental Agreement to the Agreement: 1. For the purposes of calculating the fee for the actual use of SER for the period from 01.01.2016 to the date the Agreement enters into force (13.04.2016), and for the use of SER under the Agreement from 13.04.2016 to 31.12.2016 with the formula given in sub-point 7.1.1 of the Agreement, with due account of the second paragraph of sub-point 7.1.3 of the Agreement the Parties confirm that: - the Franchisee's budgeted advertising costs for 2016 shall be USD 401,000; - the difference between the Franchisee's actual advertising costs for 2015 substantiated by the Franchisee in accordance with sub-point 2.1.10 of the Agreement, in an amount of USD 118,750 and budgeted advertising costs for 2015 in an amount of USD 119,000 will be (-)USD 250. 2. In accordance with sub-point 7.1.2 of the Agreement, the Parties agree that the fee for the actual use of the set of exclusive rights during the period from 01.01.2016 to the date the Agreement enters into force (13.04.2016) and for the use of SER under the Agreement from 13.04.2016 to 31.12.2016 shall be USD 11,100 (Eleven Thousand One Hundred). The fee is not VAT-taxable based on sub-point 4, point 1.1 of Article 148 of the RF Tax Code. 3. Point 10.2 of Section 10 (Dispute Settlement Procedure) of the Agreement is set out in a new version. 4. Section 12 of the Agreement (Legal addresses and Banking details) is set out in a new version.
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of LUKOIL SRBIJA AD BEOGRAD.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the time of its signing by the Parties. All other terms of the Agreement remain unchanged.
1. Transaction No.	44
2.1. Price (amount in USD)	The approximate cost of services per year will be USD 2,372.67, plus VAT of USD 427.08
2.2. Price (amount in RUB)	The approximate cost of services per year will be RUB 123,000, plus VAT of RUB 27,000
3. Names of parties	RITEK (Client) PJSC "LUKOIL" (Contractor)
4. Names of beneficiaries	-
5. Name of transaction	Request for Provision of Services (Request).
6. Subject of the transaction	Under the Request the Contractor shall provide the Client with services on organization of wire-transfers/non-cash payments and interaction with credit institutions in accordance with the current legislation of the Russian Federation and the Rules for the provision of a set of services on organization of wire-transfers/non-cash payments and interaction with credit institutions approved by Order No.111 of PJSC "LUKOIL" dated 20 June 2016.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The Parties have agreed that the Statement extends to their legal relations from 03 February 2016.
1. Transaction No.	45
2.1. Price (amount in USD)	No financial terms stipulated
2.2. Price (amount in RUB)	No financial terms stipulated
3. Names of parties	PJSC "LUKOIL" (Company) International Association of Trade-Union Organisations of PJSC "LUKOIL" (Association)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Uncompensated/Gratuitous Use Contract No.0310992 of 27.07.2003 (hereinafter the "Contract").
6. Subject of the transaction	Pursuant to the Contract, Supplemental Agreements thereto and in execution of point 9.1.1 of the Agreement between the Employer and the Trade Union Association of OAO "LUKOIL" for 2015-2017, the Company provides the office equipment, furniture and other office devices (hereinafter the "Property") on the Company's balance sheet for the gratuitous use of the Association in accordance with the List of Items (Appendix 1) making an integral part of the Contract, in condition suitable for appropriate use. In accordance with the Supplemental Agreement to the Contract: - on 30 November 2016 the Association shall transfer and the Company shall accept the Property earlier transferred to the Association under a transfer and acceptance certificate; - on 01 December 2016 the total value of the Property transferred to the Association under the Contract will be RUB7,957,398.18.
7. Interested parties	Sergei Petrovich Kukura, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL". Ivan Alexeevich Maslyaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL". Anatoly Alexeevich Moskalenko, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL".
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing.

1. Transaction No.	46
2.1. Price (amount in USD)	No financial terms stipulated
2.2. Price (amount in RUB)	No financial terms stipulated
3. Names of parties	PJSC "LUKOIL" (Contractor) RITEK (Client)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental agreement to Comprehensive Services Contract No. 0811161 of 25 December 2008 (hereinafter the "Contract").
6. Subject of the transaction	In accordance with the Contract, the Contractor undertakes, following the procedure and on the terms stipulated by the Contract, to provide the Client with services on coordinating commercial, production and other types of operations of the Client, and the Client undertakes to promptly provide the Contractor with all information and documents necessary to provide the given services, and also to accept the services provided and pay the Contractor the established compensation. In accordance with the Supplemental Agreement to the Contract: - point 6.2 of the Contract shall be revised to extend the Contract to 31.12.2019 inclusive; - Article 7 of the Contract on the procedure for settlement of disputes, contradictions and controversies arising out of the Contract shall be set out in a new version; - the Client's location details set out in Article 9 of the Contract shall be revised from 07.07.2016.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing.
1. Transaction No.	47
2.1. Price (amount in USD)	USD 12,465.63 per month, plus VAT of 2,243.81
2.2. Price (amount in RUB)	RUB 790,819.50 per month, plus VAT of RUB 142,347.51
3. Names of parties	PJSC "LUKOIL" (Lessee) RITEK (Sub-Lessee)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Sub-lease Agreement No.1410186 of 17.04.2014 (hereinafter the "Agreement").
6. Subject of the transaction	In accordance with the Agreement, the Lessee provides to the Sub-lessee the temporary use of the non-residential premises in the building at the address: 1 ulitsa Bolshaya Ordynka, Moscow, including: 1. Office premises with a total area of 232.4 m <sup>2</sup> (Rooms No. 12, 13, 17, 18, 19) located in Premises IX on the second floor (hereinafter "Premises 1"); 2. Public catering premises with a total area of 618.9 m <sup>2</sup> (Rooms No. 22, 23, and 26-42), located in Premises III on the semi-basement (Ts) floor (hereinafter "Premises 2"); 3. Garage space for five cars with a total area of 191.0 m <sup>2</sup> located in Premises I on floor P (hereinafter "Premises 3").  In accordance with the Supplemental Agreement to the Agreement: - from 31.10.2016 the Sub-Lessee shall transfer and the Lessee shall accept under a transfer and acceptance certificate part of Premises 1 with a total area of 142.3 m <sup>2</sup> , specifically: rooms Nos.17, 18, 19; - point 3.1 of the Agreement shall be revised to stipulate that from 01.11.2016 Sub-Lessee undertakes to pay the Lessee: lease payments of RUB 58,636.44 per square meter per year for the use of Premises 1 with a total area of 90.1 m <sup>2</sup> , plus VAT of RUB 10,554.56, or RUB 440, 261.94 per month in aggregate plus VAT of RUB 79,247.15; lease payments of RUB 5,301.69 per square meter per year for the use of Premises 2 with a total area of 618.9 m <sup>2</sup> , plus VAT of RUB 954.30 or RUB 273,434.66 per month in aggregate plus VAT of RUB 49,218.24; lease payments of RUB15,424.58 per car space per month for the use of Premises 3 plus VAT of RUB 2,776.42 or RUB77,122.90 per month in aggregate plus VAT of RUB 13,882.12. - from 01.11.2016 the total lease payments for the use of all Premises under the Agreement shall be RUB790,819.50 per month plus VAT of RUB142,347.51. Total monthly payments shall be RUB 933,167.01 (incl. VAT).
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing and extends to relations between the Parties in effect from 31.10.2016.
1. Transaction No.	48
2.1. Price (amount in USD)	The approximate amount of the agency fee will equal USD 541.85, plus VAT of USD 97.53. The approximate amount of the Agent's reimbursable expenses for the year will equal USD 333,333.33, plus VAT of USD 60,000.
2.2. Price (amount in RUB)	The approximate amount of the agency fee will equal RUB 34,364, plus VAT of RUB 6,185.52. The approximate amount of the Agent's reimbursable expenses for the year will equal RUB 21,140,000, plus VAT of RUB 3,805,200.
3. Names of parties	PJSC "LUKOIL" (Agent) RITEK (Principal)
4. Names of beneficiaries	-
5. Name of transaction	Agency agreement (hereinafter, the "Agreement").
6. Subject of the transaction	Pursuant to the Agreement, at the request of the Principal the Agent undertakes to conclude a contract with JSC KPMG in its own name but at the expense of the Principal, on the performance of an audit of the Principal's accounting (financial) statements for 2016 in accordance with Russian legal requirements regarding preparation of accounting (financial) statements.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.

8. Other material terms of the transaction	<p>The agency fee will equal RUB 34,364, plus VAT of RUB 6,185.52, or RUB 40,549.52 in aggregate.</p> <p>The Principal undertakes to reimburse the Agent for all expenses incurred thereby and pay the Agent's fee no later than 10 business days from the date the agency authority is exercised.</p> <p>The Agreement enters into force from the date it is signed by authorized representatives of the Parties and shall remain in effect until the Parties perform their obligations in full.</p>
1. Transaction No.	49
2.1. Price (amount in EURO)	EUR 1,769,130
2.2. Price (amount in RUB)	RUB 123,007,608.9
3. Names of parties	PJSC "LUKOIL" (the Guarantor) Heraeus Deutschland GmbH&Co.KG (the Beneficiary)
4. Names of beneficiaries	ISAB S.r.l. (the Counterparty)
5. Name of transaction	Guarantee Agreement
6. Subject of the transaction	In accordance with the Guarantee Agreement the Guarantor irrevocably and unconditionally guarantees by way of an independent payment obligation the payment to the Beneficiary, in an amount notified by the Beneficiary to the Guarantor, of the Indebtedness expressed to be payable by the Counterparty under the Loan Confirmation of the Beneficiary (Precious Metal/Platinum Loan) up to a maximum aggregate amount of € 1,769,130. Payment under the Guarantee Agreement will be made net of any deduction or withholding whatsoever.
7. Interested parties	Vadim Nikolaevich Vorobyov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of ISAB S.r.l.
8. Other material terms of the transaction	<p>The Guarantor shall effect payment hereunder three days after receipt of a written demand by the Beneficiary addressed to the Guarantor and written confirmation that the amount claimed from the Guarantor equals the Indebtedness (or part thereof) which the Counterparty has not paid when due (the Demand).</p> <p>Upon receipt by the Guarantor of the Beneficiary's claim under the Guarantee Agreement, the amount payable by the Guarantor shall equal the price of Platinum based on evening fixing for a troy ounce in Euro published at <a href="http://www.lppm.com">www.lppm.com</a> (LBMA Platinum Price).</p> <p>This Guarantee Agreement shall be governed and construed in accordance with the laws of the Federal Republic of Germany. Any and all written demands by the Beneficiary claiming that the Counterparty has failed to perform its payment obligations must be received no later than 31 August 2017.</p>
1. Transaction No.	50
2.1. Price (amount in EURO)	EUR 1,769,130 and the Guarantor's fee of EUR 11,535.57, plus VAT of EUR 2,076.40
2.2. Price (amount in RUB)	RUB 123,007,608.9 and the Guarantor's fee of RUB 802,068.18, plus VAT of RUB 144,372.09
3. Names of parties	PJSC "LUKOIL" (the Guarantor) ISAB S.r.l. (the Borrower)
4. Names of beneficiaries	-
5. Name of transaction	Contract of Indemnity (hereinafter, the "Contract")
6. Subject of the transaction	<p>The Parties have entered into the Contract in connection with the Guarantee Agreement (hereinafter, the Guarantee Agreement) in favour of Heraeus Deutschland GmbH&amp;Co.KG (the Beneficiary), to be entered into by the Guarantor to ensure the Debtor's obligations before the Beneficiary under the Precious Metal (Platinum) Loan are fulfilled. The Precious Metal (Platinum) Loan is received by the Debtor based on the precious metal loan request and is in accord with the relevant Loan Confirmation on the part of the Beneficiary (hereinafter the Loan, up to a maximum aggregate amount of EUR 1,769,130.</p> <p>The Parties have agreed that the amount paid by the Guarantor to the Beneficiary in fulfillment of obligations under Guarantee Agreement shall be deemed the amount payable by the Debtor to the Guarantor plus the interest for using the money on the terms and conditions, by the deadlines and in accordance with the procedure determined by the Contract.</p>
7. Interested parties	Vadim Nikolaevich Vorobyov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of ISAB S.r.l.
8. Other material terms of the transaction	<p>The Debtor undertakes within 180 calendar days from the moment the Guarantee Agreement is signed to pay the Guarantor an amount of EUR 11,535.57, plus VAT of EUR 2,076.40, as the Guarantor's fee for providing the Guarantee.</p> <p>The date the Guarantee is provided shall be date the Guarantee Agreement is signed.</p> <p>The Debtor shall pay the Guarantor interest of LIBOR 3M+3% per annum on the amount wire-transferred by the Guarantor to the Beneficiary in fulfillment of obligations under the Guarantee Agreement.</p> <p>The Contract shall enter into force from the date of signing and shall remain in effect until the Parties perform their obligations in full.</p>
1. Transaction No.	51
2.1. Price (amount in USD)	USD 124,743,137.56
2.2. Price (amount in RUB)	RUB 8,134,500,000
3. Names of parties	PJSC "LUKOIL" (Seller) IOOO LUKOIL Belorussia (Buyer)
4. Names of beneficiaries	-
5. Name of transaction	Supply Contract (hereinafter the "Contract")
6. Subject of the transaction	<p>The Contract stipulates that the Seller supplies the Buyer, on CPT terms to railway export terminals Zlynka, Krasnoye, Surazh, Rudnya, with the following products: gasoline, diesel fuel, bitumens – up to 300,000 metric tonnes of the following producers: OOO LUKOIL-Permnefteorgsintez, OOO LUKOIL Nizhegorodnefteorgsintez, OOO LUKOIL-Volgogradneftepererabotka, OOO LUKOIL-UNP. Delivery schedule: from the date the Contract is signed through 31 January 2018 in line with the supply volume approved by the Parties on a monthly basis. The total Contract value in Russian roubles calculated at the average price of the product supplied equals RUB 8,134,500,000.</p>
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of IOOO LUKOIL Belorussia
8. Other material terms of the transaction	<p>Price calculation, terms of payment and the product quality are determined in accordance with Appendices 1 and 2 making an integral part of the Contract.</p> <p>Title to the products and all risks of accidental loss or damage shall be transferred to the Buyer at the moment the railway bills are affixed with the stamp of the station of departure (the date of the stamp of the station of departure affixed to the railway bills).</p> <p>The term of the Contract: from the date of signing the Contract and the Parties have discharged their obligations under the Contract in full.</p>

1. Transaction No.	52
2.1. Price (amount in USD)	USD 77,635,26, plus VAT of USD 13,974.30
2.2. Price (amount in RUB)	RUB 4,958,564.06, plus VAT of RUB 892,538.54
3. Names of parties	RITEK (Client) PJSC "LUKOIL" (Contractor)
4. Names of beneficiaries	-
5. Name of transaction	Contract on the provision of information (hereinafter the "Contract").
6. Subject of the transaction	In accordance with the Contract, the Contractor undertakes to render services to the Client on the provision of Platts MarketData information (Services). A list of information and the means of its provision is given in Appendix 1 to the Contract.
7. Interested parties	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK.
8. Other material terms of the transaction	The term of provision of Services shall be from 01.07.2016 to 31.12.2017. Period of provision of Services shall be a calendar month. The date of the provision of Services shall be reckoned the last day of the period of the provision of Services supported by the Acceptance act signed by the Parties on that date. Specifically, Acceptance Acts for the periods from July 2016 to the month preceding the month when the Contract is signed shall be signed by the Parties on the very date when the Contract is signed, separately for each period in question. The cost of Services for each period shall be USD 4,313.07, plus VAT of USD 776.35, totaling USD 5,089.42. The total cost of services under the Contract shall be USD 91,609.56 including VAT. Payments for the services provided under the Contract shall be made by the Client in roubles at the Bank of Russia exchange rate as of the date of rendering the services. The Contract enters into force from the date of signing, extends to the relations between the Parties in effect from 01.07.2016 and shall remain in effect until the Parties perform their obligations in full.
1. Transaction No.	53
2.1. Price (amount in USD)	The maximum amount of USD 577,500,000.
2.2. Price (amount in RUB)	The maximum amount of RUB 36,884,925,000
3. Names of parties	PJSC "LUKOIL" (Seller) IOOO LUKOIL Belorussia (Buyer)
4. Names of beneficiaries	-
5. Name of transaction	Crude Delivery Contract (hereinafter the "Contract")
6. Subject of the transaction	The Seller undertakes to sell and the Buyer undertakes to buy up to 2,500,000 metric tonnes of crude oil ("Goods") on the terms of delivery DDU Novopolotsk (OAO Naphtan) and/or Mozyr (OAO Mozyr Refinery), Belarus. The approximate value of the Contract is around USD 550,000,000 +/- 5 (five) percent. The period of delivery shall be during January 2017 through December 2017 in accordance with monthly delivery schedules approved by both Parties.
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of IOOO LUKOIL Belorussia.
8. Other material terms of the transaction	The price is set in US dollars per metric tonne of the Goods and calculated using the formula stipulated in section 6 of the Contract. All risks of accidental injury or loss of the Goods shall be transferred to the Buyer upon signing the acceptance acts at the point of destination. The title to the Goods under the Contract will be transferred to the Buyer upon signing the last Acceptance Act for a Consignment of Goods. Consignment is the quantity of Goods delivered on one routing order of OAO AK Transneft during a calendar month. The Contract enters into force from the time of its signing and will remain in force through 31 December 2017, and as regards mutual settlements – until they have been completed in full.
1. Transaction No.	54
2.1. Price (amount in USD)	USD 32,100,000 (Credit line of USD 30,000,000, with the estimated Bank fee due for the credit line's entire maturity of USD 2,100,000); the estimated fee will be USD 90,000, plus VAT of USD 16,200.
2.2. Price (amount in RUB)	RUB 2,032,893,000 (Credit line of RUB 1,899,900,000, with the estimated Bank fee due for the credit line's entire maturity of RUB 132,993,000); the estimated fee will be RUB 5,699,700, plus VAT of RUB 1,025,946.
3. Names of parties	PJSC "LUKOIL" (Guarantor) LUKOIL NORTH AMERICA LLC (Debtor)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Contract of Indemnity No.1111131 of 29.12.2011 (hereinafter the "Contract").*
6. Subject of the transaction	Under the Contract the Parties agreed to consider an amount paid by the Guarantor to the Bank (Citibank N.A) in performance of obligations under the Guarantee between the Guarantor and Citibank N.A. (Bank) issued as security for performance of obligations by the Debtor under the Letter of Credit Agreement of 29.12.2011 (Credit Agreement) for the maximum amount of USD 30,000,000, plus interest, fines, penalties, forfeits and other guaranteed payments (Guarantee) to be the amount payable by the Debtor to the Guarantor including the interest for the funds' use on the terms, within the deadlines and in accordance with the procedure stipulated in the Contract. In connection with extending the maturity of the Guarantee No.1111135 of 29.12.2011 to 29.12.2018 based on the Guarantor's letter, the following amendments and addenda are being made to the Contract: - point 3.2 of Article 3 «Payment for the Services of the Guarantor» of the Contract is revised to stipulate that the cost of the service of the Guarantee for the Debtor's obligation (Service) amounts to 0.3% per annum of the amount of the Debtor's obligations to the Bank covered by the Bank under the Credit Agreement 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 Service provided the actual number of days in a year shall be used (365/366), plus VAT in the amount established by the current Russian law. - point 12.1 of Article 12 «Settlement of disputes and applicable law» of the Contract is revised to stipulate that disputes arising in connection with execution, amendment or termination of the Contract shall be resolved by the Parties through negotiation with the aim of reaching mutual agreement; - Article 15 «Addresses and details of the Parties» of the Contract is set out in a new version.
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL NORTH AMERICA LLC.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of its signing by the Parties.

1. Transaction No.	55
2.1. Price (amount in USD)	Credit line of USD30,000,000, with the estimated Bank fee due for the credit line's entire maturity of USD 2,100,000 totaling USD 32,100,000.
2.2. Price (amount in RUB)	Credit line of RUB 1,899,900,000, with the estimated Bank fee due for the credit line's entire maturity of RUB 132,993,000 totaling RUB 2,032,893,000.
3. Names of parties	PJSC "LUKOIL" (Guarantor) Citibank, N.A. (Administrative Agent)
4. Names of beneficiaries	LUKOIL NORTH AMERICA LLC (Borrower).
5. Name of transaction	Letter of Reaffirmation of Contract/Deed of Guarantee No.1111135 of 29.12.2011 (hereinafter the "Letter of Reaffirmation").*
6. Subject of the transaction	In accordance with Contract/Deed of Guarantee No.1111135 of 29.12.2011 (Guarantee), the Guarantor guarantees performance of the Borrower's obligations to the Administrative Agent under the Letter of Credit Agreement of 29.12.2011 (Credit Agreement) for the principal amount of debt of USD 30,000,000, plus interest, fines, commission fees, costs, expenses and other guaranteed payments. In accordance with the Letter of Reaffirmation, the Guarantor confirms its obligations under the Guarantee in connection with Extension and Amendment No.5 to the Credit Agreement, whereby the maturity of the Credit Agreement is being extended to 29.12.2018 and the Guarantee is retained in full.
7. Interested parties	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL NORTH AMERICA LLC.
8. Other material terms of the transaction	The Letter shall be governed by and construed in accordance with the laws of the State of New York.
1. Transaction No.	56
2.1. Price (amount in USD)	USD 90,490.29
2.2. Price (amount in RUB)	RUB 5,500,000
3. Names of parties	PJSC "LUKOIL" (Company) Russian Public Organisation Russian Union of Industrialists and Entrepreneurs (Union)
4. Names of beneficiaries	-
5. Name of transaction	Supplemental Agreement to Donation Contract No.1610068 of 16 March 2016 (hereinafter the "Contract")*
6. Subject of the transaction	In accordance with the Contract, the Company will provide the Union with charitable assistance in the form of a donation of monetary funds in the amount of RUB 4,500,000. The Union undertakes to use the funds received for the performance of charter activities in 2016. In accordance with the Supplemental Agreement to the Contract: - the amount of donation shall be increased by RUB1,000,000; - point 3.1 of the Contract shall be revised to stipulate that the donated amount shall be RUB 5,500,000.
7. Interested parties	Vagit Yusufovich Alekperov, President of PJSC "LUKOIL", a member of the Board of Directors of PJSC "LUKOIL" and Chairman of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Management Board's Executive Bureau of the Russian Public Organisation Russian Union of Industrialists and Entrepreneurs. Leonid Arnoldovich Fedun, a member of the Board of Directors of PJSC "LUKOIL", is simultaneously a member of the Management Board of the Russian Public Organisation Russian Union of Industrialists and Entrepreneurs.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing and extends to the relations between the Parties in effect from 01.12.2016.
1. Transaction No.	57
2.1. Price (amount in USD)	USD 128,246.75
2.2. Price (amount in RUB)	RUB 7,900,000
3. Names of parties	PJSC "LUKOIL" (Company) International Association of Trade Union Organisations of PJSC "LUKOIL" (Association)
4. Names of beneficiaries	-
5. Name of transaction	Donation agreement (hereinafter the "Agreement").
6. Subject of the transaction	Pursuant to the Agreement the Company undertakes to transfer a donation to to the Association in monetary terms for the purposes of supporting the LUKOIL Veterans Board in accordance with Annex 1 to the Agreement (Veterans Board's Budget of Expenses for 2017) making an integral part of the Agreement. The amount of the donation will be RUB 7,900,000 (VAT-free).
7. Interested parties	Sergei Petrovich Kukura, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL". Ivan Alexeevich Maslyaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL". Anatoly Alexeevich Moskalenko, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of the International Association of Trade-Union Organisations of PJSC "LUKOIL".
8. Other material terms of the transaction	The Company has the right to exercise control over the use of the funds transferred. The Association undertakes to provide the Company with a report on the use of transferred funds by 31 March 2018. If funds are used for purposes other than the designated purpose, the Association undertakes to return the amount received within 10 days from the date it receives the Company's demand for repayment of previously transferred funds. The Agreement enters into force from the time of its signing, and shall remain in effect until the Parties perform their obligations in full.

Interested-party transaction of PJSC "LUKOIL" approved by the Annual General Shareholders Meeting of PJSC "LUKOIL" of 23 June 2016 and concluded in 2016

1. Transaction No.	1
2. Price	up to USD 450,000 – Insurance premium for coverage A, B and C.
3. Names of parties	QAO Kapital Insurance (Insurer) PJSC "LUKOIL" (Policyholder)
4. Names of beneficiaries	Under Cover A – the sole executive body, members of management bodies, employees of PJSC "LUKOIL" and/or subsidiaries of PJSC "LUKOIL", and/or other organisations with the participation of PJSC "LUKOIL" and/or its subsidiary based on whose proposals the sole executive body and/or members of management bodies of such organisations were elected (hereinafter, the Insured Person). Under Cover B – PJSC "LUKOIL", subsidiaries of PJSC "LUKOIL", other organisations with the participation of PJSC "LUKOIL" and/or its subsidiary based on whose proposals the sole executive body and/or members of management bodies of such organisations were elected (hereinafter, the Company for the purposes of Cover B). Under Cover C – PJSC "LUKOIL", subsidiaries of PJSC "LUKOIL" (hereinafter the "Company"). The above parties are collectively named the Insured Parties.
5. Name of transaction	Policy (contract) on insuring the liability of directors, officers and corporations (hereinafter the "Policy").
6. Subject of the transaction	The Insurer undertakes, for the payment stipulated in the Policy (Insurance Premium), to pay the insurance coverage (indemnification) under the Policy to (as the case may be) respective Insured and/or any other person entitled to such indemnification should any insured event specified in the Policy occur, within the insurance premium (liability limit) determined by the Policy. <u>An insured event for the purposes of Cover A</u> 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. <u>For the purposes of Cover A</u> 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 . <u>An insured event for the purposes of Cover B</u> shall be deemed to be the incurrence of any expenses by any Company <u>for the purposes of Cover B</u> in connection with the indemnification for any Loss by such Company <u>for the purposes of Cover B</u> 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. <u>For the purposes of Cover B</u> 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 <u>for the purposes of Cover B</u> 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 <u>for the purposes of Cover B</u> . <u>An insured event for the purposes of Cover C</u> 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	The persons performing the functions of 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	The policy is effective from 19 July 2016 through 18 July 2017. The insurance premium (liability limit) is at least USD 150,000,000 (total aggregate limit for Covers A, B and C, including legal defence costs). The insurance premium will be paid in roubles at the exchange rate determined by the Parties as of the date the Policy is signed, in accordance with the terms and conditions of the Policy.

## **Appendix 4.**

**Information on Transactions with PJSC "LUKOIL"  
Ordinary Shares/DRs Performed by Members  
of the Board of Directors and Management Committee  
of PJSC "LUKOIL" in 2016**



## Appendix 4. Information on Transactions with PJSC “LUKOIL” Ordinary Shares/DRs Performed by Members of the Board of Directors and Management Committee of PJSC “LUKOIL” in 2016

BoD /Management Committee member	Type of transaction	Date of transaction	Number of shares / DRs
Vadim Vorobyov	purchase	18.10.2016	5,132
Valery Grayfer	gift	21.12.2016	9,145
Sergei Kukura	purchase	19.10.2016	6,330
Ravil Maganov	purchase	13.10.2016	7,450
Ivan Maslyaev	purchase	21.10.2016	5,033
Alexander Matytsyn	purchase	04.02.2016	57,393
	purchase	15.12.2016	4,660
Anatoly Moskalenko	purchase	21.12.2016	3,029
	purchase	22.12.2016	1,495
Vladimir Nekrasov	purchase	12.12.2016	2,860
	purchase	14.12.2016	5
Oleg Pashaev	purchase	14.12.2016	2,900
	purchase	28.09.2016	1,522
Ivan Pictet	sale	14.01.2016	65,000
Valery Subbotin	purchase	16.12.2016	2,586
	purchase	19.12.2016	2,011
Gennady Fedotov	purchase	14.12.2016	2,310
	purchase	14.12.2016	2,300
Leonid Fedun	purchase	14.01.2016	102
	purchase	04.02.2016	55,479
Lyubov Khoba	purchase	14.12.2016	1,101
	purchase	15.12.2016	77
	purchase	16.12.2016	3,419

Also during 2016, legal entities closely associated with the Company’s President Vagit Alekperov and Vice-President Leonid Fedun carried out purchase/sale transactions in DRs representing PJSC “LUKOIL’s” shares and PJSC “LUKOIL’s” shares/

As a result of these transactions, shareholdings in the Company, including indirect ownership, were changed as follows:

Vagit Alekperov increased his shareholding by 171,021 shares/DRs;

Leonid Fedun increased his shareholding by 857,186 shares/DRs.

The Company disclosed information about these transactions by closely associated entities as notices posted via Regulatory News Service and available at: <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>, and also as disclosures of material facts, available at: <http://www.e-disclosure.ru/portal/company.aspx?id=17>

# **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 2016**



JSC "KPMG"  
10 Presnenskaya Naberezhnaya  
Moscow, Russia 123112  
Telephone +7 (495) 937 4477  
Fax +7 (495) 937 4400/99  
Internet www.kpmg.ru

## 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 2016, 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 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

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

### Key audit matters

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

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

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

Moscow, Russian Federation.

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

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

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



<b>Recoverability of Property, plant and equipment (PP&amp;E) in exploration and production segment</b>	
Please refer to the Note 12 in the consolidated financial statements.	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
Due to declines in commodity prices, there is a risk of irrecoverability of the Group's PP&E balance in exploration and production segment, which is material to the financial statements as of 31 December 2016. 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>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. The price assumptions underlying management's impairment testing models represent a critical judgement in the process. We compared the short-term price assumptions used by management 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 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>

<b>Estimation of oil and gas reserves and resources</b>	
Please refer to the Supplementary Information on Oil and Gas Exploration and Production Activities.	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
The estimate of oil and gas reserves and resources has a significant impact on the financial statements, particularly impairment testing and depreciation, depletion and amortization (DD&A) charges. The principal risk is in relation to management's assessment of future cash flows, which are used to project the recoverability of property, plant and equipment as described above.	<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 validated that the reserves and resources</p>



	estimates were included appropriately in the Group's consideration of impairment as described above and in accounting for DD&A.
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**Other information**

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

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

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

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

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

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

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

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

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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.



**PJSC LUKOIL**  
*Independent Auditors' Report*  
 Page 5

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

Anton Oussov



JSC "KPMG"  
 Moscow, Russia  
 14 March 2017



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

	Note	31 December 2016	31 December 2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	261,367	257,263
Accounts receivable, net	7	360,897	440,489
Other current financial assets		16,934	23,768
Inventories	8	404,284	340,196
Income tax prepaid		19,646	7,413
Other taxes receivable	9	74,029	81,692
Other current assets	10	83,175	62,826
Assets held for sale	15	35,309	-
<b>Total current assets</b>		<b>1,255,641</b>	<b>1,213,647</b>
Property, plant and equipment	12	3,391,366	3,411,153
Investments in associates and joint ventures	11	162,405	181,744
Other non-current financial assets	13	101,812	102,067
Deferred income tax assets	27	29,079	28,735
Goodwill and other intangible assets	14	43,134	51,749
Other non-current assets		31,236	31,512
<b>Total non-current assets</b>		<b>3,759,032</b>	<b>3,806,960</b>
<b>Total assets</b>		<b>5,014,673</b>	<b>5,020,607</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable	16	550,247	394,339
Short-term borrowings and current portion of long-term debt	17	58,429	60,506
Income tax payable		6,591	11,640
Other taxes payable	19	88,364	73,277
Provisions	21, 22	26,015	25,553
Other current liabilities	20	97,110	129,853
Liabilities related to assets held for sale	15	3,930	-
<b>Total current liabilities</b>		<b>830,686</b>	<b>695,168</b>
Long-term debt	18	640,161	799,207
Deferred income tax liabilities	27	239,811	234,107
Provisions	21, 22	69,944	51,115
Other non-current liabilities		6,407	9,636
<b>Total non-current liabilities</b>		<b>956,323</b>	<b>1,094,065</b>
<b>Total liabilities</b>		<b>1,787,009</b>	<b>1,789,233</b>
<b>Equity</b>			
Share capital	23	1,151	1,151
Treasury shares		(241,615)	(241,615)
Additional paid-in capital		129,514	129,403
Other reserves		28,975	104,150
Retained earnings		3,302,855	3,229,379
<b>Total equity attributable to PJSC LUKOIL shareholders</b>		<b>3,220,880</b>	<b>3,222,468</b>
Non-controlling interests		6,784	8,906
<b>Total equity</b>		<b>3,227,664</b>	<b>3,231,374</b>
<b>Total liabilities and equity</b>		<b>5,014,673</b>	<b>5,020,607</b>

\_\_\_\_\_  
 President of PJSC LUKOIL  
 Alekperov V.Y.

\_\_\_\_\_  
 Vice-president – Chief accountant of PJSC LUKOIL  
 Khoba L.N.

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	2016	2015
<b>Revenues</b>			
Sales (including excise and export tariffs)	32	5,227,045	5,749,050
<b>Costs and other deductions</b>			
Operating expenses		(456,433)	(446,719)
Cost of purchased crude oil, gas and products		(2,609,764)	(2,891,674)
Transportation expenses		(299,017)	(297,977)
Selling, general and administrative expenses		(196,156)	(168,669)
Depreciation, depletion and amortisation		(311,588)	(350,976)
Taxes other than income taxes		(443,338)	(522,620)
Excise and export tariffs		(483,313)	(575,509)
Exploration expenses		(8,293)	(29,177)
<b>Profit from operating activities</b>		<b>419,143</b>	<b>465,729</b>
Finance income	25	14,756	17,763
Finance costs	25	(47,030)	(48,224)
Equity share in income of affiliates	11	7,967	7,047
Foreign exchange (loss) gain		(111,976)	110,912
Other expenses	26	(10,345)	(164,123)
<b>Profit before income taxes</b>		<b>272,515</b>	<b>389,104</b>
Current income taxes		(58,170)	(100,335)
Deferred income taxes		(6,703)	3,976
<b>Total income tax expense</b>	27	<b>(64,873)</b>	<b>(96,359)</b>
<b>Profit for the year</b>		<b>207,642</b>	<b>292,745</b>
Profit for the year attributable to non-controlling interests		(848)	(1,610)
<b>Profit for the year attributable to PJSC LUKOIL shareholders</b>		<b>206,794</b>	<b>291,135</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		(74,175)	12,345
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability/asset of pension plan	22	(925)	(1,650)
<b>Other comprehensive (loss) income</b>		<b>(75,100)</b>	<b>10,695</b>
<b>Total comprehensive income for the year</b>		<b>132,542</b>	<b>303,440</b>
Total comprehensive income for the year attributable to non-controlling interests		(871)	(1,609)
<b>Total comprehensive income for the year attributable to PJSC LUKOIL shareholders</b>		<b>131,671</b>	<b>301,831</b>
<b>Earnings per share of common stock attributable to PJSC LUKOIL (in Russian rubles):</b>			
Basic	23	290.06	408.36
Diluted	23	290.06	405.15

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	Equity-linked notes	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
<b>31 December 2015</b>	<b>1,151</b>	<b>(241,615)</b>	<b>-</b>	<b>129,403</b>	<b>104,150</b>	<b>3,229,379</b>	<b>3,222,468</b>	<b>8,906</b>	<b>3,231,374</b>
Profit for the year	-	-	-	-	-	206,794	206,794	848	207,642
<b>Other comprehensive income:</b>									
Foreign currency translation differences	-	-	-	-	(74,198)	-	(74,198)	23	(74,175)
Remeasurements of defined benefit liability/asset of pension plan	-	-	-	-	(925)	-	(925)	-	(925)
<b>Total comprehensive income (loss)</b>					<b>(75,123)</b>	<b>206,794</b>	<b>131,671</b>	<b>871</b>	<b>132,542</b>
Dividends on common shares	-	-	-	-	-	(133,318)	(133,318)	-	(133,318)
Changes in non-controlling interests	-	-	-	111	(52)	-	59	(2,993)	(2,934)
<b>31 December 2016</b>	<b>1,151</b>	<b>(241,615)</b>	<b>-</b>	<b>129,514</b>	<b>28,975</b>	<b>3,302,855</b>	<b>3,220,880</b>	<b>6,784</b>	<b>3,227,664</b>
<b>31 December 2014</b>	<b>1,151</b>	<b>(158,615)</b>	<b>(83,000)</b>	<b>128,846</b>	<b>93,454</b>	<b>3,055,542</b>	<b>3,037,378</b>	<b>12,164</b>	<b>3,049,542</b>
Profit for the year	-	-	-	-	-	291,135	291,135	1,610	292,745
<b>Other comprehensive income:</b>									
Foreign currency translation differences	-	-	-	-	12,339	-	12,339	6	12,345
Remeasurements of defined benefit liability/asset of pension plan	-	-	-	-	(1,643)	-	(1,643)	(7)	(1,650)
<b>Total comprehensive income</b>					<b>10,696</b>	<b>291,135</b>	<b>301,831</b>	<b>1,609</b>	<b>303,440</b>
Dividends on common shares	-	-	-	-	-	(117,298)	(117,298)	-	(117,298)
Equity-linked notes conversion	-	(83,000)	83,000	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	557	-	-	557	(4,867)	(4,310)
<b>31 December 2015</b>	<b>1,151</b>	<b>(241,615)</b>	<b>-</b>	<b>129,403</b>	<b>104,150</b>	<b>3,229,379</b>	<b>3,222,468</b>	<b>8,906</b>	<b>3,231,374</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	2016	2015
<b>Cash flows from operating activities</b>			
<b>Profit for the year attributable to PJSC LUKOIL shareholders</b>		<b>206,794</b>	<b>291,135</b>
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		311,588	350,976
Equity share in income of affiliates, net of dividends received		(4,040)	2,680
Dry hole write-offs		1,986	25,447
Loss on disposals and impairments of assets		7,031	167,295
Income tax expense		64,873	96,359
Non-cash foreign exchange loss (gain)		106,605	(122,955)
Non-cash investing activities		(127)	(334)
Finance income		(14,756)	(17,763)
Finance costs		47,030	48,224
Bad debt allowance		6,401	4,045
All other items – net		25,175	3,808
Changes in operating assets and liabilities:			
Trade accounts receivable		9,220	112,351
Inventories		(133,754)	78,622
Accounts payable		219,603	(87,621)
Other taxes		24,984	30,461
Other current assets and liabilities		(69,822)	(65,004)
Income tax paid		(71,578)	(92,377)
Dividends received		4,385	9,443
Interests received		10,649	14,180
<b>Net cash provided by operating activities</b>		<b>752,247</b>	<b>848,972</b>
<b>Cash flows from investing activities</b>			
Acquisition of licenses		(2,549)	(686)
Capital expenditures		(497,130)	(600,639)
Proceeds from sale of property, plant and equipment		2,089	1,898
Purchases of financial assets		(17,471)	(21,203)
Proceeds from sale of financial assets		13,283	19,837
Sale of subsidiaries, net of cash disposed		907	3,804
Sale of equity method affiliates		4,940	79,328
Acquisitions of subsidiaries, net of cash acquired		-	(1,501)
Acquisitions of equity method affiliates		(4,412)	(6,560)
<b>Net cash used in investing activities</b>		<b>(500,343)</b>	<b>(525,722)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of short-term borrowings		12,449	76,078
Principal repayments of short-term borrowings		(23,309)	(76,673)
Proceeds from issuance of long-term debt		188,684	104,433
Principal repayments of long-term debt		(189,592)	(198,157)
Interests paid		(49,695)	(41,359)
Dividends paid on Company common shares		(127,345)	(111,858)
Dividends paid to non-controlling interest shareholders		(3,383)	(3,248)
Financing received from non-controlling interest shareholders		342	105
Sale of non-controlling interests		-	2,568
Purchases of non-controlling interest		(1,285)	(4,952)
<b>Net cash used in financing activities</b>		<b>(193,134)</b>	<b>(253,063)</b>
Effect of exchange rate changes on cash and cash equivalents		(54,663)	18,053
Change in cash related to assets held for sale	15	(3)	-
<b>Net increase in cash and cash equivalents</b>		<b>4,104</b>	<b>88,240</b>
Cash and cash equivalents at beginning of year		257,263	169,023
<b>Cash and cash equivalents at end of year</b>	<b>6</b>	<b>261,367</b>	<b>257,263</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.

In July 2015, the Company changed its legal form to Public Joint Stock Company (“PJSC”) following the requirements of the amended Russian Civil Code.

***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 14 March 2017.

***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 the 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. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

Group's share in jointly controlled operations is recognised in the consolidated financial statements proportionally to 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.

Other investments are classified as held-to-maturity or available-for-sale investments.

*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.

*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.

**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)**

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 available-for-sale equity instruments which are recognised in other comprehensive income.

***Foreign operations***

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

***Revenues***

Revenues are recognised when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed or determinable. 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.

**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 from non-cash sales are recognised at the fair value of the crude oil and petroleum products sold.

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

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

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

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

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

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

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

***Non-derivative financial liabilities***

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



**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)**

*Derivative instruments*

The Group's derivative activity is limited to certain trading operations with oil and petroleum products and hedging of commodity price risks. Currently this activity involves the use of futures and swaps contracts together with purchase and sale contracts that qualify as derivative instruments. The Group accounts for these activities as not intended for hedging and doesn't use hedge accounting. The Group accounts for these activities at fair value. Resulting realised and unrealised gains or losses are presented in profit or loss on a net basis. Unrealised gains and losses are carried as assets or liabilities in the consolidated statement of financial position.

*Inventories*

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

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

*Property, plant and equipment*

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

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

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

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

Depreciation of assets not directly associated with oil 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.

**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)**

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 long-lived assets***

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

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

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

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

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

***Asset retirement obligations***

The Group records the fair value of liabilities related to its legal obligations to abandon, dismantle or otherwise retire tangible long-lived assets in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related long-lived asset is also recorded. 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. Subsequently, the related asset is depreciated using the same method as asset to be abandoned, dismantled or otherwise retired.

***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.

**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)**

*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 unrecognised) should be reassessed. In case of existence of previously unrecognised deferred tax assets, they can be recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

*Employee benefits*

*Defined benefit plan*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and any unrecognised past service costs 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 using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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

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

**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)**

*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 liability classified 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 classified share-based payment awards to employees are valued at fair value on the grant date and expensed over the vesting period.

**Note 4. Use of estimates and judgments**

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

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

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

- Estimation of oil and gas reserves;
- Estimation of useful lives of property, plant and equipment;
- Impairment of non-current assets;
- Assessment and recognition of provisions and contingent liabilities.

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

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**Note 4. Use of estimates and judgments (continued)**

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

**Note 5. New standards and interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective at 31 December 2016, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's financial results. The Group plans to adopt these pronouncements when they become effective.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, issued in December 2016, addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 22.

IFRS 2 *Share-based Payment* was amended in June 2016 by the *Classification and Measurement of Share-based Payment Transactions*. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 2.

IAS 7 *Statement of Cash Flows* was amended in January 2016 by the *Disclosure Initiative*. The amendments require companies to provide a reconciliation of financing cash flows in the statement of cash flows to the opening and closing balances of liabilities arising from financing activities (except for equity balances) in the statement of financial position. The amendments are effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 7.

IFRS 16 *Leases*, issued in January 2016, replaces the existing lease accounting guidance in 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*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

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

IFRS 15 *Revenue from Contracts with Customers*, issued in May 2014, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

**Note 6. Cash and cash equivalents**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Cash held in RUB	33,151	98,253
Cash held in US dollars	162,673	141,863
Cash held in EUR	59,135	9,650
Cash held in other currencies	6,408	7,497
<b>Total cash and cash equivalents</b>	<b>261,367</b>	<b>257,263</b>

**Note 7. Accounts receivable, net**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade accounts receivable (net of allowances of 18,270 million RUB and 17,322 million RUB at 31 December 2016 and 2015, respectively)	332,975	375,531
Other current accounts receivable (net of allowances of 1,919 million RUB and 1,599 million RUB at 31 December 2016 and 2015, respectively)	27,922	64,958
<b>Total accounts receivable, net</b>	<b>360,897</b>	<b>440,489</b>

**Note 8. Inventories**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Crude oil and petroleum products	349,153	275,941
Materials for extraction and drilling	20,182	21,345
Materials and supplies for refining	2,741	3,732
Other goods, materials and supplies	32,208	39,178
<b>Total inventories</b>	<b>404,284</b>	<b>340,196</b>

**Note 9. Other taxes receivable**

	<b>31 December 2016</b>	<b>31 December 2015</b>
VAT and excise tax recoverable	34,436	39,171
Export duties prepaid	17,113	21,824
Other taxes prepaid	22,480	20,697
<b>Total other taxes receivable</b>	<b>74,029</b>	<b>81,692</b>

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**Note 10. Other current assets**

	31 December 2016	31 December 2015
Advance payments	48,157	16,341
Prepaid expenses	23,172	31,960
Other assets	11,846	14,525
<b>Total other current assets</b>	<b>83,175</b>	<b>62,826</b>

**Note 11. Investments in associates and joint ventures**

Carrying value of investments in associates and joint ventures:

Name of the company	Country	Ownership		31 December 2016	31 December 2015
		31 December 2016	31 December 2015		
<i>Joint Ventures:</i>					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	86,851	99,843
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	25,032	27,574
Turgai Petroleum	Kazakhstan	50.0%	50.0%	1,650	1,675
South Caucasus Pipeline Company (SCPC)	Azerbaijan	10.0%	10.0%	23,738	22,284
<i>Associates:</i>					
Associates				25,134	30,368
<b>Total</b>				<b>162,405</b>	<b>181,744</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 2016	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Current assets	426,148	11,870	4,979	8,770	39,071	490,838
Non-current assets	1,173,533	548,193	2,387	256,657	162,144	2,142,914
Current liabilities	180,220	101,153	1,369	14,604	34,387	331,733
Non-current liabilities	426,482	258,656	2,697	13,445	116,483	817,763
Net assets (100%)	992,979	200,254	3,300	237,378	50,345	1,484,256
Share in net assets	86,851	25,032	1,650	23,738	25,134	162,405

31 December 2015	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Current assets	150,549	35,348	4,712	25,274	40,868	256,751
Non-current assets	1,172,207	671,010	5,992	239,561	151,180	2,239,950
Current liabilities	73,178	25,946	4,173	28,086	31,396	162,779
Non-current liabilities	193,485	459,817	3,181	13,912	97,395	767,790
Net assets (100%)	1,056,093	220,595	3,350	222,837	63,257	1,566,132
Share in net assets	99,843	27,574	1,675	22,284	30,368	181,744

2016	TCO	CPC	Turgai Petroleum	SCPC	Associates	Total
Revenues	697,252	107,417	9,445	22,988	99,919	937,021
Net income (100%)	125,675	18,504	432	14,182	3,357	162,150
Share in net income (loss)	4,111	2,313	216	1,418	(91)	7,967

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**Note 11. Investments in associates and joint ventures (continued)**

<b>2015</b>	<b>TCO</b>	<b>CPC</b>	<b>Turgai Petroleum</b>	<b>SCPC</b>	<b>Associates</b>	<b>Total</b>
Revenues	773,217	92,100	10,859	18,245	90,524	<b>984,945</b>
Net income (loss) (100%)	188,660	26,418	(9,542)	8,573	(13,093)	<b>201,016</b>
Share in net income (loss)	7,230	3,382	(4,771)	857	349	<b>7,047</b>

**Note 12. Property, plant and equipment**

	<b>Exploration and production</b>	<b>Refining, marketing and distribution</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>				
1 January 2016	3,232,673	1,206,252	103,587	<b>4,542,512</b>
Additions	452,115	60,317	3,449	<b>515,881</b>
Capitalised borrowing costs	11,738	427	1	<b>12,166</b>
Transfer to assets held for sale	-	-	(34,315)	<b>(34,315)</b>
Disposals	(13,482)	(23,935)	(1,138)	<b>(38,555)</b>
Changes in estimates of ARO	1,746	-	-	<b>1,746</b>
Foreign currency translation differences	(201,105)	(93,609)	(2,582)	<b>(297,296)</b>
Other	(5,635)	5,936	1,184	<b>1,485</b>
<b>31 December 2016</b>	<b>3,478,050</b>	<b>1,155,388</b>	<b>70,186</b>	<b>4,703,624</b>
<b>Depreciation and impairment</b>				
1 January 2016	(953,254)	(259,515)	(14,627)	<b>(1,227,396)</b>
Depreciation for the period	(211,034)	(92,561)	(6,120)	<b>(309,715)</b>
Transfer to assets held for sale	-	-	7,846	<b>7,846</b>
Impairment loss	(7,632)	(1,172)	-	<b>(8,804)</b>
Disposals	2,793	13,704	636	<b>17,133</b>
Foreign currency translation differences	111,097	31,656	585	<b>143,338</b>
Other	(86)	247	(114)	<b>47</b>
<b>31 December 2016</b>	<b>(1,058,116)</b>	<b>(307,641)</b>	<b>(11,794)</b>	<b>(1,377,551)</b>
<b>Advance payments for property, plant and equipment</b>				
1 January 2016	94,619	1,280	138	<b>96,037</b>
<b>31 December 2016</b>	<b>64,764</b>	<b>486</b>	<b>43</b>	<b>65,293</b>
<b>Carrying amounts</b>				
1 January 2016	2,374,038	948,017	89,098	<b>3,411,153</b>
<b>31 December 2016</b>	<b>2,484,698</b>	<b>848,233</b>	<b>58,435</b>	<b>3,391,366</b>
<b>Cost</b>				
1 January 2015	2,556,173	1,030,097	95,392	<b>3,681,662</b>
Additions	464,687	113,231	6,121	<b>584,039</b>
Acquisitions through business combinations	974	9,077	-	<b>10,051</b>
Capitalised borrowing costs	642	900	-	<b>1,542</b>
Disposals	(41,318)	(9,529)	(853)	<b>(51,700)</b>
Changes in estimates of ARO	6,129	-	-	<b>6,129</b>
Foreign currency translation differences	242,289	63,331	3,215	<b>308,835</b>
Other	3,097	(855)	(288)	<b>1,954</b>
<b>31 December 2015</b>	<b>3,232,673</b>	<b>1,206,252</b>	<b>103,587</b>	<b>4,542,512</b>
<b>Depreciation and impairment</b>				
1 January 2015	(444,128)	(142,713)	(8,525)	<b>(595,366)</b>
Depreciation for the period	(273,452)	(66,874)	(5,826)	<b>(346,152)</b>
Impairment loss	(119,341)	(35,282)	(5)	<b>(154,628)</b>
Disposals	2,110	4,659	260	<b>7,029</b>
Foreign currency translation differences	(116,563)	(18,349)	(559)	<b>(135,471)</b>
Other	(1,880)	(956)	28	<b>(2,808)</b>
<b>31 December 2015</b>	<b>(953,254)</b>	<b>(259,515)</b>	<b>(14,627)</b>	<b>(1,227,396)</b>



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**Note 12. Property, plant and equipment (continued)**

	Exploration and production	Refining, marketing and distribution	Other	Total
<b>Advance payments for property, plant and equipment</b>				
1 January 2015	58,558	8,258	467	67,283
<b>31 December 2015</b>	<b>94,619</b>	<b>1,280</b>	<b>138</b>	<b>96,037</b>
<b>Carrying amounts</b>				
1 January 2015	2,170,603	895,642	87,334	3,153,579
<b>31 December 2015</b>	<b>2,374,038</b>	<b>948,017</b>	<b>89,098</b>	<b>3,411,153</b>

The cost of assets under construction included in Property, plant and equipment was 593,970 million RUB and 676,908 million RUB at 31 December 2016 and 2015, respectively.

**Exploration and evaluation assets**

	2016	2015
1 January	52,302	46,906
Capitalised expenditures	28,653	82,779
Reclassified to development assets	(6,525)	13,052
Charged to expenses	(2,775)	(96,991)
Effect of movements in exchange rates	(1,700)	6,258
Other movements	(126)	298
<b>31 December</b>	<b>69,829</b>	<b>52,302</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.

As a result of the test, during 2016, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 5,696 million RUB, for its international exploration and production assets in the amount of 1,936 million RUB and for its refining, marketing and distribution assets in Russia in the amount of 1,172 million RUB.

The recoverable amount of CGUs subject to impairment in 2016 in the amount of 17,531 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 – from 10% to 11.9% discount rate, for refining, marketing and distribution assets – 11.9%.

As a result of the test, during 2015, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 47,972 million RUB, for its international exploration and production assets in the amount of 71,369 million RUB and for its refining, marketing and distribution assets in the amount of 35,287 million RUB.

The recoverable amount of CGUs subject to impairment in 2015 in the amount of 199,619 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 – from 10% to 15% discount rate, for refining, marketing and distribution assets – from 10% to 23%.

Impairment loss is included in “Other expenses” in the consolidated statements of profit or loss and other comprehensive income.

For impairment test purposes at 31 December 2016 the following Brent Blend price assumptions have been used: \$50 per barrel in 2017, \$60 per barrel in 2018, \$71 per barrel in 2019 and \$82 per barrel from 2020.

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**Note 12. Property, plant and equipment (continued)**

Further 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 13. Other non-current financial assets**

	31 December 2016	31 December 2015
Long-term loans	86,387	89,770
including loans to associates	86,181	89,407
Non-current accounts and notes receivable	7,916	8,148
Other non-current financial assets	7,509	4,149
<b>Total other non-current financial assets</b>	<b>101,812</b>	<b>102,067</b>

**Note 14. Goodwill and other intangible assets**

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
<b>Cost</b>					
1 January 2016	14,722	1,592	54,276	35,765	106,355
Additions as a result of internal developments	119	870	-	-	989
Additions – separately acquired	-	-	4,405	-	4,405
Disposals	(6)	(21)	(1,018)	-	(1,045)
Foreign currency translation differences	(272)	(1)	(7,554)	(4,621)	(12,448)
Other	1,821	(81)	(3,690)	(443)	(2,393)
<b>31 December 2016</b>	<b>16,384</b>	<b>2,359</b>	<b>46,419</b>	<b>30,701</b>	<b>95,863</b>
<b>Amortisation and impairment</b>					
1 January 2016	(10,110)	(263)	(32,359)	(11,912)	(54,644)
Amortisation for the year	(1,512)	(166)	(5,777)	-	(7,455)
Impairment loss	-	-	(82)	-	(82)
Disposals	2	4	900	-	906
Foreign currency translation differences	225	1	3,943	2,231	6,400
Other	(1,270)	(36)	2,902	550	2,146
<b>31 December 2016</b>	<b>(12,665)</b>	<b>(460)</b>	<b>(30,473)</b>	<b>(9,131)</b>	<b>(52,729)</b>
<b>Advance payments for intangible assets</b>					
1 January 2016	-	-	38	-	38
<b>31 December 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying amounts</b>					
1 January 2016	4,612	1,329	21,955	23,853	51,749
<b>31 December 2016</b>	<b>3,719</b>	<b>1,899</b>	<b>15,946</b>	<b>21,570</b>	<b>43,134</b>

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**Note 14. Goodwill and other intangible assets (continued)**

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
<b>Cost</b>					
1 January 2015	14,223	1,135	45,451	32,060	<b>92,869</b>
Additions as a result of internal developments	622	457	-	-	<b>1,079</b>
Acquisitions	-	-	2	453	<b>455</b>
Additions – separately acquired	-	-	5,778	-	<b>5,778</b>
Disposals	(146)	(5)	(1,398)	-	<b>(1,549)</b>
Foreign currency translation differences	1	-	4,043	3,252	<b>7,296</b>
Other	22	5	400	-	<b>427</b>
<b>31 December 2015</b>	<b>14,722</b>	<b>1,592</b>	<b>54,276</b>	<b>35,765</b>	<b>106,355</b>
<b>Amortisation and impairment</b>					
1 January 2015	(8,843)	(84)	(27,006)	(550)	<b>(36,483)</b>
Amortisation for the year	(1,326)	(175)	(4,786)	-	<b>(6,287)</b>
Impairment loss	-	-	(162)	(10,281)	<b>(10,443)</b>
Disposals	61	2	1,264	-	<b>1,327</b>
Foreign currency translation differences	(1)	-	(1,238)	(1,081)	<b>(2,320)</b>
Other	(1)	(6)	(431)	-	<b>(438)</b>
<b>31 December 2015</b>	<b>(10,110)</b>	<b>(263)</b>	<b>(32,359)</b>	<b>(11,912)</b>	<b>(54,644)</b>
<b>Advance payments for intangible assets</b>					
1 January 2015	-	-	-	-	-
<b>31 December 2015</b>	<b>-</b>	<b>-</b>	<b>38</b>	<b>-</b>	<b>38</b>
<b>Carrying amounts</b>					
1 January 2015	5,380	1,051	18,445	31,510	<b>56,386</b>
<b>31 December 2015</b>	<b>4,612</b>	<b>1,329</b>	<b>21,955</b>	<b>23,853</b>	<b>51,749</b>

The impairment losses during 2015 in the amount of 10,281 million RUB relate to goodwill in the international refining, marketing and distribution segment.

**Note 15. Assets held for sale**

In December of 2016, the Company entered into a contract with a company of the “Otkrytie Holding” group to sell the Group’s 100% interest in JSC “Arkhangelskgeoldobycha” (“AGD”), a company exploring the diamond field named after V.P. Grib located in Arkhangelsk region of Russia. The value of the transaction is the ruble equivalent of \$1.45 billion, including debt repayment by AGD to the Company. This value may be adjusted for changes in working capital at the transaction closing date. The closing of the transaction is expected after government authorities approvals.

**Note 16. Accounts payable**

	31 December 2016	31 December 2015
Trade accounts payable	478,673	339,091
Other accounts payable	71,574	55,248
<b>Total accounts payable</b>	<b>550,247</b>	<b>394,339</b>

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**Note 17. Short-term borrowings and current portion of long-term debt**

	31 December 2016	31 December 2015
Short-term borrowings from third parties	14,305	33,611
Short-term borrowings from related parties	3,743	5,609
Current portion of long-term debt	40,381	21,286
<b>Total short-term borrowings and current portion of long-term debt</b>	<b>58,429</b>	<b>60,506</b>

Short-term borrowings from third parties include amounts repayable in US dollars of 667 million RUB and 22,951 million RUB and amounts repayable in other currencies of 13,638 million RUB and 10,660 million RUB at 31 December 2016 and 2015, respectively. The weighted-average interest rate on short-term borrowings from third parties was 9.42% and 5.43% per annum at 31 December 2016 and 2015, respectively. Approximately 32% of total short-term borrowings from third parties at 31 December 2016 are secured by inventories.

**Note 18. Long-term debt**

	31 December 2016	31 December 2015
Long-term loans and borrowings from third parties	277,404	408,781
Long-term borrowings from related parties	-	138
6.356% non-convertible US dollar bonds, maturing 2017	30,328	36,441
3.416% non-convertible US dollar bonds, maturing 2018	90,689	108,983
7.250% non-convertible US dollar bonds, maturing 2019	36,304	43,583
6.125% non-convertible US dollar bonds, maturing 2020	60,585	72,778
6.656% non-convertible US dollar bonds, maturing 2022	30,328	36,441
4.563% non-convertible US dollar bonds, maturing 2023	90,689	108,983
4.750% non-convertible US dollar bonds, maturing 2026	60,657	-
Finance lease obligations	3,558	4,365
Total long-term debt	680,542	820,493
Current portion of long-term debt	(40,381)	(21,286)
<b>Total non-current portion of long-term debt</b>	<b>640,161</b>	<b>799,207</b>

***Long-term loans and borrowings***

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 155,720 million RUB and 336,842 million RUB, amounts repayable in euros of 50,496 million RUB and 70,447 million RUB, amounts repayable in Russian rubles of 70,000 million RUB and nil and amounts repayable in other currencies of 1,188 million RUB and 1,492 million RUB at 31 December 2016 and 2015, respectively. This debt has maturity dates from 2017 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 6.06% and 3.77% per annum at 31 December 2016 and 2015, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 23% of total long-term loans and borrowings from third parties at 31 December 2016 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 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.

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**Note 18. Long-term debt (continued)**

In April 2013, a Group company issued two tranches of non-convertible bonds totaling \$3 billion (182 billion RUB). The first tranche totaling \$1.5 billion (91 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 (91 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 November 2010, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (61 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling \$800 million (49 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 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 (91 billion RUB). The first tranche totaling \$900 million (55 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 (36 billion RUB) with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond's face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period. In November 2014, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

In June 2007, a Group company issued two tranches of non-convertible bonds totaling \$1 billion (61 billion RUB). \$500 million (30.5 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another \$500 million (30.5 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.

**Note 19. Other taxes payable**

	31 December 2016	31 December 2015
Mineral extraction tax	37,583	24,566
VAT	23,960	21,532
Excise taxes	16,606	15,553
Property tax	3,899	4,583
Other taxes	6,316	7,043
<b>Total other taxes payable</b>	<b>88,364</b>	<b>73,277</b>

**Note 20. Other current liabilities**

	31 December 2016	31 December 2015
Advances received	35,261	79,424
Dividends payable	55,285	47,615
Other	6,564	2,814
<b>Total other current liabilities</b>	<b>97,110</b>	<b>129,853</b>

**Note 21. Provisions**

	Asset retirement obligations	Provision for employee compensa- tions	Provision for environmen- tal liabilities	Pension provisions	Provision for unused vacations	Other provisions	Total
31 December 2015	32,919	19,837	5,455	7,913	3,591	6,953	<b>76,668</b>
Incl.: Non-current	32,632	6,733	3,575	6,392	134	1,649	<b>51,115</b>
Current	287	13,104	1,880	1,521	3,457	5,304	<b>25,553</b>
<b>31 December 2016</b>	<b>37,460</b>	<b>35,803</b>	<b>4,489</b>	<b>8,049</b>	<b>4,913</b>	<b>5,245</b>	<b>95,959</b>
Incl.: Non-current	35,939	23,377	2,523	6,531	60	1,514	<b>69,944</b>
Current	1,521	12,426	1,966	1,518	4,853	3,731	<b>26,015</b>

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**Note 21. Provisions (continued)**

Asset retirement obligations changed as follows during 2016 and 2015.

	<b>2016</b>	<b>2015</b>
1 January	32,919	19,604
Provisions made during the year	5,873	2,472
Reversal of provisions	(586)	(261)
Provisions used during the year	(103)	(87)
Accretion expense	2,305	1,543
Change in discount rate	4,301	4,153
Changes in estimates	(2,394)	1,431
Foreign currency translation differences	(3,221)	3,885
Other movements	(1,634)	179
<b>31 December</b>	<b>37,460</b>	<b>32,919</b>

**Note 22. Pension obligation**

The Group sponsors a postretirement defined benefit pension plan that covers the majority of the Group's employees. One type of pension plan is based on years of service, final remuneration levels as of the end of 2003 and employee gratitude, received during the period of work. The other type of pension plan is based on salary. These plans are solely financed by Group companies. Simultaneously employees have the right to receive pension benefits with a partial payment by the Group (up to 4% of the annual salary of the employee). Plan assets and pensions payments are managed by a non-state pension fund, JSC "NPF LUKOIL-GARANT" ("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 2016 and 2015.

All the data in the following tables is presented gross (before taxation).

The following tables set out movement in the present value of the defined benefit obligation during 2016 and 2015.

	<b>Funded plans</b>	<b>Post-employment benefits</b>	<b>Other long-term benefits</b>	<b>Total</b>
1 January 2016	7,013	6,379	164	<b>13,556</b>
Current service cost	246	420	91	<b>757</b>
Interest cost	548	625	16	<b>1,189</b>
Remeasurement (gains) losses:				
Remeasurement losses (gains) – experience	277	(231)	(52)	<b>(6)</b>
Remeasurement losses – changes in assumptions	805	291	8	<b>1,104</b>
Remeasurement gains – changes in foreign exchange rates	(41)	(132)	-	<b>(173)</b>
Past service cost	(165)	107	(4)	<b>(62)</b>
Acquisitions	-	6	-	<b>6</b>
Benefits paid	(914)	(617)	(40)	<b>(1,571)</b>
Gains on curtailments	-	(401)	(3)	<b>(404)</b>
Other	(14)	(422)	-	<b>(436)</b>
<b>31 December 2016</b>	<b>7,755</b>	<b>6,025</b>	<b>180</b>	<b>13,960</b>

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**Note 22. Pension obligation (continued)**

	Funded plans	Post- employment benefits	Other long-term benefits	Total
1 January 2015	5,830	5,550	137	11,517
Current service cost	296	332	45	673
Interest cost	515	722	18	1,255
Remeasurement (gains) losses:				
Remeasurement losses (gains) – experience	486	(100)	(14)	372
Remeasurement losses – changes in assumptions	859	182	14	1,055
Remeasurement losses – changes in foreign exchange rates	79	200	-	279
Past service cost	52	171	6	229
Benefits paid	(881)	(584)	(42)	(1,507)
Gains on curtailments	(209)	(94)	(1)	(304)
Other	(14)	-	1	(13)
<b>31 December 2015</b>	<b>7,013</b>	<b>6,379</b>	<b>164</b>	<b>13,556</b>

The following table sets out movement in the fair value of plan assets during 2016 and 2015.

	2016	2015
1 January	5,643	5,066
Interest income	490	589
Remeasurement losses	(176)	(325)
Contribution from employer	951	1,020
Benefits paid	(837)	(851)
Other	(160)	144
<b>31 December</b>	<b>5,911</b>	<b>5,643</b>

The following table sets out amounts recognised in profit or loss during 2016 and 2015.

	2016	2015
Service cost:		
Current service cost	757	673
Past service cost	(62)	229
Curtailment	(404)	(304)
Net interest expense	699	666
Other	107	(151)
<b>Components of defined benefit costs recorded in profit and loss</b>	<b>1,097</b>	<b>1,113</b>

The following table sets out amounts recognised in other comprehensive (income) loss during 2016 and 2015.

	2016	2015
The return on plan assets	176	325
Experience actuarial (gain) losses	46	386
Remeasurement losses – changes in assumptions	1,096	1,040
Remeasurement (gain) losses – changes in foreign exchange rates	(173)	279
Other	(13)	-
<b>Components of defined benefit costs recorded in other comprehensive loss</b>	<b>1,132</b>	<b>2,030</b>

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**Note 22. Pension obligation (continued)**

The following table sets out movement in the net liabilities during 2016 and 2015.

	<b>2016</b>	<b>2015</b>
1 January	7,913	6,451
Components of defined benefit costs recorded in profit or loss	1,097	1,113
Components of defined benefit costs recorded in other comprehensive loss	1,132	2,030
Contributions from employer	(951)	(1,020)
Benefits paid	(734)	(656)
Liability assumed in business combination	6	-
Other	(414)	(5)
<b>31 December</b>	<b>8,049</b>	<b>7,913</b>

The following table sets out movement in the other comprehensive (income) loss during 2016 and 2015.

	<b>2016</b>	<b>2015</b>
1 January	1,127	(903)
Change during the year	1,132	2,030
<b>31 December</b>	<b>2,259</b>	<b>1,127</b>

The following table sets out key actuarial assumptions used for valuation for 2016 and 2015.

	<b>2016</b>	<b>2015</b>
Nominal discount rate	8.5%	9.8%
Nominal inflation	4.5%	5.8%
Nominal expected return on assets	8.5%	9.8%
Nominal increase in salaries	5.6%	6.9%
Rate used for annuity contracts calculation	6.0%	6.0%

Assumptions regarding the future mortality used at 31 December 2016 are set based on Transition Table 1 for pensioners (at 31 December 2015 population-wide mortality table “Russia 2013” is used) for the unfunded programs and LUKOIL-GARANT mortality table for funded. These assumptions translated into an average life expectancy in years are as follows:

	<b>2016</b>		<b>2015</b>	
	<b>Transition Table 1</b>	<b>Mortality table used by LUKOIL-GARANT</b>	<b>Mortality table “Russia 2013”</b>	<b>Mortality table used by LUKOIL-GARANT</b>
Females at age 55	27.39	33.06	26.0	25.5
Males at age 60	17.69	23.14	16.4	15.9

The plans are funded on a discretionary basis through a solidarity account, which is held in trust with LUKOIL-GARANT. LUKOIL-GARANT does not allocate separately identifiable assets to the Group or its other third party clients. All funds of plan assets and other individual pension accounts are managed as a pool of investments.



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**Note 22. Pension obligation (continued)**

The asset allocation of the investment portfolio maintained by LUKOIL-GARANT for the Group and its other clients was as follows:

Type of assets	Share	
	2016	2015
Russian corporate bonds	56.1%	41.4%
Eurobonds	36.9%	26.9%
Bank deposits	0.0%	7.4%
Cash	1.2%	12.4%
Units in mutual funds	5.5%	5.9%
Other assets	0.3%	6.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

*Sensitivity analysis*

Reasonably possible changes to one of the significant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Change in obligation from base case	2016		2015	
	Increase	Decrease	Increase	Decrease
Discount rate (change by 1% p.a. compared to the base case)	(4.8%)	5.4%	(4.9%)	4.6%
Inflation rate (change by 1% p.a. compared to the base case)	4.0%	(3.5%)	3.5%	(3.9%)
Salary growth (change by 1% p.a. compared to the base case)	1.7%	(1.6%)	1.8%	(1.6%)
Population mortality (change by 10% compared to base case)	(0.7%)	0.8%	(0.8%)	0.8%
Staff turnover rates (change by 5% to retirement ages below 50)	(15.0%)	25.0%	(14.0%)	23.0%

**Note 23. Equity**

*Common shares*

	31 December 2016 (thousands of shares)	31 December 2015 (thousands of shares)
Authorised common shares, par value of 0.025 RUB each	850,563	850,563
Issued common shares, par value of 0.025 RUB each	850,563	850,563
Treasury shares	(137,630)	(137,630)
<b>Outstanding common shares</b>	<b>712,933</b>	<b>712,933</b>

*Dividends and dividend limitations*

Profits available for distribution to common shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Company prepared in accordance with the laws of the Russian Federation and denominated in Russian rubles. Under Russian Law, dividends are limited to the profit for the reporting period as set out in the statutory financial statements of the Company. These laws and other legislative acts governing the rights of shareholders to receive dividends are subject to various interpretations.

At the extraordinary shareholders' meeting on 5 December 2016, interim dividends for 2016 were approved in the amount of 75.00 Russian rubles per common share.

At the annual stockholders' meeting on 23 June 2016, dividends for 2015 were approved in the amount of 112.00 Russian rubles per common share. At the extraordinary stockholders' meeting on 16 December 2015, interim dividends for 2015 were approved in the amount of 65.00 Russian rubles per common share. Total dividends for 2015 were approved in the amount of 177.00 Russian rubles per common share.

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**Note 23. Equity (continued)**

Dividends payable on the Company common shares in the amount of 54,301 million RUB and 46,609 million RUB are included in “Other current liabilities” in the consolidated statement of financial position at 31 December 2016 and 2015, respectively.

*Earnings per share*

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

	<b>2016</b>	<b>2015</b>
Profit for the year attributable to PJSC LUKOIL	206,794	291,135
Add back interest and accretion on 2.625% convertible US dollar bonds, maturing 2015 (net of tax at effective rate)	-	1,718
Total diluted profit for the year attributable to PJSC LUKOIL	206,794	292,853
Weighted average number of outstanding common shares (thousands of shares)	712,933	741,769
Equity-linked notes	-	(28,836)
Weighted average number of common shares (thousands of shares)	712,933	712,933
Add back treasury shares held in respect of convertible debt (thousands of shares)	-	9,890
Weighted average number of common shares, assuming dilution (thousands of shares)	712,933	722,823
Earnings per share of common stock attributable to PJSC LUKOIL (RUB):		
Basic	290.06	408.36
Diluted	290.06	405.15

**Note 24. Personnel expenses**

Personnel expenses were as follows:

	<b>2016</b>	<b>2015</b>
Salary	136,035	126,506
Statutory insurance contributions	28,879	26,994
Share-based payments	20,370	4,837
<b>Total personnel expenses</b>	<b>185,284</b>	<b>158,337</b>

**Note 25. Finance income and costs**

Finance income was as follows:

	<b>2016</b>	<b>2015</b>
Interest income from deposits	5,878	10,202
Interest income from loans	7,306	6,179
Other finance income	1,572	1,382
<b>Total finance income</b>	<b>14,756</b>	<b>17,763</b>

Finance costs were as follows:

	<b>2016</b>	<b>2015</b>
Interest expense	40,283	44,082
Accretion expense	2,323	1,583
Other finance costs	4,424	2,559
<b>Total finance costs</b>	<b>47,030</b>	<b>48,224</b>

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**Note 26. Other income and expenses**

Other income was as follows:

	<b>2016</b>	<b>2015</b>
Gain on disposal of assets	14,449	43,945
Reversal of impairment of assets	891	1,292
Other income	17,083	16,110
<b>Total other income</b>	<b>32,423</b>	<b>61,347</b>

Other expenses were as follows:

	<b>2016</b>	<b>2015</b>
Impairment loss	9,471	187,050
Loss on disposal of assets	12,900	24,051
Charity expenses	12,060	7,929
Other expenses	8,337	6,440
<b>Total other expenses</b>	<b>42,768</b>	<b>225,470</b>

**Note 27. Income tax**

Before 2017, operations in the Russian Federation were subject to a Federal income tax rate of 2.0% and a regional income tax rate that varies from 13.5% to 18.0% at the discretion of the individual regional administration. The Group's foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

For the period from 2017 till 2020 (inclusive) a Federal income tax rate is set as 3.0% and a regional income tax rate varies from 12.5% to 17.0% at the discretion of the individual regional administration.

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:

	<b>2016</b>	<b>2015</b>
Current income tax expense for the year	59,209	101,106
Adjustment for prior periods	(1,039)	(771)
<b>Current income taxes</b>	<b>58,170</b>	<b>100,335</b>
Deferred income tax	6,703	(3,976)
<b>Deferred income tax</b>	<b>6,703</b>	<b>(3,976)</b>
<b>Total income tax expense</b>	<b>64,873</b>	<b>96,359</b>

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>2016</b>	<b>2015</b>
Profit before income taxes	272,515	389,104
Notional income tax at the Russian statutory rate	54,503	77,821
Increase (reduction) in income tax due to:		
Non-deductible items, net	16,998	19,155
Domestic and foreign rate differences	(2,577)	(4,929)
Change in recognised deductible temporary differences	(4,051)	4,312
<b>Total income tax expense</b>	<b>64,873</b>	<b>96,359</b>

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**Note 27. Income tax (continued)**

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 2016</b>	<b>31 December 2015</b>
Property, plant and equipment	8,422	9,698
Inventories	4,556	4,232
Accounts receivable	678	922
Accounts payable and provisions	10,242	7,920
Operating loss carry forward	35,086	36,156
Other	1,718	1,870
Total deferred income tax assets	60,702	60,798
Set off of tax	(31,623)	(32,063)
<b>Deferred income tax assets</b>	<b>29,079</b>	<b>28,735</b>
Property, plant and equipment	(253,591)	(244,294)
Investments	(3,452)	(4,280)
Inventories	(6,979)	(6,200)
Accounts receivable	(4,681)	(6,422)
Accounts payable and provisions	(76)	(1,275)
Other	(2,655)	(3,699)
Total deferred income tax liabilities	(271,434)	(266,170)
Set off of tax	31,623	32,063
<b>Deferred income tax liabilities</b>	<b>(239,811)</b>	<b>(234,107)</b>
<b>Net deferred income tax liabilities</b>	<b>(210,732)</b>	<b>(205,372)</b>

	<b>1 January 2016</b>	<b>Recognition in profit or loss</b>	<b>Acquisitions and Disposal</b>	<b>Foreign currency translation differences and other</b>	<b>31 December 2016</b>
Property, plant and equipment	(234,596)	(15,048)	2,424	2,051	(245,169)
Investments	(4,280)	592	-	236	(3,452)
Inventories	(1,968)	(1,167)	529	183	(2,423)
Accounts receivable	(5,500)	1,482	(15)	30	(4,003)
Accounts payable	6,645	3,802	(618)	337	10,166
Operating loss carry forward	36,156	3,134	(2,108)	(2,096)	35,086
Other	(1,829)	502	130	260	(937)
<b>Net deferred income tax liabilities</b>	<b>(205,372)</b>	<b>(6,703)</b>	<b>342</b>	<b>1,001</b>	<b>(210,732)</b>

	<b>1 January 2015</b>	<b>Recognition in profit or loss</b>	<b>Acquisitions and Disposal</b>	<b>Foreign currency translation differences and other</b>	<b>31 December 2015</b>
Property, plant and equipment	(232,539)	3,639	(73)	(5,623)	(234,596)
Investments	(4,047)	(348)	-	115	(4,280)
Inventories	(139)	(2,280)	(10)	461	(1,968)
Accounts receivable	(4,138)	(1,399)	-	37	(5,500)
Accounts payable	5,472	2,137	611	(1,575)	6,645
Operating loss carry forward	32,155	2,342	(313)	1,972	36,156
Other	(1,724)	(115)	(615)	625	(1,829)
<b>Net deferred income tax liabilities</b>	<b>(204,960)</b>	<b>3,976</b>	<b>(400)</b>	<b>(3,988)</b>	<b>(205,372)</b>

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**Note 27. Income tax (continued)**

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

	31 December 2016	31 December 2015
Property, plant and equipment	3,602	4,480
Operating loss carry forward	16,260	19,895
Other	505	43
<b>Total deferred tax assets</b>	<b>20,367</b>	<b>24,418</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 2016:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	(74,175)	-	(74,175)
Remeasurements of defined benefit liability/asset of pension plan	(1,132)	207	(925)
<b>Total</b>	<b>(75,307)</b>	<b>207</b>	<b>(75,100)</b>

Amounts recognised in other comprehensive income during 2015:

	Before tax	Tax	Net of tax
Foreign currency translation differences for foreign operations	12,345	-	12,345
Remeasurements of defined benefit liability/asset of pension plan	(2,030)	380	(1,650)
<b>Total</b>	<b>10,315</b>	<b>380</b>	<b>10,695</b>

Retained earnings of foreign subsidiaries for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment included 644,200 million RUB at 31 December 2016 and 836,935 million RUB at 31 December 2015. Such amounts are considered to be indefinitely invested and it is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

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

**Note 28. Operating lease**

At 31 December 2016 and 2015, Group companies had commitments primarily for the lease of vessels and petroleum distribution outlets. Commitments for minimum rentals under these leases are payable as follows:

	31 December 2016	31 December 2015
Less than a year	31,184	35,858
1-5 years	57,429	46,589
More than 5 years	103,199	80,924
<b>Total</b>	<b>191,812</b>	<b>163,371</b>

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**Note 29. Commitments and contingencies**

*Capital commitments*

At 31 December 2016, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 463,723 million RUB.

*Insurance*

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

*Environmental liabilities*

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

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

*Social assets*

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

*Taxation environment*

The taxation systems in the Russian Federation and other emerging markets where Group companies operate are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the 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 may create substantially more significant taxation risks in the Russian Federation and other emerging markets where Group companies operate, than those in other countries where taxation regimes have been subject to development and clarification over long periods.

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

**PJSC LUKOIL****Notes to Consolidated Financial Statements****(Millions of Russian rubles, unless otherwise noted)****Note 29. Commitments and contingencies (continued)**

The Group has implemented tax planning and management strategies based on existing legislation at the time of implementation. The Group is subject to tax authority audits on an ongoing basis, as is normal in the Russian environment 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 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***

On 27 November 2001, Archangel Diamond Corporation (“ADC”), a Canadian diamond development company, filed a lawsuit in the Denver District Court, Colorado against AGD, a Group company, and the Company (together the “Defendants”). ADC alleged that the Defendants interfered with the transfer of a diamond exploration license to Almazny Bereg, a joint venture between ADC and AGD. ADC claimed compensatory damages of \$1.2 billion (72.8 billion RUB) and punitive damages of \$3.6 billion (218.4 billion RUB). On 15 October 2002, the District Court dismissed the lawsuit for lack of personal jurisdiction. This ruling was upheld by the Colorado Court of Appeals on 25 March 2004. However, on 21 November 2005, due to a procedural error, the Colorado Supreme Court remanded the case to the Colorado Court of Appeals and the Colorado Court of Appeals remanded the case to the District Court. On 20 October 2011, the Denver District Court dismissed all claims against the Company for lack of jurisdiction. On 23 August 2012, the Colorado Court of Appeals affirmed this decision. On 1 July 2013, the Colorado Supreme Court denied ADC’s Petition for Writ of Certiorari. The case in the state court is therefore over.

On 6 January 2012, ADC filed a lawsuit in the US District Court for the District of Colorado (federal court) reasserting almost identical claims asserted in the aforementioned lawsuit and dismissed by the Denver District Court (state court). In the federal Court case, the Company has filed a Motion to Dismiss. On 18 December 2014, the federal court granted the motion based on lack of personal jurisdiction over the Company and the doctrine of “forum non conveniens”. ADC filed a notice of appeal in the US Court of Appeals for the Tenth Circuit. On 9 February 2016, the US Court of Appeals for the Tenth Circuit affirmed the dismissal of the case on “forum non conveniens” grounds. On 23 February 2016, ADC filed a Petition for rehearing and for “rehearing en banc”. On 1 April 2016, the US Court of Appeals for the Tenth Circuit denied both ADC’s Petition for rehearing and for “rehearing en banc”. On 7 November 2016, the US Supreme court denied ADC’s Petition for Writ of Certiorari. The case is therefore over.

In June 2014, the prosecutors with the Ploesti Court of Appeals (hereinafter the “Prosecutor’s Office”) issued an order on initiation of criminal proceedings and brought charges against PETROTEL-LUKOIL S.A. refinery, a Group company, and its general director based on alleged tax evasion and money laundering. Later the Prosecutor’s Office added bad faith use of the company’s credit and money laundering charges for 2008-2010 against LUKOIL Europe Holdings B.V., a Group company. The amount of the claim is not finalised. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L., Group companies, and a number of Romanian legal entities not affiliated with the Group are also considered to be suspects in this criminal case. At the moment a preliminary investigation of the criminal case is being conducted. Tax audits of PETROTEL-LUKOIL S.A. have not revealed any material violations so far. In July 2015, a new charge in respect of bad faith use of the company’s credit and money laundering was brought against the general director and several officers of PETROTEL-LUKOIL S.A. A similar charge was brought against LUKOIL Europe Holdings B.V. and PETROTEL-LUKOIL S.A. for 2011-2014. On 3 August 2015, the Prosecutor’s Office issued the final indictment on the new charges and submitted the case to the Prahova Tribunal for further consideration by the preliminary chamber judge. The allegations of bad faith use of the company’s credit in respect of PETROTEL-LUKOIL S.A. were excluded from the final indictment. Following the preliminary hearing the Prosecutor’s Office revised the amount of damage claimed from \$2.2 billion (133.4 billion RUB) to \$1.5 billion (91 billion RUB). This amount is not final. During the entire trial it may be revised by the Tribunal on the basis of evidence produced. On 15 December 2015, the Prahova Tribunal ascertained that there are numerous irregularities in the indictment act and returned the criminal file to the Prosecutor’s Office.

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**Note 29. Commitments and contingencies (continued)**

The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, the Prosecutor has prepared a new indictment act based on the same accusations which were submitted to the Prahova Tribunal on 22 January 2016. On 18 April 2016, the preliminary hearing chamber of the Prahova Tribunal decided on the hearing of the case on the merits. Moreover, on 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. At the current stage of the hearings the defendants made oral statements. On 27 January 2017, a court hearing took place and the defendants requested that an expert examination be performed. On 6 March 2017, the Prahova Tribunal issued a ruling whereby it approved a list of issues to be considered within the examination procedure. It is expected that an expert will be appointed during the next hearing which is scheduled for 5 April 2017. Management of PETROTEL-LUKOIL S.A. and its tax and legal counsel are actively defending the lawful rights and interests of the refinery, provide all required opinions, clarifications and comments, and prepare an exhaustive set of evidence to fully rebut the charges brought by the Prosecutor's Office. 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 dispute related to cost recovery in 2010-2013 and calculation of the "fairness index" in accordance with the Final Production Sharing Agreement in respect of the Karachaganak field in Kazakhstan. Currently, the parties are in the process of preparation for the arbitration with regard to the cost recovery issue and in the process of forming the panel of arbitrators with regard to correctness of "fairness index" calculation. The parties intend to resolve the disagreements in both disputes during negotiation process therefore management believes that all the calculations of possible losses are preliminary and are not subject to disclosure in order to avoid an adverse impact on course of the negotiations and position of the parties in it. As at the date of the signing of these consolidated financial statements, management can not make a sufficient judgement on the influence of "fairness index" on the Group's financial position due to absence of the amount of the claim from the Republic of Kazakhstan and complexity of "fairness index" calculation.

The Commission for Protection of Competition in Bulgaria issued ruling alleging violations of applicable antimonopoly laws by Lukoil Bulgaria EOOD, a Group company, and a number of other legal entities not affiliated with the Group, in connection with concerted actions and anti-competitive agreements to fix petrol and diesel fuel retail market prices in Bulgaria. The maximum amount of fines for this violation is evaluated at \$158 million (9,6 billion RUB). Lukoil Bulgaria EOOD filed written objections in required period. The announcement of the date of the open hearing is expected and after that the closed hearing will be held. This hearing will state whether there is any violations or not and the amount of fines if any. Management does not believe that the outcome of this matter will have a material adverse effect on the Group's financial position.

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

***Political situation***

In July-September 2014, the United States ("US"), the European Union ("EU") and other countries imposed a set of economic sanctions on Russia, including certain sectoral sanctions which affect Russian oil and gas companies. Such sectoral sanctions prohibit US and the EU companies and individuals from providing, exporting, or reexporting directly or indirectly, goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore or shale projects on the territory of the Russian Federation. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group's financial position and results of operations.

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



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**Note 30. Related party transactions**

In the rapidly developing business environment in the Russian Federation, companies and individuals have frequently used nominees and other forms of intermediary companies in 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 in this environment 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 affiliated companies.

Outstanding balances with related parties:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Accounts receivable	8,209	10,925
Other financial assets	93,453	98,538
<b>Total assets</b>	<b>101,662</b>	<b>109,463</b>
Accounts payable	8,436	8,458
Loans and borrowings	3,743	5,747
<b>Total liabilities</b>	<b>12,179</b>	<b>14,205</b>

Related party transactions were as follows:

	<b>2016</b>	<b>2015</b>
Sales of oil and oil products	19,972	30,880
Other sales	6,576	1,490
Purchases of oil and oil products	78,060	67,433
Other purchases	6,983	7,316
Loans given	16,279	10,288
Loans received	4,625	15,279

*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 5,519 million RUB and 2,364 million RUB during 2016 and 2015, respectively. These amounts also include accruals related to compensation plan, which is disclosed in Note 31 “Compensation plan”.

**Note 31. Compensation plan**

In December 2012, the Company introduced a compensation plan available to certain members of management for the period from 2013 to 2017, which is based on assigned shares and provides compensation consisting of two parts. The first part represents annual bonuses that are based on the number of assigned shares and amount of dividend per share. The payment of these bonuses is contingent on the Group meeting certain financial KPIs in each financial year. The second part is based upon the Company’s common shares appreciation from 2013 to 2017, with rights vesting after the date of the compensation plan’s termination. The number of assigned shares is approximately 19 million shares.

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as liability settled. The reporting date fair value of this part of the plan was estimated at 29,210 million RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 8.35% per annum, an expected dividend yield of 6.79% per annum, an expected time to maturity of one year and a volatility factor of 14.40%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company’s shares for the previous eleven years from 2006 till 2016.

Related to this share plan the Group recognised 20,370 million RUB and 4,837 million RUB of compensation expense during 2016 and 2015, respectively. At 31 December 2016 and 2015 amounts of 26,921 million RUB and 9,698 million RUB related to this plan are included in “Provisions” of the consolidated statement of financial position, respectively.

At 31 December 2016, there was 5,842 million RUB of total unrecognised compensation cost related to unvested benefits. This cost is expected to be recognised periodically by the Group up to December 2017.

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**Note 32. Segment information**

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

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

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

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

**Operating segments**

<b>2016</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	156,834	5,029,489	40,722	-	5,227,045
Inter-segment	1,445,827	67,509	47,433	(1,560,769)	-
<b>Total revenues</b>	<b>1,602,661</b>	<b>5,096,998</b>	<b>88,155</b>	<b>(1,560,769)</b>	<b>5,227,045</b>
Operating expenses	265,216	217,010	22,022	(47,815)	456,433
Selling, general and administrative expenses	38,926	131,561	58,491	(32,822)	196,156
Profit (loss) for the year	215,922	113,703	(129,924)	7,093	206,794
Operating earnings	496,541	228,766	(114,037)	4,259	615,529
Income tax expense					(64,873)
Finance income					14,756
Finance costs					(47,030)
Depreciation, depletion and amortisation					(311,588)
Profit for the year attributable to PJSC LUKOIL shareholders					206,794

<b>2015</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	263,422	5,455,372	30,256	-	5,749,050
Inter-segment	1,613,982	56,185	52,682	(1,722,849)	-
<b>Total revenues</b>	<b>1,877,404</b>	<b>5,511,557</b>	<b>82,938</b>	<b>(1,722,849)</b>	<b>5,749,050</b>
Operating expenses	263,101	188,911	22,031	(27,324)	446,719
Selling, general and administrative expenses	39,861	126,345	36,576	(34,113)	168,669
Profit for the year	107,453	93,502	63,528	26,652	291,135
Operating earnings	489,076	203,358	89,062	(12,565)	768,931
Income tax expense					(96,359)
Finance income					17,763
Finance costs					(48,224)
Depreciation, depletion and amortisation					(350,976)
Profit for the year attributable to PJSC LUKOIL shareholders					291,135

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**Note 32. Segment information (continued)**

**Geographical segments**

	<b>2016</b>	<b>2015</b>
Sales of crude oil within Russia	94,985	145,688
Export of crude oil and sales of crude oil by foreign subsidiaries	1,353,334	1,389,955
Sales of petroleum products within Russia	626,633	604,687
Export of petroleum products and sales of petroleum products by foreign subsidiaries	2,770,095	3,238,339
Sales of chemicals within Russia	38,092	28,248
Export of chemicals and sales of chemicals by foreign subsidiaries	34,711	34,490
Sales of gas and gas products within Russia	34,723	38,229
Export of gas products and sales of gas and gas products by foreign subsidiaries	81,626	100,097
Sales of energy and related services within Russia	61,920	58,237
Sales of energy and related services by foreign subsidiaries	14,178	12,516
Other sales within Russia	46,867	41,134
Other export sales and other sales of foreign subsidiaries	69,881	57,430
<b>Total sales</b>	<b>5,227,045</b>	<b>5,749,050</b>

<b>2016</b>	<b>Russia</b>	<b>International</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues				
Third parties	947,461	4,279,584	-	5,227,045
Inter-segment	1,027,215	2,497	(1,029,712)	-
<b>Total revenues</b>	<b>1,974,676</b>	<b>4,282,081</b>	<b>(1,029,712)</b>	<b>5,227,045</b>
Operating expenses	322,258	117,794	16,381	456,433
Selling, general and administrative expenses	111,297	88,610	(3,751)	196,156
Profit for the year	196,150	4,792	5,852	206,794
Operating earnings	467,329	141,575	6,625	615,529

<b>2015</b>	<b>Russia</b>	<b>International</b>	<b>Elimination</b>	<b>Consolidated</b>
Sales and other operating revenues				
Third parties	946,824	4,802,226	-	5,749,050
Inter-segment	1,161,026	5,423	(1,166,449)	-
<b>Total revenues</b>	<b>2,107,850</b>	<b>4,807,649</b>	<b>(1,166,449)</b>	<b>5,749,050</b>
Operating expenses	312,262	131,659	2,798	446,719
Selling, general and administrative expenses	86,251	86,472	(4,054)	168,669
Profit (loss) for the year	391,343	(125,604)	25,396	291,135
Operating earnings	650,450	132,346	(13,865)	768,931

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

	<b>2016</b>	<b>2015</b>
Sales revenues		
in Switzerland	2,380,957	2,604,891
in the USA	421,930	403,196
in Singapore	341,396	451,269

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

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**Note 33. Subsidiaries**

**Key subsidiaries**

The most significant subsidiaries of the Group are presented below.

Subsidiary	Country of incorporation	31 December 2016		31 December 2015	
		Total shares	Voting shares	Total shares	Voting shares
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-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%
LITASCO SA	Switzerland	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%
LUKOIL Uzbekistan Operating Company LLC	Uzbekistan	100.00%	100.00%	100.00%	100.00%
RITEK JSC	Russia	100.00%	100.00%	100.00%	100.00%
LUKARCO B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Neftochim Bourgas AD	Bulgaria	99.82%	99.82%	99.82%	99.82%
ISAB S.r.l.	Italy	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Karachaganak B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Uzbekistan Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
LUKOIL Overseas Shah Deniz Ltd.	Cyprus	100.00%	100.00%	100.00%	100.00%
Soyuzneftegaz Vostok Limited	Cyprus	100.00%	100.00%	100.00%	100.00%

**Note 34. 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 table shows the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 31 December 2016 and 2015:

31 December 2016	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Commodity derivative contracts	13,380	-	13,380	-	13,380
Available for sale securities	7,437	-	-	7,437	7,437
<b>Financial liabilities:</b>					
Commodity derivative contracts	36,935	-	36,935	-	36,935
Loans and borrowings	680,542	414,214	-	290,622	704,836

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**Note 34. Fair value (continued)**

31 December 2015	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Commodity derivative contracts	41,648	-	41,648	-	<b>41,648</b>
Available for sale securities	4,045	-	-	4,045	<b>4,045</b>
<b>Financial liabilities:</b>					
Commodity derivative contracts	10,827	-	10,827	-	<b>10,827</b>
Loans and borrowings	820,493	400,140	-	392,952	<b>793,092</b>

The fair values of cash and cash equivalents (Level 1), current and long-term accounts receivable (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and other similar main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 December 2016 and 2015.

**Note 35. Capital and risk management**

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

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

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.

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**Note 35. Capital and risk management (continued)**

**Trade and other receivables**

Analysis of the aging of receivables:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Not past due	305,183	421,456
Past due less than 90 days	22,973	10,761
Past due from 90 to 180 days	17,994	3,030
Past due from 180 to 270 days	9,318	575
Past due from 270 to 365 days	1,665	1,040
Past due more than 365 days	3,764	3,627
<b>Total trade and other receivables</b>	<b>360,897</b>	<b>440,489</b>

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

Allowance for doubtful accounts receivable changed as follows:

	<b>2016</b>	<b>2015</b>
1 January	18,921	14,505
Increase in allowance for doubtful debts charged to profit and loss	6,192	4,093
Write-off	(2,187)	(1,113)
Foreign currency translation differences	(2,615)	1,418
Other	(122)	18
<b>31 December</b>	<b>20,189</b>	<b>18,921</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):

	<b>Carrying amount</b>	<b>Contractual cash flows (undiscounted)</b>	<b>Less than 12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Over 5 years</b>
Loans and borrowings, including interest expense	296,425	374,611	44,220	38,968	247,138	44,285
Bonds, including interest expense	402,607	500,552	50,800	109,234	134,143	206,375
Finance lease obligations	3,558	5,495	1,149	1,151	3,167	28
Trade and other payables	510,333	510,333	509,755	134	302	142
Derivative financial liabilities	36,935	36,935	36,935	-	-	-
<b>31 December 2016</b>	<b>1,249,858</b>	<b>1,427,926</b>	<b>642,859</b>	<b>149,487</b>	<b>384,750</b>	<b>250,830</b>

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**Note 35. 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	449,150	512,839	74,907	60,124	294,403	83,405
Bonds, including interest expense	410,286	515,040	21,134	57,575	271,136	165,195
Finance lease obligations	4,365	6,665	1,519	1,094	3,070	982
Trade and other payables	380,650	380,650	380,036	350	103	161
Derivative financial liabilities	10,827	10,827	10,827	-	-	-
<b>31 December 2015</b>	<b>1,255,278</b>	<b>1,426,021</b>	<b>488,423</b>	<b>119,143</b>	<b>568,712</b>	<b>249,743</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. Moreover, to mitigate its foreign exchange risks, the loans to Group companies are granted in local currencies as part of inter-group financing.

The carrying amounts of the Group's assets and liabilities denominated in foreign currencies at 31 December 2016 and 2015 were as follows:

<b>31 December 2016</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>
<b>Financial assets:</b>			
Cash and cash equivalents	112,147	57,632	727
Trade and other receivables	123,313	2,365	564
Loans	469,756	6,246	-
Other financial assets	961	12	10
<b>Financial liabilities:</b>			
Loans and borrowings	(67,790)	(59,999)	(1,188)
Trade and other payables	(32,489)	(4,337)	(624)
<b>Net exposure</b>	<b>605,898</b>	<b>1,919</b>	<b>(511)</b>
<b>31 December 2015</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>
<b>Financial assets:</b>			
Cash and cash equivalents	33,965	7,499	714
Trade and other receivables	83,548	2,077	661
Loans	665,692	10,542	-
Other financial assets	761	3,985	124
<b>Financial liabilities:</b>			
Loans and borrowings	(246,832)	(78,193)	(1,512)
Trade and other payables	(30,259)	(8,646)	(715)
<b>Net exposure</b>	<b>506,875</b>	<b>(62,736)</b>	<b>(728)</b>

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

**Note 35. Capital and risk management (continued)**

The following exchange rates applied:

	<b>31 December 2016</b>	<b>31 December 2015</b>
USD	60,66	72,88
EUR	63,81	79,70

***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 2016 and 2015 would have affected the measurement of financial instruments denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

	<b>Profit (loss)</b>	
	<b>2016</b>	<b>2015</b>
US Dollar (increase by 10%)	55,080	50,513
Euro (increase by 10%)	3,138	(2,204)
Russian ruble (increase by 10%)	(52,445)	(43,682)

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:

	<b>31 December 2016</b>	<b>31 December 2015</b>
<i>Fixed rate instruments:</i>		
Financial assets	79,951	87,650
Financial liabilities	(417,333)	(443,930)
<b>Net exposure</b>	<b>(337,382)</b>	<b>(356,280)</b>
<i>Variable rate instruments:</i>		
Financial assets	30,879	30,037
Financial liabilities	(281,257)	(415,783)
<b>Net exposure</b>	<b>(250,378)</b>	<b>(385,746)</b>



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

**Note 35. Capital and risk management (continued)**

*Sensitivity analysis for variable rate instruments*

A reasonably possible change of 100 basis points in interest rates at 31 December 2016 and 2015 would have increased (decreased) profit (loss) before taxes by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit (loss) before taxes	
	100 bp increase	100 bp decrease
<b>2016</b>		
Net financial liabilities	(2,504)	2,504
<b>2015</b>		
Net financial liabilities	(3,857)	3,857

**Capital management**

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

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

	31 December 2016	31 December 2015
Total debt	698,590	859,713
Less cash and cash equivalents	(261,367)	(257,263)
Net debt	437,223	602,450
Equity	3,227,664	3,231,374
<b>Net debt to equity ratio</b>	<b>13.55%</b>	<b>18.64%</b>

**PJSC LUKOIL**

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

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 2016</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	61,053	66,764	127,817	25,492
Proved oil and gas properties	1,013,911	2,336,322	3,350,233	174,337
Accumulated depreciation, depletion, and amortisation	(569,135)	(488,981)	(1,058,116)	(59,880)
<b>Net capitalised costs</b>	<b>505,829</b>	<b>1,914,105</b>	<b>2,419,934</b>	<b>139,949</b>

<b>31 December 2015</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	65,722	54,024	119,746	18,401
Proved oil and gas properties	1,048,932	2,063,995	3,112,927	175,507
Accumulated depreciation, depletion, and amortisation	(621,362)	(331,892)	(953,254)	(57,153)
<b>Net capitalised costs</b>	<b>493,292</b>	<b>1,786,127</b>	<b>2,279,419</b>	<b>136,755</b>

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

<b>2016</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
Acquisition of properties – proved	-	354	354	-
Acquisition of properties – unproved	-	123	123	-
Exploration costs	13,828	22,467	36,295	885
Development costs	137,582	269,076	406,658	14,624
<b>Total costs incurred</b>	<b>151,410</b>	<b>292,020</b>	<b>443,430</b>	<b>15,509</b>

<b>2015</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
Acquisition of properties – proved	-	191	191	-
Acquisition of properties – unproved	8,286	2,566	10,852	-
Exploration costs	50,217	19,424	69,641	1,628
Development costs	137,374	272,793	410,167	12,945
<b>Total costs incurred</b>	<b>195,877</b>	<b>294,974</b>	<b>490,851</b>	<b>14,573</b>

**PJSC LUKOIL**

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

**III. Results of operations for oil and gas producing activities**

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

<b>2016</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
Revenue				
Sales	134,682	635,130	769,812	41,014
Transfers	-	555,018	555,018	1,331
<b>Total revenues</b>	<b>134,682</b>	<b>1,190,148</b>	<b>1,324,830</b>	<b>42,345</b>
Production costs (excluding production taxes)	(45,813)	(165,641)	(211,454)	(7,373)
Exploration expense	(6,232)	(2,061)	(8,293)	(1)
Depreciation, depletion, and amortisation	(57,521)	(154,226)	(211,747)	(7,098)
Taxes other than income taxes	(1,072)	(549,150)	(550,222)	(12,349)
Related income taxes	(4,638)	(58,686)	(63,324)	(5,590)
<b>Total results of operations for producing activities</b>	<b>19,406</b>	<b>260,384</b>	<b>279,790</b>	<b>9,934</b>

<b>2015</b>	<b>International</b>	<b>Russia</b>	<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
Revenue				
Sales	291,473	708,403	999,876	43,173
Transfers	-	588,750	588,750	1,349
<b>Total revenues</b>	<b>291,473</b>	<b>1,297,153</b>	<b>1,588,626</b>	<b>44,522</b>
Production costs (excluding production taxes)	(61,801)	(155,373)	(217,174)	(8,690)
Exploration expense	(28,495)	(682)	(29,177)	(1)
Depreciation, depletion, and amortisation	(149,213)	(125,595)	(274,808)	(6,662)
Taxes other than income taxes	(895)	(695,694)	(696,589)	(11,029)
Related income taxes	(6,348)	(53,989)	(60,337)	(9,268)
<b>Total results of operations for producing activities</b>	<b>44,721</b>	<b>265,820</b>	<b>310,541</b>	<b>8,872</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.

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 59% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

**PJSC LUKOIL**

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

Estimated net proved oil and gas reserves and changes thereto for 2016 and 2015 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>				
1 January 2015	367	12,932	13,299	295
Revisions of previous estimates	241	(969)	(728)	(1)
Purchase of hydrocarbons in place	-	12	12	-
Extensions and discoveries	22	446	468	39
Production	(88)	(636)	(724)	(25)
Sales of reserves	-	(5)	(5)	(45)
31 December 2015	542	11,780	12,322	263
Revisions of previous estimates	127	(117)	10	47
Extensions and discoveries	10	512	522	4
Production	(51)	(614)	(665)	(21)
<b>31 December 2016</b>	<b>628</b>	<b>11,561</b>	<b>12,189</b>	<b>293</b>
Proved developed reserves				
31 December 2015	240	7,986	8,226	142
<b>31 December 2016</b>	<b>287</b>	<b>7,614</b>	<b>7,901</b>	<b>124</b>

The non-controlling interest share included in the above total proved reserves was 74 million barrels and 75 million barrels at 31 December 2016 and 2015, respectively. The non-controlling interest share included in the above proved developed reserves was 37 million barrels and 42 million barrels at 31 December 2016 and 2015, 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>				
1 January 2015	6,638	17,043	23,681	265
Revisions of previous estimates	719	(216)	503	17
Purchase of hydrocarbons in place	-	4	4	-
Extensions and discoveries	7	227	234	4
Production	(246)	(568)	(814)	(33)
Sales of reserves	-	-	-	(23)
31 December 2015	7,118	16,490	23,608	230
Revisions of previous estimates	201	192	393	(35)
Extensions and discoveries	9	168	177	-
Production	(270)	(580)	(850)	(30)
<b>31 December 2016</b>	<b>7,058</b>	<b>16,270</b>	<b>23,328</b>	<b>165</b>
Proved developed reserves:				
31 December 2015	2,305	5,596	7,901	153
<b>31 December 2016</b>	<b>2,960</b>	<b>5,309</b>	<b>8,269</b>	<b>105</b>

The non-controlling interest share included in the above total proved reserves was 27 billion cubic feet at 31 December 2016 and 2015. The non-controlling interest share included in the above proved developed reserves was 15 billion cubic feet at 31 December 2016 and 2015. All non-controlling interests relate to reserves in the Russian Federation.

**PJSC LUKOIL**

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

*V. Standardised measure of discounted future net cash flows*

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

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

			<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
<b>31 December 2016</b>	<b>International</b>	<b>Russia</b>		
Future cash inflows	2,337,071	20,052,599	22,389,670	581,197
Future production and development costs	(1,855,925)	(14,044,066)	(15,899,991)	(446,695)
Future income tax expenses	(51,750)	(920,857)	(972,607)	(25,659)
Future net cash flows	429,396	5,087,676	5,517,072	108,843
Discount for estimated timing of cash flows (10% p.a.)	(261,818)	(2,875,407)	(3,137,225)	(63,593)
<b>Discounted future net cash flows</b>	<b>167,578</b>	<b>2,212,269</b>	<b>2,379,847</b>	<b>45,250</b>
Non-controlling share in discounted future net cash flows	-	18,805	18,805	-
			<b>Total consolidated companies</b>	<b>Group's share in equity companies</b>
<b>31 December 2015</b>	<b>International</b>	<b>Russia</b>		
Future cash inflows	3,521,611	29,732,395	33,254,006	811,774
Future production and development costs	(2,465,625)	(20,047,452)	(22,513,077)	(534,151)
Future income tax expenses	(102,752)	(1,672,136)	(1,774,888)	(55,511)
Future net cash flows	953,234	8,012,807	8,966,041	222,112
Discount for estimated timing of cash flows (10% p.a.)	(611,200)	(4,450,284)	(5,061,484)	(120,888)
<b>Discounted future net cash flows</b>	<b>342,034</b>	<b>3,562,523</b>	<b>3,904,557</b>	<b>101,224</b>
Non-controlling share in discounted future net cash flows	-	23,273	23,273	-

**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>2016</b>	<b>2015</b>
Discounted present value at January 1	3,904,557	5,561,342
Net changes due to purchases and sales of minerals in place	60	1,779
Sales and transfers of oil and gas produced, net of production costs	(554,861)	(645,686)
Net changes in prices and production costs estimates	(4,451,693)	(6,539,985)
Net changes in mineral extraction taxes	2,667,624	4,769,427
Extensions and discoveries, less related costs	98,911	142,856
Previously estimated development cost incurred during the year	469,271	374,236
Revisions of previous quantity estimates	(45,374)	(390,502)
Net change in income taxes	346,583	430,241
Accretion of discount	436,285	625,761
Other changes	(491,516)	(424,912)
<b>Discounted present value at 31 December</b>	<b>2,379,847</b>	<b>3,904,557</b>
<b>Group's share in equity companies</b>	<b>2016</b>	<b>2015</b>
Discounted present value at 1 January	101,224	227,438
Net changes due to purchases and sales of minerals in place	62	(23,455)
Sales and transfers of oil and gas produced, net of production costs	(22,622)	(24,802)
Net changes in prices and production costs estimates	(120,495)	(187,167)
Net changes in mineral extraction taxes	61,202	86,150
Extensions and discoveries, less related costs	590	10,502
Previously estimated development cost incurred during the year	14,312	15,585
Revisions of previous quantity estimates	6,950	(173)
Net change in income taxes	10,302	24,987
Accretion of discount	11,365	25,447
Other changes	(17,640)	(53,288)
<b>Discounted present value at 31 December</b>	<b>45,250</b>	<b>101,224</b>



**LUKOIL**

**PJSC LUKOIL**

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

**for the years ended 31 December 2016, 2015 and 2014**

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The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 December 2016 and the results of its operations for each of the years ended 31 December 2016, 2015 and 2014, 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 39 for a discussion of some factors that could cause actual results to differ materially.*

## Business overview

LUKOIL is one of the world’s largest publicly traded vertically integrated energy companies in terms of hydrocarbon reserves that amounted under SEC standards to 16.4 billion BOE at 31 December 2016 and comprised of 12.5 billion barrels of crude oil and 23.5 trillion cubic feet of gas. Most of our reserves are conventional. Our daily hydrocarbon production in 2016 amounted to 2.2 million BOE with liquid hydrocarbons representing approximately 85% of our overall production volumes.

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

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 the operations of Group companies), finance activities, production of diamonds and certain other activities.

Each of our segments is dependent on the other, with a portion of the revenues of one segment being a part of the costs of the other. 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. 6, benchmarking 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. Accordingly, an analysis of either of these segments on a stand-alone basis could give a misleading impression of those segments’ underlying financial position and results of operations. For this reason, we do not analyze either of our main segments separately in the discussion that follows. However, we present the financial data for each in Note 32 “Segment information” to our consolidated financial statements.

## Key financial and operational results

	2016	Change to 2015, %	2015	Change to 2014, %	2014
(millions of rubles)					
Sales.....	5,227,045	(9.1)	5,749,050	4.4	5,504,856
EBITDA <sup>(1)</sup> , including .....	730,731	(10.5)	816,705	15.8	705,386
Exploration and production segment.....	521,190	(12.5)	595,408	17.2	507,917
Refining, marketing and distribution segment ..	233,297	(0.4)	234,211	20.0	195,108
EBITDA <sup>(1)</sup> net of West Qurna-2 project .....	691,263	1.7	679,539	15.7	587,266
Profit for the period attributable to LUKOIL shareholders .....	206,794	(29.0)	291,135	(26.4)	395,525
Capital expenditures, including non-cash transactions .....	511,525	(15.8)	607,205	(0.6)	611,106
Free cash flow <sup>(2)</sup> .....	255,117	2.7	248,333	229.2	75,435
(thousand BOE per day)					
Production of hydrocarbons, including our share in equity affiliates.....	2,202	(7.4)	2,379	2.8	2,314
Crude oil and natural gas liquids .....	1,875	(8.6)	2,052	3.0	1,992
Gas available for sale .....	327	–	327	1.6	322
Refinery throughput .....	1,323	2.2	1,295	(3.1)	1,337
Hydrocarbon proved reserves including our share in equity affiliates (millions of BOE).....	16,398	(1.0)	16,558	(5.8)	17,585

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

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

Our financial results for 2016 were affected by lower average hydrocarbon prices as well as by significant strengthening of ruble to US dollar and euro during 2016. They were also affected by an increase in the crude oil extraction tax base rate and a decline in domestic refining margins.

In 2016, our EBITDA amounted to 731 billion RUB, a decrease of 10.5% to 2015. In 2015, we were compensated for most of the costs incurred within the West Qurna-2 project and therefore, in 2016, we were eligible for significantly lower volumes of compensation crude oil compared to 2015 that significantly affected our EBITDA. Net of the West Qurna-2 project, the Group's EBITDA increased by 1.7% compared to 2015. Our EBITDA was supported by the decrease in the annual average ruble exchange rate to US dollar and Euro, higher international refinery throughput volumes and substantial improvement in the refined product slate.

In 2016, profit attributable to LUKOIL shareholders amounted to 207 billion RUB, a decrease of 29.0% to 2015. The profit was affected by foreign exchange loss in 2016 compared to foreign exchange gain in 2015 that resulted from ruble exchange rate volatility.

In 2016, we continued generating strong free cash flow that amounted to 255 billion RUB, compared to 248 billion RUB in 2015. Our free cash flow was supported by a decrease in our capital expenditures as a result of the completion of our refineries' upgrade investment program and lower spending on international upstream projects.

The Group's average daily hydrocarbon production in 2016 decreased by 7.4% compared to 2015, which was primarily driven by lower volume of compensation crude oil from the West Qurna-2 project, as well as natural production decline at our brown fields in Western Siberia. We reviewed our investment program in 2016 towards the increase in drilling volumes in Western Siberia in order to substantially reduce production decline rates.

## Key operational developments

### Exploration and production

- 15 new oil and gas fields were brought into production (2015 – 14 oil and gas fields).
- 13 new oilfields discovered.
- In the third quarter of 2016, production started at the Company's two major green fields, the V. Filanovsky field in the Caspian Sea and the Pyakyakhinskoye field in Western Siberia. As a result, the Group's daily hydrocarbon production increased by 3.3% in December 2016 compared to July 2016. Production at the newly launched fields is subject to special tax rates, which results in substantially higher contribution of the projects to the financial results relative to their contribution to our overall production volumes.

### Refining

- In the second quarter of 2016 construction works were finalized at the hydrocracking facility at the Volgograd refinery, which is the last major facility built as part of the major refinery upgrade program. Launches of new secondary processing facilities resulted in substantial enhancement of the product slate with a respective positive impact on the refining margins.

These and other achievements in 2016 are described in detail further in this report.

## Changes in Group structure

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

In December of 2016, the Company entered into a contract with a company of the “Otkrytie Holding” group to sell the Group's 100% interest in JSC “Arkhangelskgeoldobycha” (“AGD”), a company exploring the diamond field named after V.P. Grib located in Arkhangelsk region of Russia. The value of the transaction is the ruble equivalent of \$1.45 billion, including debt repayment by AGD to the Group. This value may be adjusted for changes in working capital at the transaction closing date. The closing of the transaction is expected after government authorities approvals.

In line with the Company's strategy of optimizing its downstream operations in Europe, we sold petrol station networks in Poland, Latvia, Lithuania and Cyprus in 2016 and petrol stations networks in Ukraine and Estonia in 2015.

In August 2015, a Group company closed the transaction to sell its 50% interest in Caspian Investment Resources Ltd, an exploration and production company operating in Kazakhstan, to a Sinopec group company for \$1,067 million (70.1 billion RUB). Related structural decrease in the Group's crude oil production amounted to approximately 20 thousand barrels per day.

## OPEC and non-OPEC agreed production cut

In November 2016, OPEC and some of the non-OPEC countries, including Russia, agreed to cut production from October 2016 levels in order to stabilize the global crude oil market. Although our crude oil production volumes in Russia are also affected, on our estimates this will not have a significant impact on our financial results.

## Sectorial sanctions against the Russian companies

In July-September 2014, the United States (“US”), the European Union (“EU”) and other countries imposed a set of economic sanctions on Russia, including certain sectoral sanctions which affect Russian oil and gas companies. Such sectoral sanctions prohibit US and the EU 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 on the territory of the Russian Federation.

The Company is not subject to any financial restrictions and is not currently involved in deepwater, Arctic offshore or shale projects in Russia. That is why we assess the impact of the sanctions on the Company's activities as immaterial.

## Main macroeconomic factors affecting our results of operations

### International crude oil and refined products prices

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

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

For example, despite substantially all the crude oil we export from Russia is Urals blend, our average realized crude oil prices can materially deviate from the average Urals benchmark, as in addition to exports from Russia we also sell various crude oil blends on various delivery terms within our international trading activity.

During 2016, the price for Brent crude oil fluctuated between \$26 and \$55 per barrel, reached its minimum of \$25.98 in the end of January and then maximum of \$55.41 in the end of December, and averaged 16.5% less than in 2015, that represented the lowest level for the last 12 years. Such oil price weakness was primarily due to crude oil oversupply driven by production growth in Iran, Iraq, Saudi Arabia and Russia that totaled more than 1.5 million barrels per day in 2016. Nevertheless, as a result of the decrease in annual average ruble exchange rate, the prices expressed in rubles decreased less significantly.

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

	2016	Change to 2015, %	2015	Change to 2014, %	2014
(in US dollars per barrel, except for figures in percent)					
Brent crude.....	43.73	(16.5)	52.39	(47.1)	98.95
Urals crude (CIF Mediterranean) .....	42.52	(18.0)	51.87	(47.0)	97.95
Urals crude (CIF Rotterdam) .....	41.68	(18.2)	50.97	(47.6)	97.23
(in US dollars per metric tonne, except for figures in percent)					
Fuel oil 3.5% (FOB Rotterdam).....	207.64	(19.0)	256.23	(51.4)	527.06
Diesel fuel 10 ppm (FOB Rotterdam) .....	396.99	(20.5)	499.55	(41.6)	855.17
High-octane gasoline (FOB Rotterdam).....	467.05	(18.0)	569.25	(38.0)	918.87

Source: Platts.

	2016	Change to 2015, %	2015	Change to 2014, %	2014
(in rubles per barrel, except for figures in percent)					
Brent crude.....	2,931	(8.2)	3,193	(16.0)	3,802
Urals crude (CIF Mediterranean) .....	2,850	(9.9)	3,162	(16.0)	3,764
Urals crude (CIF Rotterdam) .....	2,794	(10.1)	3,107	(16.8)	3,736
(in rubles per metric tonne, except for figures in percent)					
Fuel oil 3.5% (FOB Rotterdam).....	13,919	(10.9)	15,619	(22.9)	20,251
Diesel fuel 10 ppm (FOB Rotterdam) .....	26,612	(12.6)	30,451	(7.3)	32,857
High-octane gasoline (FOB Rotterdam).....	31,309	(9.8)	34,700	(1.7)	35,305

Translated into rubles using average exchange rate for the period.

### Domestic crude oil and refined products prices

Substantially all crude oil produced in Russia is produced by vertically integrated oil companies such as ours. As a result, most transactions are between affiliated entities within vertically integrated groups. Thus, there is no concept of a benchmark domestic market price for crude oil. The price of crude oil that is produced but not refined or exported by one of the vertically integrated oil companies is generally determined on a transaction-by-transaction basis against a background of world market prices, but with no direct reference or correlation. At any time there may exist significant price differences between regions for similar quality crude oil as a result of competition and economic conditions in those regions.

Domestic prices for refined products may deviate significantly from export netbacks and they also vary between different regions of Russia which is driven by supply demand balance on regional markets.

The table below represents average domestic wholesale prices of refined products.

	2016	Change to 2015, %	2015	Change to 2014, %	2014
(in rubles per metric tonne, except for figures in percent)					
Fuel oil.....	7,525	13.9	6,604	(29.3)	9,342
Diesel fuel.....	28,899	(1.1)	29,215	3.6	28,206
High-octane gasoline (Regular).....	33,784	5.2	32,120	3.6	30,993
High-octane gasoline (Premium).....	35,491	5.6	33,612	4.9	32,050

Source: InfoTEK (excluding VAT).

### Changes in ruble exchange rate and inflation

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

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

	2016	2015	2014
Ruble inflation (CPI), %.....	5.4	12.0	11.4
Ruble to US dollar exchange rate			
Average for the period.....	67.0	61.0	38.4
At the beginning of the period.....	72.9	56.3	32.7
At the end of the period.....	60.7	72.9	56.3
Ruble to euro exchange rate			
Average for the period.....	74.2	67.8	50.8
At the beginning of the period.....	79.7	68.3	45.0
At the end of the period.....	63.8	79.7	68.3

### Taxation

In 2015-2017, the Russian Government is implementing the tax manoeuvre in the oil industry which envisages reduction of export duty rate and increase in the crude oil extraction tax and excise tax rates. Changes within this tax manoeuvre effective from January and April 2016 had a negative impact on our upstream, refining and marketing margins. Changes effective from January 2017 may have a positive impact on our upstream margins and a negative impact on our refining and marketing margins, and we expect the overall impact of tax changes on our financial results not to be significant.

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

**Crude oil extraction tax rate** is changed monthly. Crude oil extraction tax is payable in rubles for metric tonnes extracted and is calculated according to the formula below:

$$Rate = Base Rate \times (Price - 15) \times \frac{Exchange Rate}{261} - Incentive + Fixed Component,$$

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 *Base Rates* and *Fixed Components* (where applicable) are presented below:

	2014	2015	2016	2017	2018	2019	2020
(in rubles)							
Base Rate.....	493	766	857	919	919	919	919
Fixed Component.....	–	–	–	306	357	428	0

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

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

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

The table on the p. 9 illustrates the impact of crude oil extraction tax incentives on the tax rate at \$50 per barrel Urals price.

The tax rate is zero when the average international Urals price is less than, or equal to, \$15.00 per barrel. In 2016, each \$1.00 per barrel increase in the international Urals price above \$15.00 per barrel results in an increase in the tax rate by \$0.45 per barrel (\$0.40 per barrel in 2015, \$0.26 per barrel in 2014).

**Natural gas extraction tax rate.** Starting from 1 July, 2014, the rate is calculated using a special formula depending on average wholesale natural gas price in Russia, share of gas production in total hydrocarbon production, regional location and complexity of particular gas field. Previously, the rate was fixed and amounted to 471 rubles per thousand cubic meters of gas extracted in the first half of 2014.

In 2016, actual average natural gas extraction tax rate for our major gas field – Nakhodkinskoe in Western Siberia amounted to 208 rubles per thousand cubic meters (162 rubles per thousand cubic meters in 2015). In the first half of 2014, the rate was 471 rubles per thousand cubic meters and in the second half of 2014 it amounted to 132 rubles per thousand cubic meters. The rate for this field is subject to a special regional reducing coefficient.

Associated petroleum gas and reinjected natural gas are subject to zero extraction tax rate.

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

<b>International Urals price</b>	<b>Export duty rate</b>
Less than, or equal to, \$109.50 per tonne (\$15.00 per barrel)	\$0.00 per tonne
Above \$109.50 but less than, or equal to, \$146.00 per tonne (\$20.00 per barrel)	35% of the difference between the actual price and \$109.50 per tonne (or \$0.35 per barrel per each \$1.00 increase in the Urals price over \$15.00)
Above \$146.00 but less than, or equal to, \$182.50 per metric tonne (\$25.00 per barrel)	\$12.78 per tonne plus 45% of the difference between the actual price and \$146.00 per tonne (or \$1.75 plus \$0.45 per barrel per each \$1.00 increase in the Urals price over \$20.00)
Above \$182.50 per metric tonne (\$25.00 per barrel)	<p><b>2014:</b> \$29.20 per tonne plus 59% of the difference between the actual price and \$182.50 per tonne (or \$4.00 plus \$0.59 per barrel per each \$1.00 increase in the Urals price over \$25.00)</p> <p><b>2015–2016:</b> \$29.20 per tonne plus 42% of the difference between the actual price and \$182.50 per tonne (or \$4.00 plus \$0.42 per barrel per each \$1.00 increase in the Urals price over \$25.00)</p> <p><b>Starting from 1 January 2017:</b> \$29.20 per tonne plus 30% of the difference between the actual price and \$182.50 per tonne (or \$4.00 plus \$0.30 per barrel per each \$1.00 increase in the Urals price over \$25.00)</p>

The export duty rate changes every month with the rate for the next month being based on average Urals price for the period from the 15th day of the previous month to the 14th day of the current month.

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

The table below illustrates the impact of tax incentives for different fields and deposits in our portfolio at \$50 per barrel Urals price.

	Mineral extraction tax	Export duty	Total	As % of oil price
(in US dollars per barrel, except for figures in percent)				
<b>Under 2016 tax formulas</b>				
<b>Standard</b> .....	<b>15.7</b>	<b>14.5</b>	<b>30.2</b>	<b>60.5</b>
Yaregskoye field .....	0.0	1.8	1.8	3.6
Yu. Korchagin field.....	5.5	0.0	5.5	10.9
V. Filanovsky field.....	7.5	0.0	7.5	15.0
Usinskoye (Permian layers) .....	5.5	14.5	20.0	39.9
Pyakakhinskoye field .....	5.5	14.5	20.0	39.9
V. Vinogradova field.....	7.5	14.5	22.0	44.1
Highly depleted fields .....	8.6-15.7	14.5	23.1-30.2	46.1-60.5
Small sized fields .....	9.3-15.7	14.5	23.8-30.2	47.6-60.5
Tyumen deposits .....	13.7	14.5	28.2	56.4
<b>Under 2017 tax formulas</b>				
<b>Standard</b> .....	<b>17.5</b>	<b>11.5</b>	<b>29.0</b>	<b>58.1</b>
Yaregskoye field .....	0.0	1.8	1.8	3.6
Yu. Korchagin field.....	7.3	0.0	7.3	14.5
V. Filanovsky field.....	7.5	0.0	7.5	15.0
Usinskoye (Permian layers) .....	7.3	11.5	18.8	37.5
Pyakakhinskoye field .....	7.3	11.5	18.8	37.5
V. Vinogradova field.....	9.3	11.5	20.8	41.6
Highly depleted fields .....	10.4-17.5	11.5	21.9-29.0	43.7-58.1
Small sized fields .....	11.1-17.5	11.5	22.6-29.0	45.2-58.1
Tyumen deposits .....	15.5	11.5	27.0	54.0

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

	2017 and further	2016	2015	2014
Multiplier for:				
Light and middle distillates .....	0.30	0.40	0.48	0.66
Diesel fuel .....	0.30	0.40	0.48	0.65
Gasolines.....	0.30	0.61	0.78	0.90
Straight-run gasoline.....	0.55	0.71	0.85	0.90
Fuel oil.....	1.00	0.82	0.76	0.66

Crude oil and refined products exports 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 US dollar exchange rate at the date of the complete declaration (except for pipeline deliveries when 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.

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

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

	2016	Change to 2015, %	2015	Change to 2014, %	2014
(in US dollars per tonne, except for figures in percent)					
Export duties on crude oil .....	75.72	(37.1)	120.31	(67.2)	366.53
Export duties on refined products					
Light and middle distillates .....	30.25	(47.6)	57.70	(76.1)	241.88
Fuel oil .....	62.05	(32.1)	91.39	(62.2)	241.88
Gasoline .....	46.14	(50.8)	93.80	(71.6)	329.83
Straight-run gasoline .....	53.71	(47.5)	102.22	(69.0)	329.83
Diesel fuel .....	30.25	(47.6)	57.70	(75.8)	238.52
Mineral extraction tax					
Crude oil <sup>(1)</sup> .....	86,18	(16.8)	103,55	(31.7)	151,67
(in rubles per tonne, except for figures in percent)					
Export duties on crude oil <sup>(1)</sup> .....	5,076	(30.8)	7,334	(47.9)	14,083
Export duties on refined products <sup>(1)</sup>					
Light and middle distillates .....	2,028	(42.3)	3,517	(62.2)	9,293
Fuel oil .....	4,160	(25.3)	5,571	(40.1)	9,293
Gasoline .....	3,093	(45.9)	5,718	(54.9)	12,673
Straight-run gasoline .....	3,601	(42.2)	6,231	(50.8)	12,673
Diesel fuel .....	2,028	(42.3)	3,517	(61.6)	9,164
Mineral extraction tax					
Crude oil .....	5,777	(8.5)	6,312	8.3	5,827

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

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

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

Excise rates on refined products in Russia are tied to the ecological class of fuel. Average excise tax rates for 2016, 2015 and 2014 are listed below.

	2016	Change to 2015, %	2015	Change to 2014, %	2014
(in rubles per tonne, except for figures in percent)					
Gasoline					
Below Euro-3 .....	12,454	70.6	7,300	(34.3)	11,110
Euro-3 .....	12,454	70.6	7,300	(31.9)	10,725
Euro-4 .....	12,454	70.6	7,300	(26.4)	9,916
Euro-5 .....	9,484	71.5	5,530	(14.3)	6,450
Diesel fuel					
Euro-3 and below .....	5,009	45.2	3,450	(46.5)	6,446
Euro-4 .....	5,009	45.2	3,450	(36.4)	5,427
Euro-5 .....	5,009	45.2	3,450	(27.6)	4,767
Motor oils .....	6,000	(7.7)	6,500	(21.3)	8,260
Straight-run gasoline .....	12,454	10.2	11,300	0.4	11,252

In 2016, excise rates in Russia were increased twice, on 1 January and 1 April.



Excise tax rates starting from 2017 are listed below.

	<b>2019 and further</b>	<b>2018</b>	<b>2017</b>
(in rubles per tonne)			
<b>Gasoline</b>			
Below Euro-5 .....	13,100	13,100	13,100
Euro-5 .....	10,957	10,535	10,130
<b>Diesel fuel</b>			
All ecological classes .....	7,355	7,072	6,800
<b>Motor oils</b> .....			
	5,400	5,400	5,400
<b>Straight-run gasoline</b> .....			
	13,100	13,100	13,100

**Income tax.** Until 2017, the federal income tax rate was 2.0% and the regional income tax rate varied between 13.5% and 18.0%. In 2017–2020, the federal income tax rate is 3.0% and the regional income tax rate may vary between 12.5 and 17.0% The Group’s foreign operations are subject to taxes at the tax rates applicable to the jurisdictions in which they operate.

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.

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

The main Russian crude oil production regions are remote from the main crude oil and refined products markets. Therefore, access by crude oil production companies to the markets is dependent on the extent of diversification of the transport infrastructure and access to it. As a result, transportation cost is an important factor affecting our profit.

Transportation of crude oil produced in Russia to refineries and export destinations is primarily through the trunk oil pipeline system of the state-owned company, Transneft, or by railway transport.

Transportation of refined products in Russia is by railway transport and the pipeline system of Transnefteproduct. The Russian railway infrastructure is owned and operated by Russian Railways. Both these companies are state-owned. We transport the major part of our refined products by railway transport.

In Russia, gas is mostly sold at the wellhead and then transported through the Unified Gas Supply System (“UGSS”). The UGSS is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by Gazprom.

Transneft, Transnefteproduct, 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.

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Transneft</b>			
Crude oil .....	5.8%	6.8%	0.0%
<b>Transnefteproduct</b>			
Refined products .....	4.6%	8.0%	18.7%
<b>Russian Railways</b>			
Crude oil and refined products, except for diesel fuel .....	9.0%	18.4%	5.3%
Diesel fuel .....	6.8%	12.2%	5.0%

## Operational highlights

### Reserves base

The table below summarizes the net proved reserves of consolidated subsidiaries and our share in equity affiliates under the standards of the US Securities and Exchange Commission (until the economic limit of commercial production is reached) that have been derived from our reserve reports audited by Miller and Lents Ltd, our independent reservoir engineers, at 31 December 2016 and 2015.

(millions of BOE)	31 December 2016	Changes in 2016			31 December 2015
		Production <sup>(1)</sup>	Extensions, discoveries and changes in structure	Revision of previous estimates	
Western Siberia.....	8,563	(375)	186	34	8,718
Timan-Pechora.....	2,337	(141)	88	16	2,374
Ural region.....	2,215	(125)	218	(93)	2,215
Volga region.....	1,073	(65)	42	(21)	1,117
Other in Russia.....	182	(12)	7	(6)	193
Outside Russia.....	2,028	(115)	15	187	1,941
<b>Proved oil and gas reserves .....</b>	<b>16,398</b>	<b>(833)</b>	<b>556</b>	<b>117</b>	<b>16,558</b>
<b>Probable oil and gas reserves ...</b>	<b>6,684</b>				<b>6,760</b>
<b>Possible oil and gas reserves .....</b>	<b>2,981</b>				<b>3,216</b>

<sup>(1)</sup> Gas production shown before own consumption.

The Company's proved reserves at 31 December 2016 amount to 16,398 million BOE and comprise of 12,482 million barrels of crude oil and 23,493 billion cubic feet of gas.

The increase in proved reserves related to geological exploration and production drilling totaled 556 million BOE and was mostly related to the traditional regions of the Group's operations in Russia.

Positive revision of previous estimates outside of Russia mainly related to the West Qurna-2 project and our gas projects in Uzbekistan.

## Hydrocarbon production

The table below summarizes the results of our exploration and production activities.

	2016	2015	2014
<b>Crude oil and natural gas liquids<sup>(1)</sup></b>	(thousand BOE per day)		
Consolidated subsidiaries			
Western Siberia .....	838	914	970
Timan-Pechora .....	339	336	313
Ural region .....	322	317	308
Volga region.....	142	139	136
Other in Russia.....	36	37	38
Total in Russia.....	1,677	1,743	1,765
Iraq <sup>(2)</sup> .....	95	201	114
Other outside Russia.....	45	40	37
Total outside Russia.....	140	241	151
<b>Total consolidated subsidiaries .....</b>	<b>1,817</b>	<b>1,984</b>	<b>1,916</b>
Our share in equity affiliates			
in Russia .....	21	16	11
outside Russia.....	37	52	65
<b>Total share in equity affiliates.....</b>	<b>58</b>	<b>68</b>	<b>76</b>
<b>Total crude oil and natural gas liquids .....</b>	<b>1,875</b>	<b>2,052</b>	<b>1,992</b>
<b>Natural and petroleum gas available for sale</b>			
Consolidated subsidiaries			
Western Siberia .....	149	174	187
Timan-Pechora .....	16	13	14
Ural region .....	13	19	19
Volga region.....	26	6	6
Total in Russia.....	204	212	226
Total outside Russia.....	113	104	85
<b>Total consolidated subsidiaries .....</b>	<b>317</b>	<b>316</b>	<b>311</b>
Share in equity affiliates			
in Russia .....	1	1	1
outside Russia.....	9	10	10
<b>Total share in production of equity affiliates.....</b>	<b>10</b>	<b>11</b>	<b>11</b>
<b>Total natural and petroleum gas available for sale .....</b>	<b>327</b>	<b>327</b>	<b>322</b>
<b>Total daily hydrocarbon production .....</b>	<b>2,202</b>	<b>2,379</b>	<b>2,314</b>
	(millions of rubles)		
<b>Hydrocarbon extraction expenses .....</b>	<b>211,454</b>	<b>217,174</b>	<b>173,809</b>
- in Russia.....	165,641	155,373	142,582
- outside Russia <sup>(3)</sup> .....	14,582	14,524	8,491
- in Iraq.....	31,231	47,277	22,736
<b>Mineral extraction tax in Russia .....</b>	<b>388,835</b>	<b>470,013</b>	<b>420,946</b>
	(ruble per BOE)		
Hydrocarbon extraction expenses <sup>(3)</sup> .....	241	222	196
- in Russia .....	241	218	196
- outside Russia <sup>(3)</sup> .....	251	276	192
	(US dollar per BOE)		
Hydrocarbon extraction expenses <sup>(3)</sup> .....	3.62	3.65	5.10
- in Russia.....	3.61	3.59	5.11
- outside Russia <sup>(3)</sup> .....	3.73	4.50	4.99

<sup>(1)</sup> Natural gas liquids produced at the Group gas processing plants.

<sup>(2)</sup> Compensation oil that represented approximately 23% of production from the West Qurna-2 field in 2016, 52% in 2015 and 55% in 2014.

<sup>(3)</sup> Excluding expenses at the West Qurna-2 field.

We undertake exploration for and production of crude oil and natural gas in Russia and internationally. In Russia, our major oil producing regions are Western 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, Cote d'Ivoire, Norway, Cameroon, Nigeria and Mexico.

**Crude oil and natural gas liquids production.** In 2016, we produced (including the Company's share in equity affiliates) 92.0 million tonnes or 676.3 million barrels of crude oil, compared to 100.7 million tonnes or 736.5 million barrels of crude oil in 2015 and 97.2 million tonnes or 713.1 million barrels of crude oil in 2014.

In 2016, the output of natural gas liquids at the Group gas processing plants in Western Siberia, Ural and Volga regions of Russia was 10.0 million BOE, compared to 12.7 million BOE in 2015 and 13.9 million BOE in 2014.

The following table presents our crude oil production in 2016 and 2015 by major regions.

(thousands of tonnes)	Change to 2015				2015
	2016	Total, %	Change in structure	Organic change	
Western Siberia.....	41,037	(7.2)	–	(3,168)	44,205
Timan-Pechora.....	17,150	1.0	–	174	16,976
Ural region.....	15,248	1.5	–	228	15,020
Volga region.....	6,939	2.6	–	178	6,761
Other in Russia.....	1,832	(3.8)	–	(72)	1,904
Crude oil produced in Russia.....	82,206	(3.1)	–	(2,660)	84,866
Iraq <sup>(1)</sup> .....	5,064	(52.8)	–	(5,661)	10,725
Other outside Russia.....	2,037	7.9	–	150	1,887
Crude oil produced outside Russia.....	7,101	(43.7)	–	(5,511)	12,612
<b>Total crude oil produced by consolidated subsidiaries.....</b>	<b>89,307</b>	<b>(8.4)</b>	–	<b>(8,171)</b>	<b>97,478</b>
<b>Our share in crude oil produced by equity affiliates:</b>					
in Russia.....	971	30.2	–	225	746
outside Russia.....	1,714	(30.4)	(663)	(87)	2,464
<b>Total crude oil produced.....</b>	<b>91,992</b>	<b>(8.6)</b>	<b>(663)</b>	<b>(8,033)</b>	<b>100,688</b>

<sup>(1)</sup> Compensation oil that represented approximately 23% of production from the West Qurna-2 field in 2016 and 52% in 2015.

The main oil producing region for the Company is Western Siberia where we produced 46.0% of our crude oil in 2016 (45.3% in 2015).

Crude oil production in Western Siberia continued to decline due to natural depletion of reserves, increase in water cut and the Company's decision to reallocate capital to higher return projects in other regions of Russia, in particular those benefiting from tax incentives. This decision was made in 2014, when oil prices went sharply downwards. In 2016, after successful launch of the green fields and completion of the refinery upgrade program, the Company made a decision to intensify production drilling in Western Siberia, which we expect to result in substantial decrease in the production decline rates at our brown fields in this region in the future.

Production growth in Timano-Pechora was primarily driven by ramp-up of production at the Yaregskoye and Usinskoe fields, as well as the fields in Denisovskaya depression.

Production growth in Ural region was primarily driven by successful drilling on existing brownfields and launch of new small sized fields.

In October 2016, we started commercial production at two new major fields, the V. Filanovsky field in the Caspian Sea (Volga region) and the Pyakyakhinskoye field in the Bolshekhetskaya depression (Western Siberia). Launch of these fields enabled us to increase our daily hydrocarbon production in the fourth quarter of 2016. We expect these fields to have a major positive impact on our financial results due to high quality reserve base and tax incentives. In 2016, the Group produced 883 thousand tonnes of crude oil at the V. Filanovsky field and 340 thousand tonnes of liquids at the Pyakyakhinskoye field.

The decrease in our international production was a result of lower volumes of production from the West Qurna-2 oilfield in Iraq attributable to the Company. We were compensated for most of the costs incurred within the construction stage of the project and therefore were eligible for less volumes of compensation crude oil compared to 2015 (for details see p. 15).

The increase in our share in crude oil produced by equity affiliates in Russia was due to an increase in production at the Trebs and Titov oilfields by Bashneft-Polus, where the Group holds a 25.1% interest.

The decrease in our share in crude oil produced by equity affiliates outside Russia mainly resulted from the disposal of our 50% share in Caspian Investment Resources Ltd in the middle of 2015.

**Natural and petroleum gas production.** In 2016, we produced (including our share in equity affiliates) 24,922 million cubic meters (146.7 million BOE) of gas, that is 4.0% more than in 2015. Our available for sale gas production amounted to 20,315 million cubic meters (119.6 million BOE), compared to 20,251 million cubic meters (119.2 million BOE) in 2015.

The following table presents our available for sale gas production in 2016 and 2015 by major regions.

(millions of cubic meters)	<b>Change to 2015</b>				
	<b>2016</b>	<b>Total, %</b>	<b>Change in structure</b>	<b>Organic change</b>	<b>2015</b>
Western Siberia.....	9,261	(14.3)	–	(1,544)	10,805
Timan-Pechora.....	984	21.0	–	171	813
Ural region.....	802	(31.7)	–	(373)	1,175
Volga region.....	1,608	329.9	–	1,234	374
Other in Russia.....	21	(8.7)	–	(2)	23
<b>Gas produced in Russia.....</b>	<b>12,676</b>	<b>(3.9)</b>	<b>–</b>	<b>(514)</b>	<b>13,190</b>
Gas produced outside Russia.....	7,056	9.4	–	606	6,450
<b>Total available for sale gas produced by consolidated subsidiaries.....</b>	<b>19,732</b>	<b>0.5</b>	<b>–</b>	<b>92</b>	<b>19,640</b>
<b>Our share in gas produced by equity affiliates:</b>					
in Russia.....	63	40.0	–	18	45
outside Russia.....	520	(8.1)	(77)	31	566
<b>Total available for sale gas produced.....</b>	<b>20,315</b>	<b>0.3</b>	<b>(77)</b>	<b>141</b>	<b>20,251</b>
<b>Total gas produced<sup>(1)</sup>.....</b>	<b>24,922</b>	<b>4.0</b>	<b>(107)</b>	<b>1,063</b>	<b>23,966</b>

<sup>(1)</sup> excluding reinjected gas and gas used in production of natural gas liquids

Our major gas production field is the Nakhodkinskoe field in Western Siberia, which is in natural decline. Our production at the field was 6,817 million cubic meters of natural gas in 2016 (7,469 million cubic meters in 2015). The increase in production in Volga region was due to the commencement of commercial gas production at the Yu. Korchagin field in the Caspian Sea. Decrease in production in Ural region was largely a result of increase in own gas consumption following the launch of new power generation unit at the Perm refinery.

Our international gas production (including our share in affiliates' production) increased by 8.0%, compared to 2015, which resulted from the increase in production in Uzbekistan and Azerbaijan. Growth of gas production in Uzbekistan was due to launching new wells and a compressor booster station at the Gissar field. We are currently involved in construction of gas treatment facilities and gas treatment complex in the region, which completion together with further field development will enable us to significantly increase gas production in Uzbekistan.

**West Qurna-2 project**

The West Qurna-2 field in Iraq is one of the largest crude oil fields discovered in the world, with estimated recoverable oil reserves of 12.9 billion barrels (1.8 billion tonnes). Service agreement for the West Qurna-2 field development and production was signed on 31 January 2010. Currently, the parties of the project are Iraq's state-owned South Oil Company and a consortium of contractors, consisting of a Group company (75% interest) and Iraq's state-owned North Oil Company (25% interest).

The Group launched the "Mishrif Early Oil" stage on the West Qurna-2 field and reached the production of 120 thousand barrels per day in March 2014. According to the service agreement, starting from the second quarter of 2014, we receive cost compensation. The project's target production level is 1.2 million barrels per day and the total term of the contract is 25 years.

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 in the reporting period. Amount of the invoice depends on crude oil production volumes during the period and current crude oil market prices. Approved invoice amount and the remuneration fee for the reporting quarter are 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 cost incurred, compensation crude oil received, costs yet unrecovered and remuneration fee.

	Costs incurred <sup>(1)</sup>	Remuneration fee (millions of US dollars)	Crude oil received	Crude oil to be received
Cumulative at 31 December 2015 .....	6,801	198	5,169	1,830
Change during 2016 .....	731	128	2,106	(1,247)
Income tax .....	–	(54)	–	(54)
<b>Cumulative at 31 December 2016 .....</b>	<b>7,532</b>	<b>272</b>	<b>7,275</b>	<b>529</b>

<sup>(1)</sup> Including prepayments.

The West Qurna-2 project's summary is presented below:

	2016		2015		2014	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production <sup>(1)</sup> .....	149,341	21,770	140,071	20,418	75,655	11,030
Production related to cost compensation and remuneration <sup>(1)</sup> ..	34,742	5,064	73,574	10,725	41,749	6,087
Shipment of compensation crude oil <sup>(1)(2)</sup> .....	61,005	8,893	71,802	10,467	29,746	4,337
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation <sup>(3)</sup> .....	62,998	914	176,791	2,928	138,934	3,616
Remuneration fee .....	8,612	128	8,087	132	2,536	66
	71,610	1,042	184,878	3,060	141,470	3,682
Cost of compensation crude oil, received as liability settlement (included in <i>Cost of purchased crude oil, gas and products</i> ) <sup>(2)</sup> .....	140,392	2,106	184,665	3,068	80,686	2,100
Extraction expenses .....	31,231	462	47,277	780	22,736	592
Depreciation, depletion and amortization .....	31,438	447	127,071	2,109	114,497	2,980
EBITDA .....	39,468	566	137,166	2,273	118,120	3,074

<sup>(1)</sup> Translated into barrels using conversion rate characterizing the density of the field.

<sup>(2)</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.

<sup>(3)</sup> Excluding deferred income in the amount of \$30 million in 2016.

The Group is exposed to various risks due to its operations in Iraq. Management monitors the risks associated with the projects in Iraq and believes that there is no adverse effect on the Group's financial position that can be reasonably estimated at present.

## Refining, marketing and trading

**Refining and petrochemicals.** 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 own two petrochemical plants in Russia and petrochemical capacity at our refineries in Bulgaria and Italy. In February 2017, we divested our petrochemical plant in Ukraine, operations at which have been suspended since 2012 due to adverse economic and political environment in the country.

Compared to 2015, the total volume of refined products produced by the Group increased by 2.4%.

In Russia, our production volumes did not change significantly. Despite unfavorable macroeconomic environment, our Russian refineries posted strong results in 2016 due to completed upgrade program and throughput optimization. Launch of new secondary processing units in 2015 and 2016 enabled us to substantially enhance our refined product slate by reducing production of fuel oil and vacuum gas oil in favor of light products. In order to optimize refining depth, in 2016, we also redirected dark products produced at our Perm and Ukhta refineries from export deliveries to supply catalytic cracking unit at our refinery in Nizhny Novgorod. We also partially substituted purchased additives with additives of own production that resulted in optimization of operating expenses.

Internationally, the production increased by 7.1% against the background of low output in the first quarter of 2015 due to overhauls at our Italian refinery as well as strong refining margins.

Along with our own production of refined products we refine crude oil at third party refineries depending on market conditions and other factors. In the periods considered, we processed our crude oil at third party refineries in Belarus and Kazakhstan.

The following table summarizes key figures for our refining activities:

	2016	2015	2014
	(thousands of tonnes)		
Refinery throughput at the Group refineries .....	66,061	64,489	66,570
- in Russia .....	41,752	41,855	45,285
- outside Russia, including .....	24,309	22,634	21,285
- crude oil .....	20,356	18,832	16,886
- refined products .....	3,953	3,802	4,399
Refinery throughput at third party refineries .....	744	896	1,849
<b>Total refinery throughput .....</b>	<b>66,805</b>	<b>65,385</b>	<b>68,419</b>
<b>Production of the Group refineries in Russia .....</b>	<b>39,623</b>	<b>39,692</b>	<b>43,673</b>
- diesel fuel .....	12,889	12,674	13,129
- gasoline .....	7,773	6,989	7,066
- fuel oil .....	5,995	8,004	9,749
- jet fuel .....	2,188	2,220	2,587
- motor oils .....	1,015	928	1,109
- other products .....	9,763	8,877	10,033
<b>Production of the Group refineries outside Russia .....</b>	<b>22,720</b>	<b>21,208</b>	<b>20,445</b>
- diesel fuel .....	9,779	8,756	8,367
- gasoline .....	4,984	4,807	4,603
- fuel oil .....	3,215	3,271	2,677
- jet fuel .....	922	849	704
- motor oils .....	208	201	154
- other products .....	3,612	3,324	3,940
<b>Refined products produced by the Group .....</b>	<b>62,343</b>	<b>60,900</b>	<b>64,118</b>
Refined products produced at third party refineries .....	726	850	1,687
<b>Total refined products produced .....</b>	<b>63,069</b>	<b>61,750</b>	<b>65,805</b>
<b>Products produced at petrochemical plants and facilities .....</b>	<b>1,270</b>	<b>1,073</b>	<b>668</b>
- in Russia .....	895	686	310
- outside Russia .....	375	387	358
	(millions of RUB)		
<b>Refining expenses at the Group refineries .....</b>	<b>90,673</b>	<b>94,449</b>	<b>84,816</b>
- in Russia .....	43,742	44,145	41,280
- outside Russia .....	46,931	50,304	43,536
	(ruble per tonne)		
Refining expenses at the Group refineries .....	1,373	1,465	1,274
- in Russia .....	1,048	1,055	912
- outside Russia .....	1,931	2,223	2,045
	(US dollar per tonne)		
Refining expenses at the Group refineries .....	20.57	24.04	33.16
- in Russia .....	15.74	17.35	23.73
- outside Russia .....	28.88	36.43	53.24
	(millions of RUB)		
<b>Capital expenditures .....</b>	<b>38,421</b>	<b>73,595</b>	<b>102,400</b>
- in Russia .....	28,357	55,312	73,907
- outside Russia .....	10,064	18,283	28,493

**Marketing and trading.** We are marketing our own and third-party crude oil and refined products through our wholesale and retail channels in Russia, Europe, South-East Asia, Central and North America and other regions.

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 normally used for trading activities, for supplying our international refineries or for processing at third party refineries.



We undertake trading operations on international markets through our 100% subsidiary LITASCO. We use traditional physical volumes hedging techniques to hedge our trading operations to secure trading margin. As a result of price volatility, during 2016, loss on hedging amounted to 60 billion RUB that was offset by corresponding increase in prices for physical deliveries.

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

	2016	2015	2014
	(thousands of tonnes)		
Crude oil purchases			
in Russia .....	849	1,806	1,034
for trading internationally .....	28,385	18,826	16,559
for refining internationally .....	15,213	12,669	12,070
Shipment of the West Qurna-2 compensation crude oil.....	8,893	10,467	4,337
<b>Total crude oil purchased.....</b>	<b>53,340</b>	<b>43,768</b>	<b>34,000</b>

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

	2016	2015	2014
	(thousands of tonnes)		
Retail sales.....	13,916	14,063	15,543
Wholesale sales.....	105,344	111,199	102,684
<b>Total refined products sales .....</b>	<b>119,260</b>	<b>125,262</b>	<b>118,227</b>
Refined products purchased in Russia .....	1,594	1,674	2,041
Refined products purchased internationally .....	60,581	68,536	58,910
<b>Total refined products purchased .....</b>	<b>62,175</b>	<b>70,210</b>	<b>60,951</b>

In 2016, in line with the strategy to optimize our downstream operations, a Group company sold distribution companies operating in Poland, Lithuania, Latvia and Cyprus. In July 2015, we sold petrol station network in Estonia, and in April 2015 –in Ukraine.

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

	2016	2015	2014
	(thousands of tonnes)		
Exports of crude oil to Customs Union .....	3,007	3,852	3,809
Exports of crude oil beyond Customs Union .....	30,899	30,332	26,024
<b>Total crude oil exports.....</b>	<b>33,906</b>	<b>34,184</b>	<b>29,833</b>
Exports of crude oil through Transneft and other 3 <sup>rd</sup> party infrastructure..	25,865	26,585	24,216
including volumes exported through ESPO pipeline.....	1,215	1,519	1,499
Exports of crude oil through the Group's transportation infrastructure .....	8,041	7,599	5,617
<b>Total crude oil exports.....</b>	<b>33,906</b>	<b>34,184</b>	<b>29,833</b>
	(millions of RUB)		
Exports of crude oil to Customs Union .....	44,117	56,235	47,249
Exports of crude oil beyond Customs Union .....	581,138	634,714	668,544
<b>Total crude oil exports.....</b>	<b>625,255</b>	<b>690,949</b>	<b>715,793</b>

	2016	2015	2014
	(thousands of tonnes)		
<b>Refined products exports</b>			
- diesel fuel .....	8,030	7,328	7,273
- gasoline .....	408	283	171
- fuel oil .....	3,697	6,801	8,090
- jet fuel .....	202	159	117
- motor oils .....	605	576	638
- other products.....	5,197	5,299	7,088
<b>Total refined products exports .....</b>	<b>18,139</b>	<b>20,446</b>	<b>23,377</b>
	(millions of RUB)		
<b>Total refined products exports .....</b>	<b>375,722</b>	<b>439,874</b>	<b>581,445</b>

In 2016, the volume of our crude oil exports from Russia decreased by 0.8%, and we exported 41.2% of our domestic crude oil production (40.3% in 2015 and 34.8% in 2014) and 458 thousand tonnes of crude oil purchased from our affiliates and third parties (1,581 thousand tonnes in 2015 and 862 thousand tonnes in 2014). The decrease in crude oil exports was a result of lower domestic production. The volume of our refined products exports decreased by 11.3% compared to 2015 due to higher domestic sales volumes driven by favorable netbacks.

Substantially, we use the Transneft infrastructure to export our crude oil. Nevertheless, a sizeable amount of crude oil is exported through our own infrastructure. All the volume of crude oil exported that bypassed Transneft was routed beyond the Customs Union.

The Company also exports its light crude oil through the Caspian Pipeline Consortium and Eastern Siberia – Pacific Ocean pipelines that allows us to preserve the premium quality of crude oil and thus enables us to achieve higher netbacks compared to traditional exports.

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

We own petrol stations in 18 countries. Most of our retail networks are located close to our refineries. In 2016, we sold 9.8 million tonnes of motor fuels via our domestic retail network, or approximately 48% of our domestic motor fuel output, that represents an increase of 2.9% against 2015. Compared to 2015, our domestic sales volumes of premium ECTO branded motor fuels increased by 33.8%.

In 2016, retail sales outside Russia decreased to 4.1 million tonnes, or by 9.4%, mostly as a result of divestment of our retail networks in Poland and the Baltic states. At the same time, ECTO branded sales volumes outside Russia increased by 10.3%.

We supply jet fuel to airports in and outside Russia. In 2016, jet fuel sales volumes amounted to 2.7 million tonnes, which is in line with 2015.

We supply bunker fuel to sea and river ports in Russia. In 2016, these sales increased by 35.6% to 3.3 million tonnes as a result of expansion of our market share on the Black and Baltic seas and launch of new premium products.

We produce motor oils at our refineries in Russia and undertake motor oil blending and packaging in Russia and abroad. We focus on premium branded motor and industrial oils that sales volumes increased by 22.4% in 2016.

**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. We also own renewable energy capacity in Russia and abroad. In 2016, our total output of commercial electrical energy was 18.1 billion kW-h (17.8 billion kW-h in 2015 and 17.1 billion kW-h in 2014), and our total output of commercial heat energy was approximately 12.4 million Gcal (12.8 million Gcal in 2015 and 14.1 million Gcal in 2014).

## Results of operations for the years ended 31 December 2016, 2015 and 2014

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

	2016	2015	2014
	(millions of rubles)		
<b>Revenues</b>			
Sales (including excise and export tariffs) .....	5,227,045	5,749,050	5,504,856
<b>Costs and other deductions</b>			
Operating expenses .....	(456,433)	(446,719)	(368,505)
Cost of purchased crude oil, gas and products .....	(2,609,764)	(2,891,674)	(2,781,856)
Transportation expenses.....	(299,017)	(297,977)	(215,198)
Selling, general and administrative expenses .....	(196,156)	(168,669)	(146,550)
Depreciation, depletion and amortization .....	(311,588)	(350,976)	(293,052)
Taxes other than income taxes .....	(443,338)	(522,620)	(467,732)
Excise and export tariffs .....	(483,313)	(575,509)	(807,401)
Exploration expenses .....	(8,293)	(29,177)	(12,228)
<b>Profit from operating activities .....</b>	<b>419,143</b>	<b>465,729</b>	<b>412,334</b>
Finance income .....	14,756	17,763	10,999
Finance costs.....	(47,030)	(48,224)	(29,727)
Equity share in income of affiliates.....	7,967	7,047	19,888
Foreign exchange (loss) gain .....	(111,976)	110,912	167,235
Other expenses.....	(10,345)	(164,123)	(95,874)
<b>Profit before income taxes .....</b>	<b>272,515</b>	<b>389,104</b>	<b>484,855</b>
Current income taxes .....	(58,170)	(100,335)	(103,303)
Deferred income taxes .....	(6,703)	3,976	12,524
<b>Total income tax expense.....</b>	<b>(64,873)</b>	<b>(96,359)</b>	<b>(90,779)</b>
<b>Profit for the period .....</b>	<b>207,642</b>	<b>292,745</b>	<b>394,076</b>
Profit for the period attributable to non-controlling interests.....	(848)	(1,610)	1,449
<b>Profit for the period attributable to PJSC LUKOIL shareholders...</b>	<b>206,794</b>	<b>291,135</b>	<b>395,525</b>
Earning per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):			
Basic .....	290.06	408.36	554.79
Diluted .....	290.06	405.15	541.90

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

**Sales revenues**

<b>Sales breakdown</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(millions of rubles)		
<b>Crude oil</b>			
Export and sales on international markets other than Customs Union ....	1,238,836	1,155,900	1,077,111
Export and sales to Customs Union .....	42,888	49,177	60,550
Domestic sales .....	94,985	145,688	128,431
	<b>1,376,709</b>	<b>1,350,765</b>	<b>1,266,092</b>
Cost compensation and remuneration at the West Qurna-2 project .....	71,610	184,878	141,470
	<b>1,448,319</b>	<b>1,535,643</b>	<b>1,407,562</b>
<b>Refined products</b>			
Export and sales on international markets			
Wholesale.....	2,474,829	2,909,618	2,810,780
Retail.....	295,266	328,721	371,618
Domestic sales			
Wholesale.....	245,063	244,404	269,735
Retail.....	381,570	360,283	343,800
	<b>3,396,728</b>	<b>3,843,026</b>	<b>3,795,933</b>
<b>Petrochemicals</b>			
Export and sales on international markets .....	34,711	34,490	32,231
Domestic sales .....	38,092	28,248	10,346
	<b>72,803</b>	<b>62,738</b>	<b>42,577</b>
<b>Gas and gas products</b>			
Export and sales on international markets .....	81,626	100,097	83,025
Domestic sales .....	34,723	38,229	42,406
	<b>116,349</b>	<b>138,326</b>	<b>125,431</b>
<b>Sales of energy and related services</b>			
Sales on international markets .....	14,178	12,516	7,583
Domestic sales .....	61,920	58,237	54,922
	<b>76,098</b>	<b>70,753</b>	<b>62,505</b>
<b>Other</b>			
Sales on international markets .....	69,881	57,430	38,662
Domestic sales .....	46,867	41,134	32,186
	<b>116,748</b>	<b>98,564</b>	<b>70,848</b>
<b>Total sales .....</b>	<b>5,227,045</b>	<b>5,749,050</b>	<b>5,504,856</b>

<b>Sales volumes</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(thousands of tonnes)		
<b>Crude oil</b>			
Export and sales on international markets other than Customs Union ....	62,318	54,077	40,222
Export and sales to Customs Union .....	2,942	3,298	4,665
Domestic sales .....	7,124	10,840	11,086
	<b>72,384</b>	<b>68,215</b>	<b>55,973</b>
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project .....	5,064	10,725	6,087
	<b>77,448</b>	<b>78,940</b>	<b>62,060</b>
<b>Refined products</b>			
Export and sales on international markets			
Wholesale.....	94,024	100,952	91,088
Retail.....	4,079	4,501	5,772
Domestic sales			
Wholesale.....	11,320	10,247	11,596
Retail.....	9,837	9,562	9,771
	<b>119,260</b>	<b>125,262</b>	<b>118,227</b>
<b>Petrochemicals</b>			
Export and sales on international markets .....	747	657	593
Domestic sales .....	730	543	240
	<b>1,477</b>	<b>1,200</b>	<b>833</b>
<b>Total sales volume .....</b>	<b>198,185</b>	<b>205,402</b>	<b>181,120</b>

**Realized average sales prices**

		2016	2015	2014
<b>Average realized price international</b>				
Crude oil (beyond Customs Union) <sup>(1)</sup> .....	(RUB/barrel)	2,712	2,916	3,653
Crude oil (Customs Union) .....	(RUB/barrel)	1,989	2,034	1,771
<b>Refined products</b>				
Wholesale .....	(RUB/tonne)	26,321	28,822	30,858
Retail.....	(RUB/tonne)	72,387	73,031	64,384
Petrochemicals.....	(RUB/tonne)	46,467	52,496	54,377
Crude oil (beyond Customs Union) .....	(\$/barrel)	40.46	47.84	95.09
Crude oil (Customs Union) .....	(\$/barrel)	29.67	33.37	46.09
<b>Refined products</b>				
Wholesale .....	(\$/tonne)	392.65	472.81	803.13
Retail.....	(\$/tonne)	1,079.84	1,198.06	1,675.70
Petrochemicals.....	(\$/tonne)	693.18	861.18	1,415.25
<b>Average realized price within Russia</b>				
Crude oil .....	(RUB/barrel)	1,819	1,834	1,580
<b>Refined products</b>				
Wholesale .....	(RUB/tonne)	21,649	23,851	23,263
Retail.....	(RUB/tonne)	38,789	37,679	35,185
Petrochemicals.....	(RUB/tonne)	52,181	52,040	43,151

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

In 2016, our revenues decreased by 522 billion RUB, or by 9.1%, compared to 2015. Our revenues from crude oil sales decreased by 87 billion RUB, or by 5.7%, and our revenues from sales of refined products decreased by 446 billion RUB, or by 11.6%. The main reason for the decrease in revenue was the decrease in international hydrocarbon prices as well as the decrease in refined products trading volumes. That was partially compensated for by the effect of the decrease in the annual average ruble exchange rate on our revenues denominated in other currencies.

*Sales of crude oil*

2016 vs. 2015

Our international crude oil sales revenue decreased by 7.2%, or by 83 billion RUB, compared to 2015. Our international sales volumes (beyond the Customs Union) increased by 8,241 thousand tonnes, or by 15.2%, in 2016 mainly due to higher volumes of crude oil trading. Our average international ruble realized prices decreased by 7.0% compared to 2015.

Our realized domestic crude oil sales price did not change compared to 2015, while our domestic sales volumes decreased by 3,716 thousand tonnes, or by 34.3%, following the decrease in production in Russia. As a consequence, in 2016, our domestic sales revenue decreased by 34.8%, or by 51 billion RUB.

2015 vs. 2014

Our international sales revenue increased by 7.3%, or by 79 billion RUB, compared to 2014. Our international sales volumes (beyond the Customs Union) increased by 13,855 thousand tonnes, or by 34.4%, in 2015 as a result of the increase in crude oil exports from Russia and increased volumes of crude oil trading. At the same time, that was partially offset by the sharp decrease in the international crude oil prices by 49.7% compared to 2014. Nevertheless, as a result of the sharp ruble devaluation, international crude oil price expressed in rubles only decreased by 20.2%.

Our realized domestic crude oil price increased by 16.0%, compared to 2014. The significant increase in exports from Russia was compensated by the decrease in the throughput at the domestic refineries and increase of crude oil purchases in Russia. Thus, our domestic sales volumes decreased relatively insignificantly by 246 thousand tonnes, or by 2.2%. As a consequence, in 2015, our domestic sales revenue increased by 13.4%, or by 17 billion RUB.

*Cost compensation and remuneration at the West Qurna-2 project*

Included in Group's revenue is the cost compensation and remuneration fee related to the West Qurna-2 project in Iraq.

2016 vs. 2015

In 2016, the volumes of crude oil related to cost compensation and remuneration fee significantly decreased to the respective period of 2015. Therefore the amount of cost compensation and remuneration fee decreased by 113 billion RUB. For details see p. 15.

2015 vs. 2014

In 2015, the amount of cost compensation and remuneration fee related to the West Qurna-2 project increased by 43 billion RUB compared to 2014.

*Sales of refined products*

2016 vs. 2015

Compared to 2015, our revenue from the wholesale of refined products outside Russia decreased by 435 billion RUB, or by 14.9%, that was both price and volume driven. Our sales volumes decreased by 6.9%, largely as a result of the decrease in volumes of trading. Our dollar and ruble realized prices decreased by 17.0% and 8.7%, respectively.

In 2016, our dollar and ruble realized retail prices outside Russia decreased by 9.9% and 0.9%, respectively. Our sales volumes decreased by 9.4% as a consequence of sale of our retail networks in Eastern Europe. As a result, our international retail revenue decreased by 33 billion RUB, or by 10.2%, compared to 2015.

In 2016, our revenue from the wholesale of refined products on the domestic market didn't change significantly. Our realized prices decreased by 9.2%, but our sales volumes increased by 10.5%.

In 2016, our revenue from refined products retail sales in Russia increased by 21 billion RUB, or by 5.9%. Our average domestic retail prices and volumes both increased by 2.9%.

2015 vs. 2014

Compared to 2014, our revenue from the wholesale of refined products outside of Russia increased by 3.5%, or by 99 billion RUB. Our dollar and ruble realized prices decreased by 41.1% and 6.6%, respectively. That was offset by the increase in sales volumes by 10.8% as a result of higher volumes of trading.

In 2015, our ruble realized retail prices outside of Russia increased by 13.4% and sales volumes decreased by 22.0%, that resulted in the decrease in retail revenue by 43 billion RUB, or by 11.5%, compared to 2014.

In 2015, our revenue from the wholesale of refined products on the domestic market decreased by 9.4%, or by 25 billion RUB. Our realized prices increased by 2.5% and our sales volumes decrease by 11.6%. The decrease in volumes was due to lower domestic production.

In 2015, our revenue from retail sales in Russia increased by 16 billion RUB, or by 4.8%. Our average domestic retail prices increased by 7.1%, while retail volumes decreased by 2.1%.

*Sales of petrochemical products*

2016 vs. 2015

In 2016, our revenue from sales of petrochemical products increased by 10 billion RUB, or by 16.0%, largely due to an increase in domestic output against the background of low production as a consequence of a fire at our plant in the Stavropol region of Russia at the end of the first quarter of 2014. Production at the plant was resumed in early April 2015.

2015 vs. 2014

In 2015, our revenue from sales of petrochemical products increased by 20 billion RUB, or by 47.4%, largely due to the increase in sales volumes by 44.1% against the background of low productions as a consequence of a fire at our plant in the Stavropol region of Russia at the end of the first quarter of 2014.

*Sales of gas and gas products*

2016 vs. 2015

Compared to 2015, sales of gas and gas refined products decreased by 22 billion RUB, or by 15.9%, mainly as a result of the decrease in sales prices.

In 2016, natural gas sales revenue decreased by 12 billion RUB, or by 16.6%. Gas products revenue decreased by 10 billion RUB, or by 15.1%.

2015 vs. 2014

Sales of gas and gas refined products increased by 13 billion RUB, or by 10.3%, compared to 2014.

Natural gas sales revenue increased by 16 billion RUB, or by 28.4%, as a result of the increase in international gas production by the Group. Gas products revenue decreased by 3 billion RUB, or by 4.7%.

*Sales of energy and related services*

2016 vs. 2015

In 2016, revenue from sales of energy and related services increased by 5 billion RUB, or by 7.6%. In Russia, the increase was largely due to putting in operation a combined cycle gas turbine with a capacity of 135 MW at the Group's power plant in the Stavropol region of Russia in March 2015. Our international revenue increased as a result of the increase in volumes of electricity sales in Sicily, Italy.

2015 vs. 2014

In 2015, our revenue from sales of electricity, heat and related services increased by 8 billion RUB, or by 13.2%. In Russia, the increase was due to putting in operation a combined cycle gas turbine with a capacity of 135 MW at the Group's power plant in the Stavropol region of Russia in March 2015. Internationally, the increase was a result of the acquisition of ISAB Energy in the third quarter of 2014 and of the ruble devaluation.

*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.

2016 vs. 2015

In 2016, revenue from other sales increased by 18 billion RUB, or by 18.4%, compared to 2015. The non-petrol revenue of our retail network increased by 2 billion RUB, or by 5.4%. Our revenue from transportation services increased by 4 billion RUB, or by 29.5%. In 2016 and 2015, our other sales also included revenue from sales of diamonds in the amount of 20 billion RUB and 11 billion RUB, respectively.

2015 vs. 2014

In 2015, revenue from other sales increased by 28 billion RUB, or by 39.1%, compared to 2014. The non-petrol revenue of our retail network increased by 4 billion RUB, or by 14.3%. Since the second quarter of 2014, we increased the volume of rendering crude oil extraction services in Russia, by 3 billion RUB, or by 63.4%. Revenue from transportation services increased by 6 billion RUB, or by 75.4%. In 2015 and 2014, our other sales also included revenue from sales of diamonds in the amount of 11 billion RUB and 1 billion RUB, respectively.

**Operating expenses**

Operating expenses include the following:

	2016	2015	2014
	(millions of rubles)		
Hydrocarbon extraction expenses <sup>(1)</sup> .....	180,223	169,897	151,073
Extraction expenses at the West Qurna-2 field .....	31,231	47,277	22,736
Own refining expenses.....	90,673	94,449	84,816
Refining expenses at third parties refineries .....	1,959	2,604	2,900
Expenses for crude oil transportation to refineries.....	46,349	41,698	39,220
Power generation and distribution expenses .....	39,406	36,292	32,430
Petrochemical expenses .....	12,758	10,993	7,036
Other operating expenses .....	53,834	43,509	28,294
<b>Total operating expenses .....</b>	<b>456,433</b>	<b>446,719</b>	<b>368,505</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 the data for Note 32 “Segment information” to our consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

2016 vs. 2015

Compared to 2015, our operating expenses increased by 10 billion RUB, or by 2.2%, largely as a result of inflation in Russia and the effect of the decrease in the annual average ruble exchange rate to US dollar and Euro on the ruble value of foreign subsidiaries’ expenses that was partially offset by the decrease in expenses at the West Qurna-2 oilfield.

2015 vs. 2014

In 2015, our operating expenses increased by 78 billion RUB, or by 21.2%, compared to 2014, largely a result of inflation in Russia and the effect of the ruble devaluation on the ruble value of foreign subsidiaries’ expenses.

*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.

2016 vs. 2015

In 2016, our extraction expenses increased by 10 billion RUB, or by 6.1%.

Our average hydrocarbon extraction expenses increased from 222 RUB per BOE in 2015 to 241 RUB per BOE in 2016, or by 8.6%. In Russia, average hydrocarbon extraction expenses increased by 10.6% to 241 RUB per BOE. Our domestic expenses increased driven by higher costs of materials and services and shift towards more cost-intensive projects benefiting from tax incentives.

2015 vs. 2014

In 2015, our extraction expenses increased by 19 billion RUB, or by 12.5%, largely, as a result of the impact of the ruble devaluation on the ruble value of expenses of our foreign subsidiaries. Our domestic expenses also increased driven by higher costs of materials and services.

Our average hydrocarbon extraction expenses increased from 196 RUB per BOE in 2014 to 222 RUB per BOE in 2015, or by 13.3%. In Russia, average hydrocarbon extraction expenses increased by 11.2% to 218 RUB per BOE in 2015.

*Crude oil extraction expenses at the West Qurna-2 field*

Crude oil extraction expenses at the West Qurna-2 field represent expenses related to 100% production from the field, while we are only eligible for a share of production that compensates our historically incurred costs and expenses. For details see p. 15.



#### 2016 vs. 2015

The decrease in expenses in 2016 was a result of completion of commissioning stage of the field development and consecutive decrease in personnel involved and associated transportation, security and other related services provided.

#### 2015 vs. 2014

The increase in expenses in 2015 was a result of the scale-up of our operations at the West Qurna-2 field.

#### *Own refining expense*

##### 2016 vs. 2015

In 2016, our own refining expenses decreased by 4 billion RUB, or by 4.0%.

Despite the inflation, refining expenses at our domestic refineries decreased by 0.9%, that was largely a result of consumption of additives of own production as a result of our refineries' upgrade.

Refining expenses at our refineries outside Russia decreased by 3 billion RUB, or by 6.7%, compared to the 2015, largely due to lower overhaul expenses.

##### 2015 vs. 2014

In 2015, our own refining expenses increased by 10 billion RUB, or by 11.4%.

Despite the decrease in production volumes, refining expenses at our domestic refineries increased by 6.9%, or by 3 billion RUB, as a result of increased overhaul costs.

Refining expenses at our refineries outside of Russia increased by 7 billion RUB, or by 15.5%, as a result of the euro appreciation to the Russian ruble and increased overhaul costs.

#### *Expenses for crude oil transportation to refineries*

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

##### 2016 vs. 2015

Our expenses for crude oil transportation to refineries increased by 5 billion RUB, or by 11.2%, compared to 2015, largely as a result of the increase in transportation tariffs, international refining volumes and the effect of the decrease in the annual average ruble exchange rate.

##### 2015 vs. 2014

Our expenses for crude oil transportation to refineries increased by 2 billion RUB, or by 6.3%. The decrease in crude oil refining volumes in Russia and in supplies of own crude oil to the Group's refineries abroad was offset by the increase in ruble value of transportation costs incurred internationally.

#### *Petrochemical expenses*

##### 2016 vs. 2015

In 2016, operating expenses of our petrochemical plants increased by 2 billion RUB, or by 16.1%, due to the increase in domestic production volumes after commencement of production at our petrochemical plant in the Stavropol region of Russia in April 2015 (the plant's operations were limited after a fire in the first quarter of 2014).

##### 2015 vs. 2014

In 2015, operating expenses of our petrochemical plants increased by 4 billion RUB, or by 56.2%, due to the increase of domestic production volumes after commencement of production at our petrochemical plant in the Stavropol region of Russia in April 2015.

*Other operating expenses*

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

2016 vs. 2015

In 2016, other operating expenses increased by 10 billion RUB, or by 23.7%, largely as a result of the increased cost of transportation services provided to third parties, non-petrol sales of our retail network and the increase in the ruble value of other operating expenses of our foreign subsidiaries.

2015 vs. 2014

In 2015, other operating expenses increased by 15 billion RUB, or by 53.8%, largely as a result of the increased cost of non-petrol sales of our retail network, increase in expenses related to production of diamonds and the increase of the ruble value of other operating expenses of our foreign subsidiaries.

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

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

	2016	2015	2014
	(millions of rubles)		
Cost of purchased crude oil in Russia.....	12,046	22,943	11,808
Cost of purchased crude oil outside Russia .....	869,090	670,723	740,323
Compensation crude oil related to West Qurna-2 project .....	140,392	184,665	80,686
	<b>1,021,528</b>	<b>878,331</b>	<b>832,817</b>
Cost of purchased refined products in Russia .....	44,599	48,651	57,270
Cost of purchased refined products outside Russia .....	1,549,039	1,940,718	1,845,302
	<b>1,593,638</b>	<b>1,989,369</b>	<b>1,902,572</b>
Other purchases.....	50,270	50,198	35,109
Net loss (gain) from hedging of trading operations.....	60,487	(82,670)	(72,231)
Change in oil and petroleum products inventory .....	(116,159)	56,446	83,589
<b>Total cost of purchased crude oil, gas and products .....</b>	<b>2,609,764</b>	<b>2,891,674</b>	<b>2,781,856</b>

2016 vs. 2015

In 2016, the cost of purchased crude oil, gas and products decreased by 282 billion RUB, or by 9.7%, following the decrease in hydrocarbon prices and refined products trading volumes. Crude oil purchases also included 140 billion RUB related to 8,893 thousand tonnes of compensation crude oil received from Iraq’s state-owned South Oil Company within the West Qurna-2 project (185 billion RUB related to 10,467 thousand tonnes of compensation crude oil in 2015).

2015 vs. 2014

In 2015, the cost of purchased crude oil, gas and products increased by 110 billion RUB, or by 3.9%. The sharp decrease in hydrocarbon prices was offset by the effect of the ruble devaluation and the increase in crude oil and refined products trading volumes. Crude oil purchases in 2015 also included 185 billion RUB related to 10,467 thousand tonnes of compensation crude oil received from Iraq’s state-owned South Oil Company within the West Qurna-2 project (81 billion RUB related to 4,337 thousand tonnes of crude oil in 2014).

**Transportation expenses**

	2016	2015	2014
	(millions of rubles)		
Crude oil transportation expenses.....	91,628	91,251	59,728
Refined products transportation expenses.....	182,241	186,680	141,446
Other transportation expenses.....	25,148	20,046	14,024
<b>Total transportation expenses.....</b>	<b>299,017</b>	<b>297,977</b>	<b>215,198</b>

2016 vs. 2015

In 2016, our transportation expenses didn't change significantly compared to 2015.

Our expenses for transportation of crude oil in Russia decreased mostly due to the decrease in domestic sales volumes that was partially offset by the increase in tariffs. Outside of Russia, increase in crude oil transportation expenses was driven primarily by the increase in sales volumes.

Our domestic expenses for transportation of refined products increased largely as a result of the increase in tariffs. Outside of Russia, the decrease compared to 2015 was mainly a result of the decrease in trading volumes.

Other transportation expenses were mostly represented by the expenses for transportation of gas. In Russia, the increase to 2015 was mainly due to higher volumes of transportation of gas from the Yu. Korchagin field in the Caspian Sea. Internationally, the increase that resulted from higher transportation volumes as a result of the increase in gas production was amplified by the decrease in annual average ruble exchange rate.

2015 vs. 2014

In 2015, our transportation expenses increased by 83 billion RUB, or by 38.5%, compared to the previous year as a result of the increase in domestic transportation tariffs and higher volumes of crude oil transportation driven by increased crude oil trading and exports from Russia, amplified by the effect of the ruble devaluation.

**Selling, general and administrative expenses**

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

2016 vs. 2015

Our selling, general and administrative expenses increased by 27 billion RUB, or by 16.3%. In Russia, expenses increased by 25 billion RUB, or by 29.3%, as a result of inflation and higher accruals within share-based compensation program due to LUKOIL share price growth. Internationally, our expenses outside Russia increased by 2 billion RUB, or by 3.1%, largely as a result of the effect of the decrease in annual average ruble exchange rate on the expenses of our foreign subsidiaries.

2015 vs. 2014

In 2015, our selling, general and administrative expenses increased by 22 billion RUB, or by 15.1%. The increase was triggered by inflation in Russia and the effect of the ruble devaluation on the expenses of our foreign subsidiaries.

**Depreciation, depletion and amortization**

2016 vs. 2015

Our depreciation, depletion and amortization expenses decreased by 39 billion RUB, or by 11.2%. The effect of the increase in the depreciation rate of upstream assets following the decrease in hydrocarbon proved reserves was offset by the decrease of expenses related to the West Qurna-2 project. Our depreciation, depletion and amortization expenses for 2016 and 2015 included 31 billion RUB and 127 billion RUB, respectively, related to the West Qurna-2 field. Other international subsidiaries' depreciation, depletion and amortization expenses increased as a result of the effect of the decrease in annual average ruble exchange rate. Depreciation, depletion and amortization expenses of our downstream assets increased following the increase in value of depreciable assets.

2015 vs. 2014

Our depreciation, depletion and amortization expenses increased by 58 billion RUB, or by 19.8%, compared to 2014. Our depreciation, depletion and amortization expenses for 2015 and 2014 included 127 billion RUB and 114 billion RUB, respectively, related to the West Qurna-2 field. Other international subsidiaries' depreciation, depletion and amortization increased as a result of the effect of the ruble devaluation.

**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, 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. One of our major affiliates was Caspian Investments Resources Ltd. which was sold in August 2015.

2016 vs. 2015

Our share in income of affiliates increased by 1 billion RUB, or by 13.1%, compared to 2015.

2015 vs. 2014

Our share in income of affiliates decreased by 13 billion RUB, or by 64.6%, compared to 2014, largely as a result of the decrease in income of our upstream affiliates in Kazakhstan.

**Taxes other than income taxes**

	2016	2015	2014
	(millions of rubles)		
<b>In Russia</b>			
Mineral extraction taxes.....	388,835	470,013	420,946
Social security taxes and contributions .....	22,863	21,183	17,462
Property tax.....	18,437	18,364	16,874
Other taxes .....	2,402	2,459	3,810
<b>Total in Russia.....</b>	<b>432,537</b>	<b>512,019</b>	<b>459,092</b>
<b>International</b>			
Social security taxes and contributions .....	6,016	5,812	4,506
Property tax.....	1,122	1,916	1,268
Other taxes .....	3,663	2,873	2,866
<b>Total internationally .....</b>	<b>10,801</b>	<b>10,601</b>	<b>8,640</b>
<b>Total.....</b>	<b>443,338</b>	<b>522,620</b>	<b>467,732</b>

2016 vs. 2015

Our taxes other than income taxes decreased by 79 billion RUB, or by 15.2%, compared to 2015. This was largely driven by the decrease in the mineral extraction tax rate in Russia resulted from the decrease in crude oil prices.

2015 vs. 2014

In 2015, our taxes other than income taxes increased by 55 billion RUB, or by 11.7%, compared to 2014, largely driven by the increase in the mineral extraction tax rate.

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

	2016	2015	2014
	(millions of rubles)		
Decrease in extraction taxes from application of reduced and zero rates for crude oil and gas production .....	59,527	72,300	83,162
	(thousands of tonnes)		
Volume of crude oil production subject to:			
zero rates.....	977	808	7,807
reduced rates (tax holidays for specific regions and high viscosity oil).....	4,854	6,127	–
reduced rates (depleted fields) .....	14,202	14,928	16,025
reduced rates (other) .....	3,480	2,661	1,668
<b>Total volume of production subject to reduced or zero rates.....</b>	<b>23,513</b>	<b>24,524</b>	<b>25,500</b>

**Excise and export tariffs**

	2016	2015	2014
	(millions of rubles)		
<b>In Russia</b>			
Excise tax on refined products .....	95,692	55,451	71,093
Crude oil export tariffs .....	136,126	212,899	353,109
Refined products export tariffs.....	54,444	112,871	230,145
<b>Total in Russia.....</b>	<b>286,262</b>	<b>381,221</b>	<b>654,347</b>
<b>International</b>			
Excise tax and sales taxes on refined products.....	196,484	192,070	145,098
Crude oil export tariffs .....	81	46	57
Refined products export tariffs.....	486	2,172	7,899
<b>Total internationally .....</b>	<b>197,051</b>	<b>194,288</b>	<b>153,054</b>
<b>Total .....</b>	<b>483,313</b>	<b>575,509</b>	<b>807,401</b>

2016 vs. 2015

In 2016, export tariffs decreased by 137 billion RUB, or by 41.7%, due to the sharp decrease in export duty rates for crude oil and refined products in Russia amplified by the decrease in refined products export volumes. Compared to 2015, the volumes of crude oil export beyond the Customs Union increased by 1.9%, but the volumes of the refined products exports decreased by 11.3%. The increase in excise tax expenses in Russia was driven by increase in rates, while international excise expenses increased due to the decrease in annual average ruble exchange rate.

2015 vs. 2014

In 2015, export tariffs decreased by 263 billion RUB, or by 44.5%, due to the sharp decrease in export duty rates for crude oil and refined products, offset to some extent by the ruble devaluation. Compared to 2014, the volumes of crude oil export beyond the Customs Union increased by 16.6% while the volumes of the refined products exports decreased by 12.5%. The increase in international excise expenses was due to the ruble devaluation.

**Foreign exchange (loss) gain**

Foreign exchange loss mostly related to revaluation of US dollar and euro net monetary position of Russian subsidiaries that mostly consists of accounts receivables and loans to our foreign subsidiaries.

2016 vs. 2015

In 2016, ruble to US dollar exchange rate decreased from 72.9 rubles per dollar to 60.7 rubles per dollar that resulted in a 112 billion RUB foreign exchange loss. In 2015, ruble to US dollar exchange rate increased from 56.3 rubles per dollar to 72.9 rubles per dollar that resulted in a 111 billion RUB foreign exchange gain.

2015 vs. 2014

In 2015, ruble to US dollar exchange rate increased from 56.3 rubles per dollar to 72.9 rubles per dollar that resulted in a 111 billion RUB foreign exchange gain. In 2014, ruble to US dollar exchange rate increased from 32.7 rubles per dollar to 56.3 rubles per dollar that resulted in a 167 billion RUB foreign exchange gain.

**Other expenses**

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

	2016	2015	2014
	(millions of rubles)		
Gain on disposal of assets .....	14,449	43,945	6,089
Reversal of impairment of assets .....	891	1,292	291
Other income.....	17,083	16,110	16,184
<b>Total other income .....</b>	<b>32,423</b>	<b>61,347</b>	<b>22,564</b>
Impairment loss.....	9,471	187,050	75,441
Loss on disposal of assets .....	12,900	24,051	22,278
Charity expenses .....	12,060	7,929	6,997
Other expenses.....	8,337	6,440	13,722
<b>Total other expenses.....</b>	<b>42,768</b>	<b>225,470</b>	<b>118,438</b>

2016 vs. 2015

In 2016, other expenses decreased by 154 billion RUB, or by 93.7%, largely as a result of lower amount of impairment losses, compared to 2015.

In 2016, the Company recognized an impairment loss in respect of its exploration and production assets in the total amount of 8 billion RUB. Of that amount, 2 billion RUB related to our projects in Africa and 6 billion RUB related to our assets in Russia.

2015 vs. 2014

In 2015, other expenses increased by 68 billion RUB, or by 71.2%, largely as a result of higher amount of impairment losses.

In 2015, the Company recognized an impairment loss in respect of its exploration and production assets in the total amount of 141 billion RUB. Of these impairment losses, 67 billion RUB related to our projects in Africa, 38 billion RUB in Western Siberia, 10 billion RUB in other regions of Russia and 26 billion RUB in other regions outside Russia.

In the Refining, marketing and distribution segment, we recognized impairment losses in related to our international subsidiaries in amount of 27 billion RUB and to our subsidiaries in Russia in amount of 19 billion RUB.

In 2014, the Company recognized an impairment loss for its exploration and production assets related to the Tsentralno-Astrakhanskoe gas-condensate field in the Volga region of the Russian Federation in amount of 24 billion RUB and to other projects in Russia in amount of 14 billion RUB. Impairment losses and write-offs related to upstream projects outside of Russia totaled 20 billion RUB. Moreover, the Group wrote off signing bonuses in the total amount of 7 billion RUB related to projects in Ghana, Sierra Leone and Cote d'Ivoire.

**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.

2016 vs. 2015

In 2016, our total income tax expense decreased by 31 billion RUB, or by 32.7%, and our profit before income tax decreased by 117 billion RUB, or by 30.0%. Our effective income tax rate in 2016 was 23.8%, compared to 24.8% in 2015.

#### 2015 vs. 2014

In 2015, our total income tax expense increased by 6 billion RUB, or by 6.1%, compared to 2014. At the same time, our profit before income tax decreased by 96 million RUB, or by 19.7%, and our effective income tax rate was 24.8%, compared to 18.7% in 2014. The high level of the effective tax rate in 2015 was a result of non-deductible losses and write-offs.

## Non-GAAP items reconciliation

### Reconciliation of profit from operating activities 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 our ability to raise and service debt. EBITDA is a non-IFRS measure and should not be considered in isolation as an alternative to profit from operating activities, profit or any other measure of performance under IFRS.

	2016	2015	2014
	(millions of rubles)		
<b>EBITDA reconciliation</b>			
Profit from operating activities .....	419,143	465,729	412,334
Depreciation, depletion and amortization .....	311,588	350,976	293,052
<b>EBITDA.....</b>	<b>730,731</b>	<b>816,705</b>	<b>705,386</b>
<b>EBITDA by operating segments</b>			
Exploration and production (excluding West Qurna-2 project) .....	481,722	458,242	389,797
West Qurna-2 project in Iraq .....	39,468	137,166	118,120
Refining, marketing and distribution segment .....	233,297	234,211	195,108
Corporate and other .....	(18,271)	(4,199)	(6,699)
Elimination .....	(5,485)	(8,715)	9,060
<b>EBITDA.....</b>	<b>730,731</b>	<b>816,705</b>	<b>705,386</b>

### Non-recurring losses and gains

As a result of impairment tests in 2016, 2015 and 2014 and against the background of overall adverse economic environment, the Group recognized losses on assets impairment and dry hole write-offs. Table below sets forth summary of data on these losses in the context of consolidated statement of profit and loss and their impact on the Group's profit for the periods considered.

	2016	2015	2014
	(millions of rubles)		
Impairment losses included in <i>Other expense</i>			
Impairment losses in Exploration and Production segment .....	7,632	124,613	65,328
Impairment losses in Refining, Marketing and Distribution segment.....	1,172	45,695	17,572
Other write-offs in Exploration and Production segment .....	-	16,742	-
Total impairment losses and write-offs included in <i>Other expense</i> .....	8,804	187,050	82,900
Impairment reversal in Refining, Marketing and Distribution segment included in <i>Other expense</i> .....	(891)	-	-
Dry holes write-offs included in <i>Exploration expenses</i> .....	-	24,816	9,227
Impairment losses included in <i>Equity share in income of affiliates</i> .....	-	2,568	-
Foreign exchange gain reclassified from other comprehensive income after the sale of Caspian Investment Resources Ltd included in <i>Other expense</i> .....	-	(36,931)	-
<b>Total non-recurring losses and gains .....</b>	<b>7,913</b>	<b>177,503</b>	<b>92,127</b>
Deferred tax effect .....	(1,150)	(16,373)	(4,574)
<b>Total non-recurring losses and gains (after tax) .....</b>	<b>6,763</b>	<b>161,130</b>	<b>87,553</b>



## Liquidity and capital resources

	2016	2015	2014
	(millions of rubles)		
Net cash provided by operating activities .....	752,247	848,972	651,416
including changes in working capital.....	50,231	68,809	(26,541)
Net cash used in investing activities .....	(500,343)	(525,722)	(578,374)
Net cash (used in) provided by financing activities.....	(193,134)	(253,063)	30,143

### Operating activities

Our primary source of cash flow is funds generated from our operations. In 2016, cash generated from operations decreased by 97 billion RUB, or by 11.4%, compared to 2015, mainly as a result of the decrease in profit.

At the same time, our cash flow from operating activities was supported by the decrease in the amount of unrecovered costs within the West Qurna-2 project. In 2016, we received 61 million barrels of compensation crude oil from Iraq that resulted in the significant decrease in unrecovered costs.

### Investing activities

In 2016, the amount of cash used in investing activities decreased by 25 billion RUB, or by 4.8%. We significantly decreased our capital expenditures in 2016. At the same time, in the third quarter of 2015 we received 79 billion RUB from the sale of our share in Caspian Investment Resources Ltd. and some other equity affiliates.

In 2016, our capital expenditures decreased by 104 billion RUB, or by 17.2%.

	2016	2015	2014
	(millions of rubles)		
<b>Capital expenditures</b>			
Exploration and production			
Western Siberia .....	116,522	111,041	125,407
Timan-Pechora .....	81,489	87,718	86,558
Ural region .....	26,054	30,832	40,116
Volga region.....	59,696	53,529	59,519
Other in Russia.....	7,782	9,097	16,221
Total in Russia .....	291,543	292,217	327,821
Iraq .....	19,828	44,881	54,738
Other outside Russia .....	131,582	150,996	80,473
Total outside Russia .....	151,410	195,877	135,211
<b>Total exploration and production .....</b>	<b>442,953</b>	<b>488,094</b>	<b>463,032</b>
Refining, marketing and distribution			
Russia .....	48,662	83,911	105,546
- refining .....	28,357	55,312	73,907
- retail .....	7,135	13,312	8,594
- other .....	13,170	15,287	23,045
International .....	17,155	25,285	36,049
- refining .....	10,064	18,283	28,493
- retail .....	5,695	5,609	5,676
- other .....	1,396	1,393	1,880
<b>Total refining, marketing and distribution .....</b>	<b>65,817</b>	<b>109,196</b>	<b>141,595</b>
Corporate and other			
Russia .....	1,999	5,160	4,520
International .....	756	4,755	1,959
<b>Total corporate and other .....</b>	<b>2,755</b>	<b>9,915</b>	<b>6,479</b>
<b>Total capital expenditures, including non-cash transactions.....</b>	<b>511,525</b>	<b>607,205</b>	<b>611,106</b>
Non-cash transactions .....	(14,395)	(6,566)	(35,125)
<b>Total capital expenditures .....</b>	<b>497,130</b>	<b>600,639</b>	<b>575,981</b>

In 2016, our capital expenditures in the exploration and production segment decreased by 45 billion RUB, or by 9.2%. The decrease was largely in our international segment and related to completion of the first stage of the West Qurna-2 project and of exploratory drilling in Nigeria, Cameroon and Romania. At the same time, capital expenditures related to our projects in Uzbekistan increased.

The decrease in capital expenditures in the domestic refining, marketing and distribution segment in Russia was due to completion of upgrades at our Russian refineries. The decrease in the international segment was a result of completion of the construction of a heavy residue processing complex at our Bulgarian refinery.

The table below presents our exploration and production capital expenditures in new promising oil regions.

	2016	2015	2014
	(millions of rubles)		
Western Siberia (Pyakyakhinskoye field) .....	24,453	30,225	20,084
Caspian region (Projects in Russia).....	52,867	38,524	42,788
Timan-Pechora (Yaregkoye field) .....	24,180	18,294	10,816
Iraq.....	19,828	44,881	54,738
Uzbekistan .....	84,849	54,507	32,213
Romania .....	755	20,933	7,275
Cameroon.....	1,212	7,987	–
<b>Total .....</b>	<b>208,144</b>	<b>215,351</b>	<b>167,914</b>

**Financing activities**

In 2016, net movements of short-term and long-term debt generated an outflow of 12 billion RUB, compared to an outflow of 94 billion RUB in 2015 and an inflow of 107 billion RUB in 2014.

In November 2016, a Group company issued non-convertible bonds totaling \$1 billion. The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. The proceeds were used for general corporate purposes, primarily on refinancing of existing debt.

In November 2016, within the development of Gissar project in Uzbekistan, a Group company received a loan totaling \$500 million from a consortium of commercial banks with a maturity of 5 years bearing an interest rate of three months LIBOR plus 3.0% per annum.

**Cash and cash equivalents**

The following table summarizes the data on the Group’s cash and cash equivalents.

	2016	As at 31 December 2015	2014
	(millions of rubles)		
Cash and cash equivalents, including .....	261,367	257,263	169,023
- cash held in rubles .....	33,151	98,253	73,324
- cash held in US dollars .....	162,673	141,863	75,572
- cash held in euro .....	59,135	9,650	12,505
- cash held in other currencies.....	6,408	7,497	7,622

**Credit rating**

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

Moody’s set the Company’s long-term corporate family rating and long-term issuer rating of Ba1.

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

**Debt maturity**

The following table displays our total contractual obligations and other commitments:

	<b>Total</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>After</b>
	(millions of rubles)						
Short term debt.....	18,048	18,048	–	–	–	–	–
Long-term bank loans and borrowings.....	277,404	9,361	22,374	63,751	24,695	117,514	39,709
6,356% Non-convertible US dollar bonds, maturing 2017.....	30,328	30,328	–	–	–	–	–
3,416% Non-convertible US dollar bonds, maturing 2018.....	90,689	–	90,689	–	–	–	–
7,250% Non-convertible US dollar bonds, maturing 2019.....	36,304	–	–	36,304	–	–	–
6,125% Non-convertible US dollar bonds, maturing 2020.....	60,585	–	–	–	60,585	–	–
6,656% Non-convertible US dollar bonds, maturing 2022.....	30,328	–	–	–	–	–	30,328
4,563% Non-convertible US dollar bonds, maturing 2023.....	90,689	–	–	–	–	–	90,689
4,750% Non-convertible US dollar bonds, maturing 2026.....	60,657	–	–	–	–	–	60,657
Capital lease obligation.....	3,558	692	761	743	812	531	19
<b>Total .....</b>	<b>698,590</b>	<b>58,429</b>	<b>113,824</b>	<b>100,798</b>	<b>86,092</b>	<b>118,045</b>	<b>221,402</b>

## **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 29 "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.

## Forward-looking statements

Certain statements in this document are not historical facts and are “forward-looking.” We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to products or services
- statements of future economic performance
- statements of assumptions underlying such statements.

Forward looking statements that may be made by us from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios. Words such as “believes,” “anticipates,” “expects,” “estimates,” “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include:

- inflation, interest rate and exchange rate fluctuations
- the price of oil
- the effects of, and changes in, Russian government policy
- the effects of competition in the geographic and business areas in which we conduct operations
- the effects of changes in laws, regulations, taxation or accounting standards or practices
- our ability to increase market share for our products and control expenses
- acquisitions or divestitures
- technological changes
- our success at managing the risks of the aforementioned factors.

*This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made, and, subject to any continuing obligations under the Listing Rules of the U.K. Listing Authority, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.*

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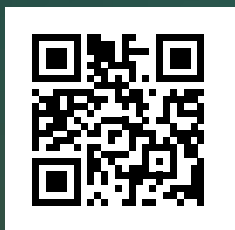
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[www.lukoil.com](http://www.lukoil.com)