LUKOIL

Annual Report 2017

UNLOCKING THE POTENTIAL

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

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

About the Company

Board of Directors' Report

on the Results of the Priority Business Directions Development

Corporate Responsibility

Corporate Governance

Appendices

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

LUKOIL

UNLOCKING THE POTENTIAL

THROUGH UNLOCKING THE POTENTIAL OF VERTICAL INTEGRATION, HIGH-QUALITY ASSET PORTFOLIO, WIDE GEOGRAPHY, AND PROFESSIONAL TEAM WE REACH NEW HEIGHTS AND LOOK

INTO THE FUTURE

WITH CONFIDENCE

DELIVERING EFFICIENT RESULTS GROWTH

UNLOCKING THE RESERVES POTENTIAL

RAMPED UP HIGH-VISCOSITY OIL PRODUCTION

p.16

A 10% increase in high-viscosity oil production was driven by the commissioning of new steam-generating facilities and drilling of new wells at the Yaregskoye field and at the Permian reservoir of the Usinsky field.

High-viscosity oil production **3.4 million tonnes**

STARTED DRILLING AT THE V. FILANOVSKY FIELD PHASE 2

p.18

V. Filanovsky field Phase 2 construction works were mostly completed in the fourth quarter of 2017 on schedule and drilling of the first well from the field's second fixed ice-resistant platform started.

Field's production **4.6 million tonnes**

UNLOCKING THE POTENTIAL OF REFINING AND SALES MARKETS

IMPROVED PRODUCT SLATE AT VOLGOGRAD REFINERY

p.26

Russia's largest vacuum gasoil deep conversion complex at Volgograd Refinery achieved its design capacity. Light product yield at the refinery increased by 13 p.p.

Light product yield at Volgograd Refinery **71.6%**

INCREASED SALES IN PRIORITY CHANNELS

p.28

Sales of branded fuels and non-fuel goods and services at filling stations increased substantially. Bunkering and branded lubricant production demonstrated high growth rates.

Retail sales in Russia **10.1 million tonnes**

LAUNCHED NEW FACILITIES IN UZBEKISTAN

p.20

Major Gissar project facilities were commissioned, ramping up daily gas production to the target level. Phase 1 of the Kandym gas processing complex was commissioned six months ahead of the schedule. Gas production in Uzbekistan grew by 44%.

Production share in Uzbekistan **8.1** billion cubic meters

STARTED INNOVATIVE ECTO 100 FUEL SALES

p.29

Launched production and sales of new ECTO gasoline with octane grade of 100 as well as improved operational and environmental performance characteristics.

Sales of ECTO fuels in Russia **8.6** million tonnes

RECORD-HIGH FINANCIAL RESULTS

Record-high financial results were achieved following structural improvement in the Company's operational performance and better pricing environment.

For more details see page 34

832
RUB billion

EBITDA in 2017

UNIQUE DIVIDEND POLICY

Our dividend policy guarantees an annual increase in dividend per share at least by inflation rate. Our dividends have been growing consistently for 20 years in a row.

For more details see pages 41, 137

215
RUB per share

Total dividend for 2017 recommended by the Board of Directors

STRATEGY UPDATE

In December 2017, the Board of Directors approved the Strategic Development Program of LUKOIL Group for 2018–2027, which focuses primarily on efficiency improvement and financial growth.

For more details see page 43

The Strategic Development Program of LUKOIL Group is available at the website: **www.lukoil.com**

All figures are presented for the year 2017 unless indicated otherwise.

PRESIDENT'S LETTER

"One of the most important achievements in 2017 was our long-term strategy update. We took the decision to focus on the organic growth of our business, unlocking its potential formed for many years of work."

DEAR SHAREHOLDERS,

In 2017 we delivered outstanding results despite the volatile macro environment and external production limitations. Each of the business segments was steadily growing while our consolidated financial results **reached historical peak**. Yet again, our business model proved its high efficiency and LUKOIL continued to develop and create shareholder value.

One of the most important achievements in 2017 was our long-term strategy update. We took the decision to focus on the organic growth of our business, **unlocking its potential** formed for many years of work. This path among other things requires proactive efficiency improvement work, technology advancement, leveraging accumulated competencies.

The main goals of the updated strategy are **sustainable organic production growth** focused on the increasing share of high-margin projects, continuous efficiency improvement of the refineries and sales network, development of priority sales channels as well as delivery of our progressive dividend policy at the conservative oil price assumption. The strategy also allows for the additional shareholder distributions and reinvestments into the business development in case of a more favorable market environment. An important strategic priority is responsible business conduct and adherence to the principles of sustainable development.

Our 2017 development track was **fully in line with our strategic goals**.

Due to the development of priority projects, the share of high-margin volumes in total production increased by almost one and a half times as compared to 2016. The average **daily production** at the V. Filanovsky field in the Caspian Sea brought online in 2016, **substantially grew** and the total accumulated field's output exceeded 5 million tonnes. We completed major construction works and started drilling from the field's second fixed platform that will allow to reach sustainable daily production level already in 2018. The development of the Pyakyakhinskoye field in West Siberia was fully in line with our plans, where we produced over 1.5 million tonnes of oil and gas condensate as well as 3.2 bln cubic meters of gas.

Thanks to the launch of new steam-generation capacities and drilling of new wells the production of high-viscosity oil at the Yaregskoe field and the Permian reservoir of the Usinskoe field in Timan-Pechora grew by more than 10%. **Active work with hard-to-recover reserves** including the use of the most appropriate technological solutions for drilling and well completion, drove the production growth from low-permeability reservoirs of more than 40%.

Despite the external production limitations in Russia, we increased our total hydrocarbon production by 2.5% driven by the rapid growth of gas production.

I would like to emphasize specifically our achievements in Uzbekistan that evidence our ability to develop efficiently large-scale projects. We've built the first train of Kandym gas processing plant in record times, 25% **ahead of the planned schedule**. We reached plateau production level at Gissar group of the fields which was fully in line with our plans. All these led to 44% increase in 2017 gas production in Uzbekistan.

We performed a substantial preparatory work for the development of the fields discovered in 2015 in the Baltics. That led us to the readiness for the development drilling at D41 already in 2018.

The results of our oil refining business were by far not any less impressive. As compared to 2016 we have not only increased the refining throughput volumes, but also significantly improved our refined products slate, increased the share of **high value-added products**. Light product yield at our refineries grew to 71%, fuel oil and vacuum gasoil production decreased by 3.4 million tonnes. We continued our active work on efficiency improvements of our refineries and cross-refinery integration.

We delivered **impressive growth** in premium sales channels due to the high quality of our products and customer focus. The sales volumes of bunkering fuel and branded lubricants grew by 36% and 14% respectively. The volumes of aircraft refueling grew by 18%. We started the production and sales of high-tech ECTO-100 fuel with improved operational and ecological characteristics that immediately won recognition by our customers. Our annual sales volumes of refined products in Russia increased 10 million tonnes for the first time.

We **conitnued to optimize the logistics** of our supplies to the end customers. In 2017 we launched the supply of our gasoline from Nizhniy Novgorod refinery via the pipeline to Moscow region. In addition, we launched pipeline deliveries of diesel fuel from Volgograd Refinery to export via Novorossiysk port. These changes allow us to increase meaningfully the marketing efficiency of our products.

Our **achievements in the area of environmental and industrial safety** were also remarkable. We improved all the key indicators. We have reached 95% useful associated petroleum gas utilization that lowered our greenhouse gas emissions. We decreased the water consumption and utilized the industrial waste in full second year in a row.

Taking into account the growing responsibility of the business for the quality of future life on the planet and aspirations towards low carbon economy, we **continue to develop alternative energy sources**. We installed solar panels with the total capacity of 10 MW in the unutilized area of Volgograd Refinery. This is our first large solar energy project in Russia. The delivery of this project became possible due to the government support of renewable energy sources in Russia.

High standards of industrial safety, our continuous work on personnel training and closer subcontractor cooperation allowed us to maintain the decreasing trend of accidents rate. Not only our employees, but also subcontractors' and partners' employees are using our unique training center in Astrakhan.

Our financial results speak for themselves. We reached all-time high EBITDA in the amount of 832 billion rubles. We delivered sustainable high free cash flow in the amount of 247 billion rubles in 2017. The Board of Directors recommended a dividend in the amount of 215 rubles per share which exceeds the 2016 dividend by 10.3% and is 7.8 percentage points above the inflation. Our dividends are growing the twentieth year in a row.

The growth of world economy, population and the quality of life will form the additional demand for the energy. Our mission as one of the key global energy markets participants is to satisfy this demand. We understand that with the development of new technologies and growing attention to the environmental matters, the hydrocarbon market will be inevitably evolving. Despite the steady demand growth, the chances for significant oil price volatility are quite high. In such circumstances, we think that the companies with the highest flexibility, capable of operating effectively in the changing macro environment will succeed the most.

Today we have a high-quality asset portfolio. We have a vast resource base and our reserves life is 19 years. We have one of the most advanced oil refineries and well-developed sales network. Our effective business-model, based on the high level of vertical integration ensures our sustainable development in any macro environment. Our key goal is business development and improvement of financial results through the most efficient capital reinvestment. We are focused on continuous efficiency improvement and development of the technological potential in order to accelerate the involvement of existing hydrocarbon resources into the production and boost the results of each business segment.

Our main asset is the team of professionals, our employees, who invest their skills and talents to attain Company's strategic goals.

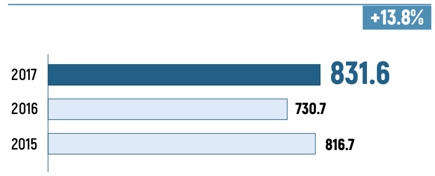
With such a strong base we are looking into the future with confidence and will continue to create value for all the stakeholders, while maintaining the leading positions among socially responsible companies, largest taxpayers and the most reliable employers in the regions of operations.

247

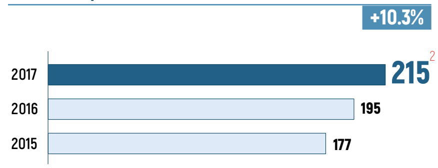
RUB bln

Free cash flow in 2017

EBITDA[1], RUB bln

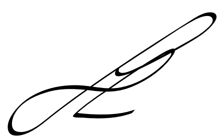


Dividend per share, RUB



[1] EBITDA is calculated as operating income before depreciation and amortization.
[2] Recommended by the Board of Directors total dividend per share for 2017.

I would like to thank all of you for the unfailing trust in the Company and I'm pleased to present you 2017 Annual Report of PJSC LUKOIL, where we reported in the details the results of our 2017 operations and future priorities.



Vagit Alekperov

President and Chairman of the Management Committee of PJSC LUKOIL

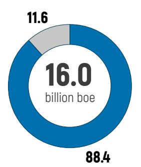
UNLOCKING THE POTENTIAL OF GLOBAL SCALE

EXPLORATION AND PRODUCTION

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

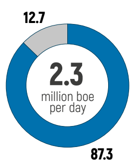
For more details see pages 14, 46

Proved hydrocarbon reserves as of December 31, 2017, %



Russia
International projects

Hydrocarbon production in 2017, %



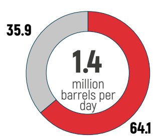
Russia
International projects

REFINING

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

For more details see pages 24, 60

Refining throughput at the Group's own refineries in 2017, %



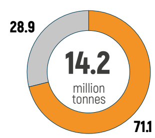
Russia
Europe

MARKETING

We market our products through our own wholesale and retail channels, including the extensive network of filling stations in 18 countries, vessel bunkering infrastructure in 4 countries, and aircraft refueling facilities at 37 airports both in Russia and abroad. Our trading operations cover all major international markets.

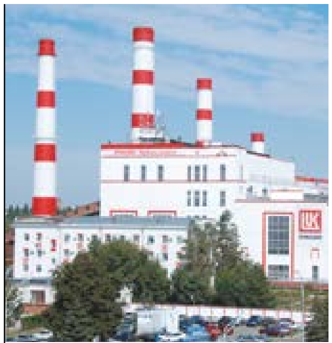
For more details see pages 28, 67

Retail sales in 2017, %



Domestic sales
International sales

POWER GENERATION



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

For more details see page 65

RENEWABLE ENERGY

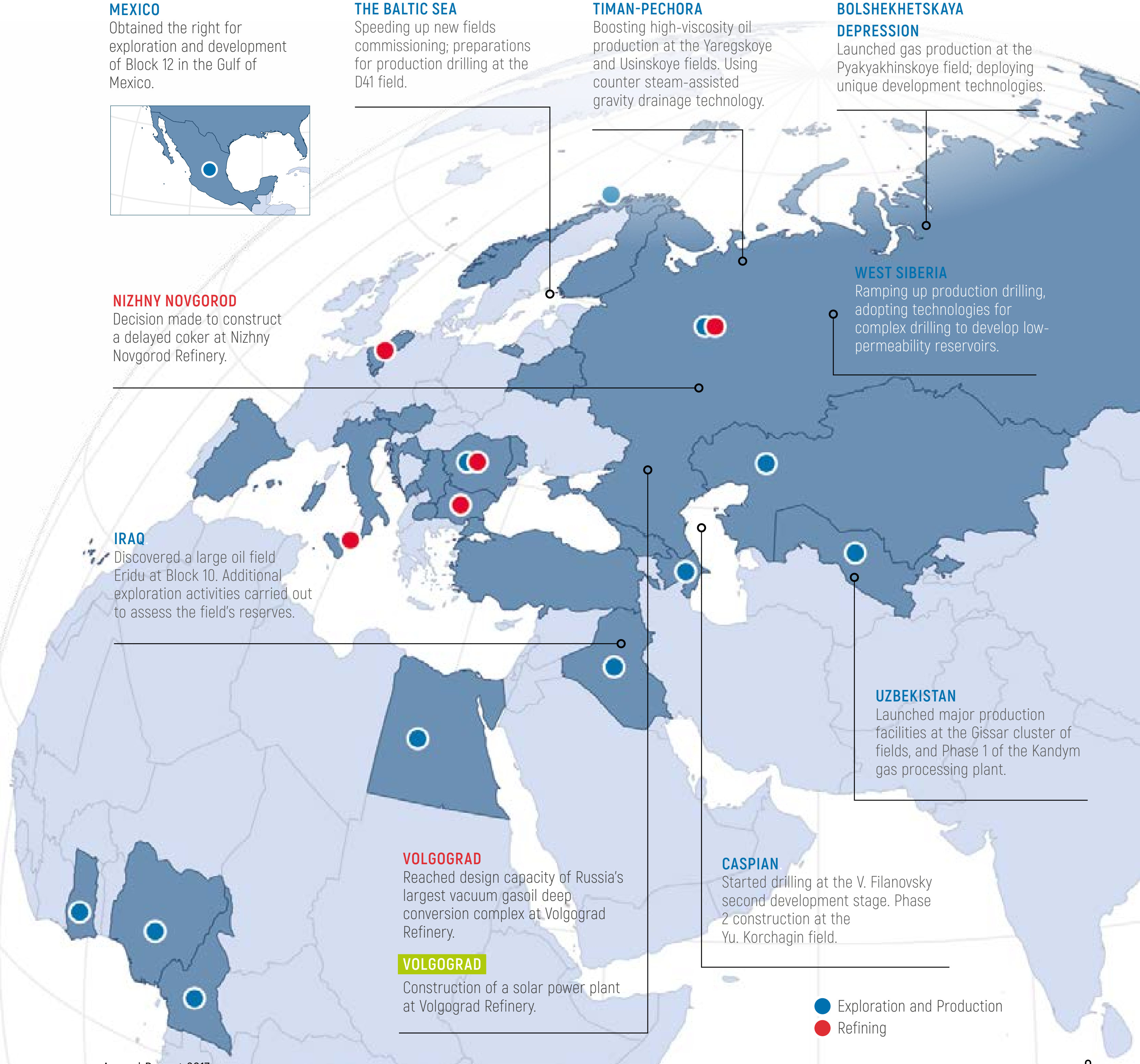
We own solar facilities at our refineries in Romania, Bulgaria, and Russia, a wind power plant in Romania, and hydro power plants in Russia.

For more details see pages 32, 66

4
continents

>30
countries

>60
Russian regions



MEXICO
Obtained the right for exploration and development of Block 12 in the Gulf of Mexico.

THE BALTIC SEA
Speeding up new fields commissioning; preparations for production drilling at the D41 field.

TIMAN-PECHORA
Boosting high-viscosity oil production at the Yaregskoye and Usinskoye fields. Using counter steam-assisted gravity drainage technology.

BOLSHEKHETSKAYA DEPRESSION
Launched gas production at the Pyakyakhinskoye field; deploying unique development technologies.

NIZHNY NOVGOROD
Decision made to construct a delayed coker at Nizhny Novgorod Refinery.

WEST SIBERIA
Ramping up production drilling, adopting technologies for complex drilling to develop low-permeability reservoirs.

IRAQ
Discovered a large oil field Eridu at Block 10. Additional exploration activities carried out to assess the field's reserves.

UZBEKISTAN
Launched major production facilities at the Gissar cluster of fields, and Phase 1 of the Kandym gas processing plant.

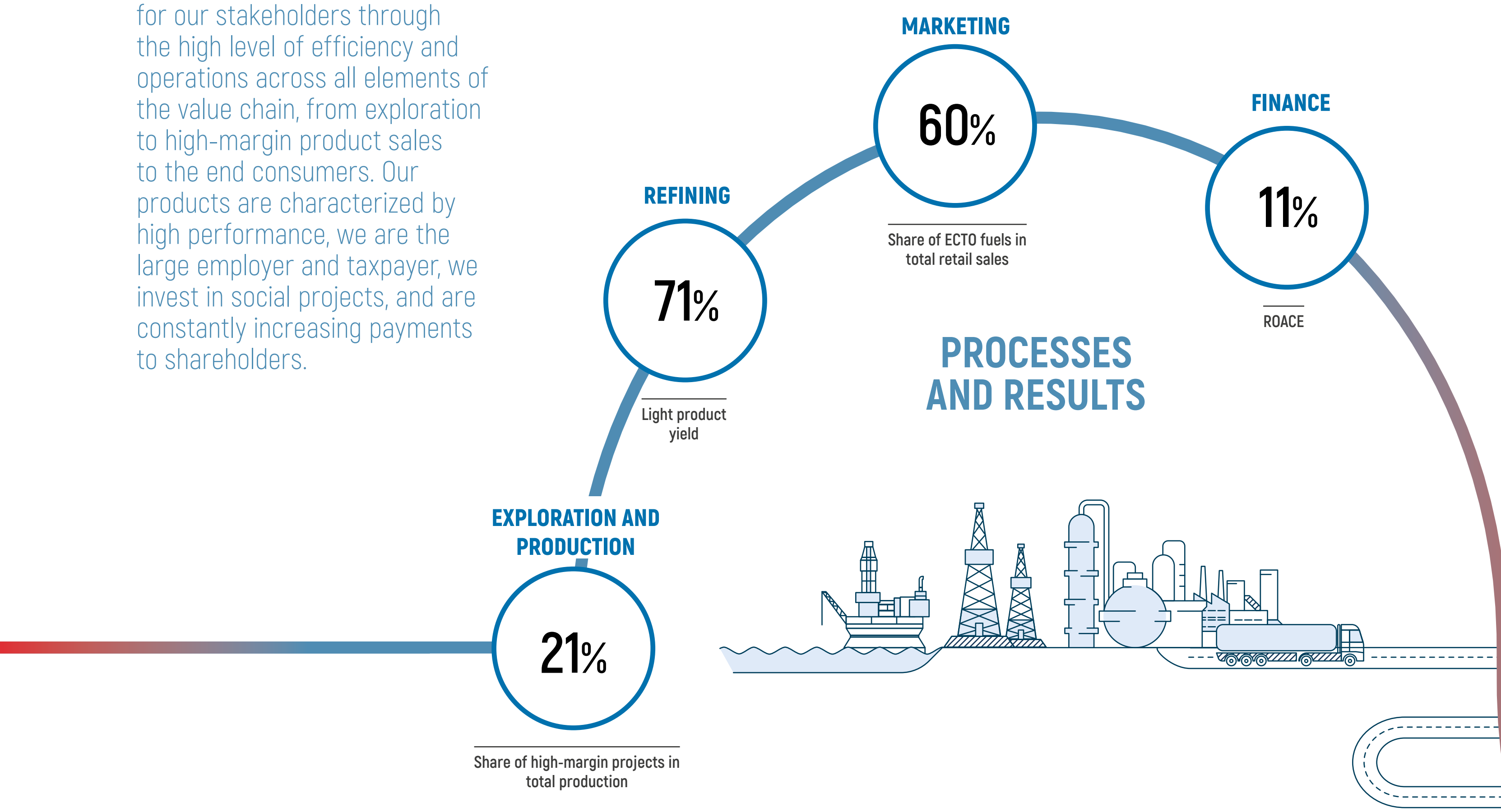
VOLGOGRAD
Reached design capacity of Russia's largest vacuum gasoil deep conversion complex at Volgograd Refinery.

VOLGOGRAD
Construction of a solar power plant at Volgograd Refinery.

CASPIAN
Started drilling at the V. Filanovsky second development stage. Phase 2 construction at the Yu. Korchagin field.

CREATING VALUE FOR ALL STAKEHOLDERS

We are able to create value for our stakeholders through the high level of efficiency and operations across all elements of the value chain, from exploration to high-margin product sales to the end consumers. Our products are characterized by high performance, we are the large employer and taxpayer, we invest in social projects, and are constantly increasing payments to shareholders.



CAPITALS

FINANCIAL

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

INTELLECTUAL

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

HUMAN

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

OPERATIONAL

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

NATURAL

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

SOCIAL

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

WIDE PRODUCTS RANGE

OIL AND GAS

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

LUBRICANTS AND BITUMEN

Over 700 lubricants types with different performance properties; bitumen

PETROCHEMICAL PRODUCTS

Pyrolysis products, organic chemicals, fuel fractions, and polymers

MOTOR FUEL

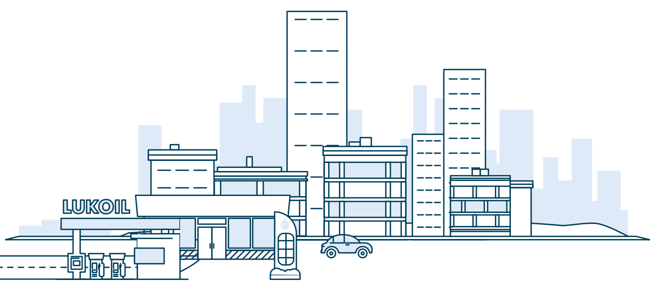
Gasoline with the octane grades from 92 to 100, diesel fuel, ECTO premium fuels

BUNKERING FUEL

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

ENERGY

Electricity and heat, renewable energy



VALUE ALLOCATION

SHAREHOLDERS
7.0%
Dividend yield[2]

SOCIETY
9 RUB billion
Charity expenses

STATE
1.2 RUB trillion
Taxes and duties[1]

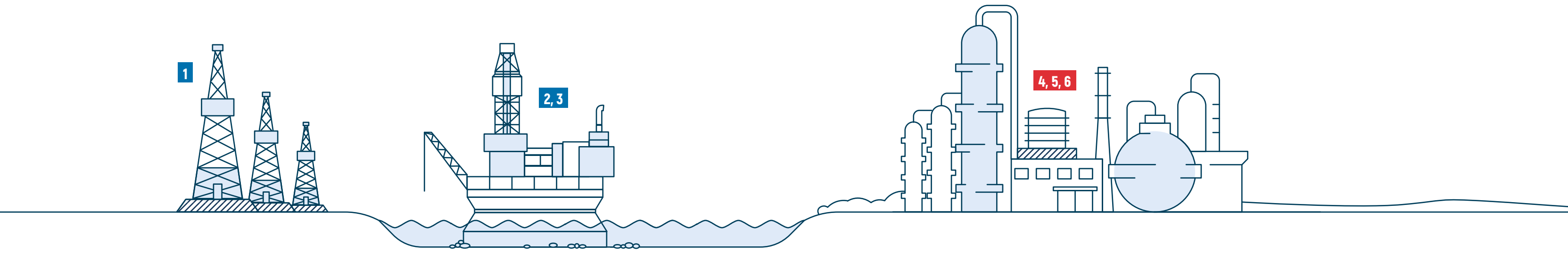
EMPLOYEES
18 RUB billion
Social expenses

CUSTOMERS
43
Customer loyalty index

[1] Exclusive of VAT.
[2] Dividend yield for 2017 is total dividend amount of RUB 215 per share as recommended by the Board of Directors for 2017 divided by the 2017 average share price on MOEX.

All figures are presented for the year 2017.

UNLOCKING THE POTENTIAL OF VERTICAL INTEGRATION



EXPLORATION AND PRODUCTION

- Rich reserve base
- Low production cost of conventional barrels
- Vast experience in large scale projects
- Technological expertise

1 EXPLORATION

Unlocking the resource potential and building up commercial reserves.

2 DEVELOPMENT

Field development and construction of supporting infrastructure.

3 PRODUCTION

Drilling and production of hydrocarbons.

Proved reserves as of December 31, 2017

16.0
billion boe

Production in 2017

2.3
million boe per day

REFINING

- Leadership in refining efficiency
- Favorable location of refineries and proximity to sales markets
- Opportunities to improve efficiency through inter-plant integration

4 OIL REFINING

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

5 GAS PROCESSING

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

6 PETROCHEMICALS

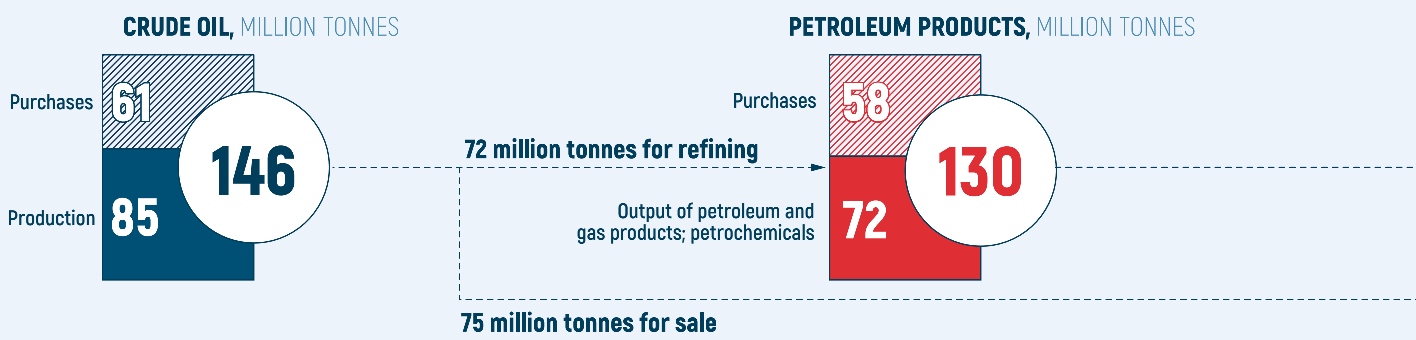
Deep conversion of hydrocarbon feedstock into complex petrochemical products at four plants and production facilities within oil refineries.

Refining capacity as of December 31, 2017

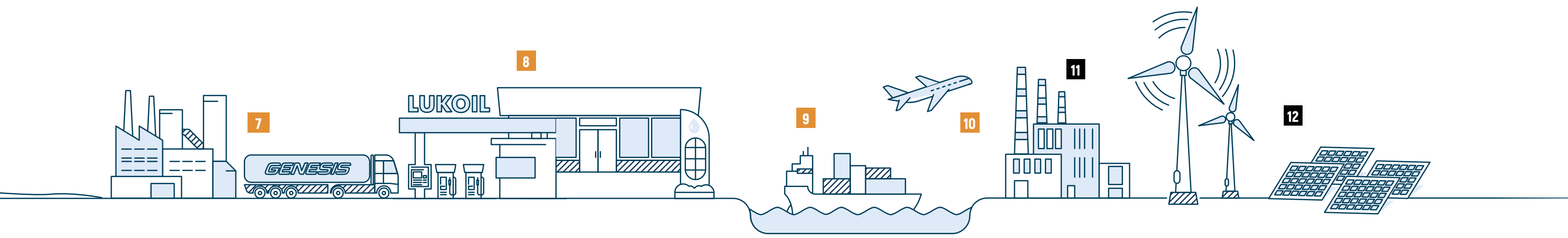
84.6
million tonnes per year

Gas processing capacity as of December 31, 2017

6.9
billion cubic meters per year



Our business model is driven by the principle of maximum vertical integration to create added value and further reinforce high resilience of our business to the changing macroeconomic environment through risk diversification.



MARKETING

- Wide geography of distribution network
- Product range and high quality of products
- Development of premium distribution channels

7 LUBRICANT PRODUCTION AND DISTRIBUTION

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

8 RETAIL

A retail network of 5,300 filling stations. Access to end consumers across various regions, incremental value added from sales of branded fuels, additional diversification through non-fuel product sales.

Retail sales in 2017

14.2
million tonnes

Lubricant sales in 2017

>100
countries

9 MARINE AND RIVER BUNKERING

A priority high-margin channel with access to end consumers in 20 ports both in Russia and abroad.

10 AIRCRAFT REFUELING

A priority high-margin channel with access to end consumers in 37 airports both in Russia and abroad.

INTERNATIONAL TRADING

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

POWER GENERATION

11 ELECTRICITY GENERATION

Gas-fired electricity generation, associated petroleum gas utilization, supplies of low-cost electricity to own production facilities, and access to end consumers.

12 RENEWABLES

Electricity generation from sunlight, wind, and water.

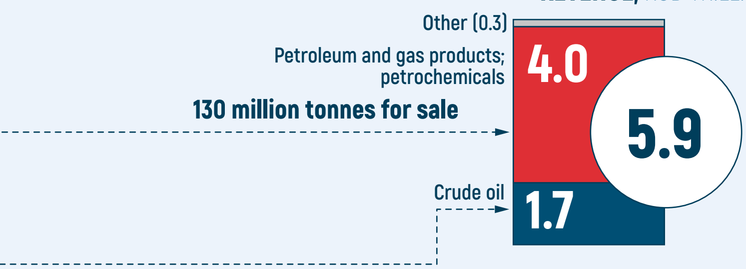
Total capacity as of December 31, 2017

5.7	8.4
GW	Gcal/h

For more details on the governance structure, see page 90

For a more detailed list of key subsidiaries, see page 143

REVENUE, RUB TRILLION



Product balance reflects key product flows for the Group's crude oil (production, refining, purchases and sales), petroleum and gas products (output at own and third-party refineries and own gas processing plants, sales, purchases for sale, excluding purchases for refining and refined products for further processing volumes), and petrochemicals (output and sales), excluding affiliates, own consumption for fuel and operating purposes, changes in inventories, and other items in 2017. Due to rounding, sums of inflows and outflows may differ. Other sales, totaling RUB 0.3 trillion, include non-fuel revenue from filling stations, transportation services, and leases, and other revenue from non-core operations.

UNLOCKING THE RESOURCE POTENTIAL

36%

Production growth at high-margin projects in 2017

87%

Exploration drilling success rate in 2017

41.3 tonnes per day

Average new oil well flow rate in Russia in 2017

2017 RESULTS

FOCUSING ON GROWTH PROJECTS

High-viscosity oil production in Timan-Pechora increased by 10.2%. The Yaregskoye and Usinskoye fields reached record production levels. Production from the Yaregskoye field increased to 1.1 million tonnes, and to 2.3 million tonnes from the Permian deposit of the Usinskoye field.

The launch of five new wells at the V. Filanovsky field in the Caspian Sea boosted oil production to 4.6 million tonnes. Drilling of the first well from the Ice-Resistant Fixed Platform-2 began in December 2017 as part of Phase 2 development.

Gas production was launched at the Pyakyakhinskoye field in the Bolshekhetskaya Depression. The field produced 3.2 billion cubic meters of gas and 1.5 million tonnes of oil and gas condensate in 2017.

Gas production in Uzbekistan grew by 43.9% to 8.1 billion cubic meters (LUKOIL's production share). New facilities were commissioned at the Gissar cluster, ramping up production to a design capacity of 5 billion cubic meters per annum. The Company also commenced commercial production at Phase 1 of the 4 bcmpa Kandym gas processing complex, and continued Phase 2 construction.

MANAGING PRODUCTION IN CORE REGIONS

We increased production drilling volumes in West Siberia by 22% to decelerate production decline rates.

The Company actively deployed advanced well completion technologies with multi-stage hydraulic fracturing (MSHF).

RESERVE REPLACEMENT

Due to the advanced geological exploration methods we achieved 87% success rate of prospecting and exploration drilling and discovered six new fields and 49 deposits.

We added 500 million boe of proved reserves as a result of exploration works and production drilling.

Active exploration was continued in the Caspian and Baltic Seas. The productivity of the Khazri and Yuzhnaya structures in the Caspian Sea was confirmed through well drilling. In the Baltic Sea, further exploration of the previously discovered fields was completed, and preparations for the design of the development stage commenced.

The Company confirmed the potential of large Eridu field discovered at Block 10 in Iraq in 2016. Three exploration wells were drilled. Seismic acquisition commenced in the block areas not yet covered by these works.

INCREASING TECHNOLOGICAL EDGE

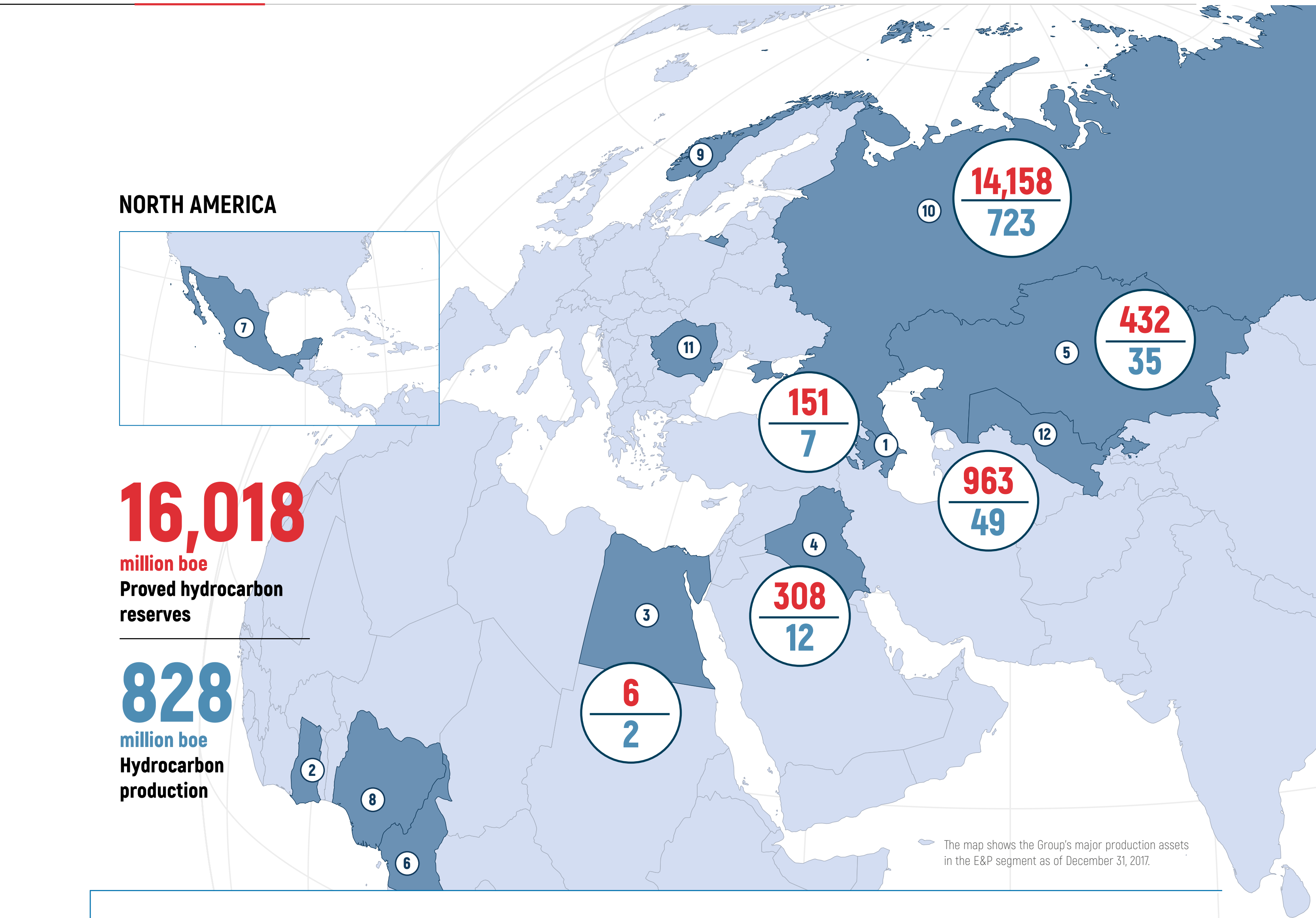
We continued our efforts to tap complex reserves, with the share of complex wells put into operation reaching 28% in 2017.

Driven by the innovative drilling and completion technologies, oil production at the Imilorskoye field increased by 23.5% to 0.6 million tonnes.

The average new oil well flow rate across the Group's assets in Russia increased 10.1% year-on-year to 41.0 tonnes per day, 8% above Russia's industry average.

2018 AND MID-TERM PRIORITIES

- Perform near-field exploration and in promising regions to support reserve replacement.
- Focus on growth projects: ramp up production at the previously launched fields, increase high-viscosity and low permeability reservoirs production in Russia, and commission new gas treatment facilities in Uzbekistan.
- Build up technological expertise in complex reserves development.



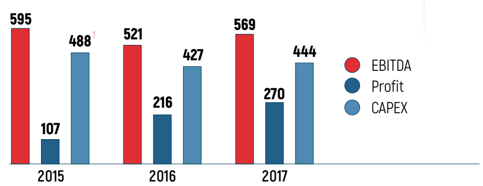
16,018
million boe
Proved hydrocarbon reserves

828
million boe
Hydrocarbon production

Exploration | Oil production | Gas production

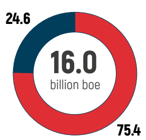
1. Azerbaijan (Oil production, Gas production)
2. Ghana (Exploration)
3. Egypt (Exploration, Oil production)
4. Iraq (Exploration, Oil production)
5. Kazakhstan (Oil production, Gas production)
6. Cameroon (Exploration)
7. Mexico (Exploration)
8. Nigeria (Exploration)
9. Norway (Exploration)
10. Russia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

E&P segment performance, RUB billion



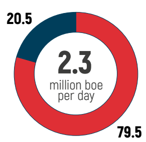
[1] Including non-cash items.

Hydrocarbon reserves as of December 31, 2017, %



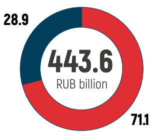
Oil
Gas

Daily hydrocarbon production in 2017, %



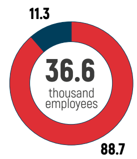
Liquid hydrocarbons
Gas

E&P CAPEX in 2017, %



Russia
International projects

E&P average headcount in 2017, %

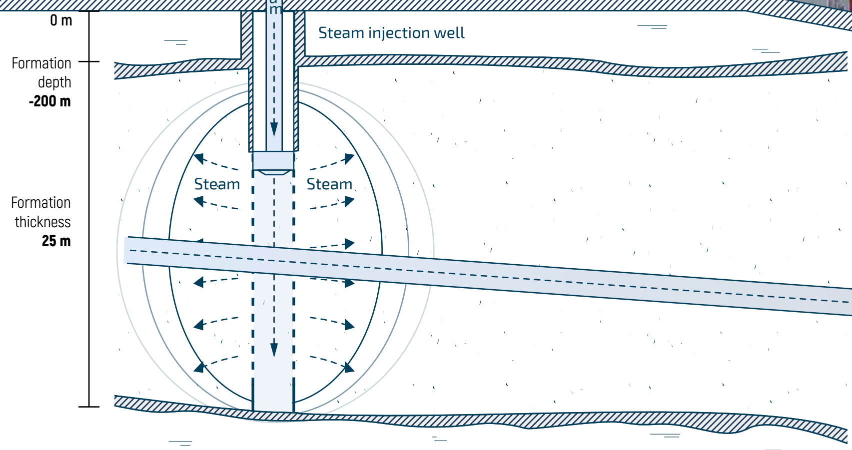


Russia
International projects

RAPID GROWTH
OF PRODUCTION

YAREGSKOYE FIELD, TIMAN-PECHORA

The Yaregskoye field is the Group's largest high-viscosity oil field. We employ and continuously improve unique development and thermal stimulation techniques that allow speeding up reserves development and quick production ramp-up. The state support through the preferential tax treatment ensures the project's high economic efficiency.



1.1 **+19%** vs. 2016

million tonnes

Production in 2017

343

million barrels

Proved hydrocarbon reserves as of December 31, 2017

ADVANCED TECHNOLOGIES

Lyayel structure. The use of counter steam-assisted gravity drainage technology reduces time for well construction and increases the oil recovery rates.

Yaregskaya structure. The Company develops the field by underground mining techniques applying thermal-steam treatment methods. The use of directional drilling reduces the scope and cost of operations while speeding up the pace of bringing reserves into production.

SUCCESSFUL DEVELOPMENT OF THE PROJECT

V. FILANOVSKY FIELD, CASPIAN SEA

Development of the V. Filanovsky field, our flagship project in the Caspian, progressed in full compliance with the schedule. Since August 2016, we have commissioned eight new, highly efficient wells within Phase 1 field development, and brought daily production rates close to the project's plateau level. Construction works on the offshore structures of Phase 2 field development were completed and drilling of the first production well from these facilities commenced in 2017. Construction of a wellhead platform was also started in 2017 as part of Phase 3 field development.

4.6 million tonnes

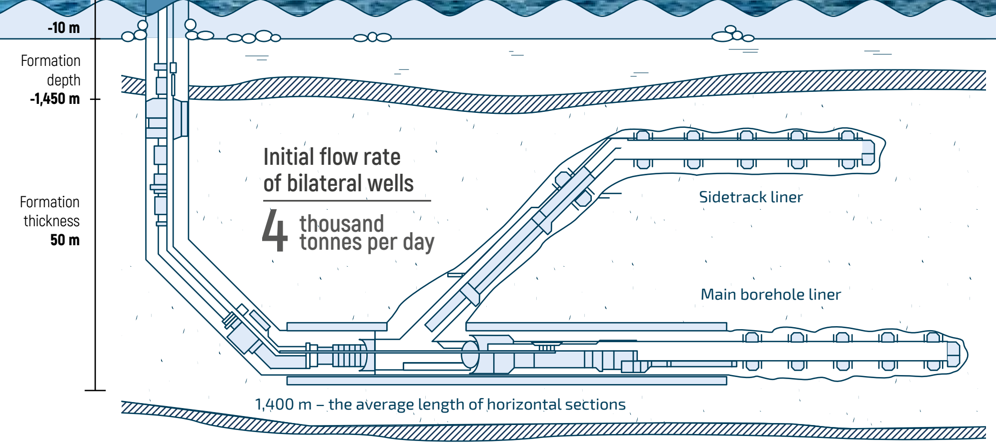
Production in 2017

6%

of the Group's total production in Russia in 2017

3,000 tonnes per day

Average initial flow rate in 2017



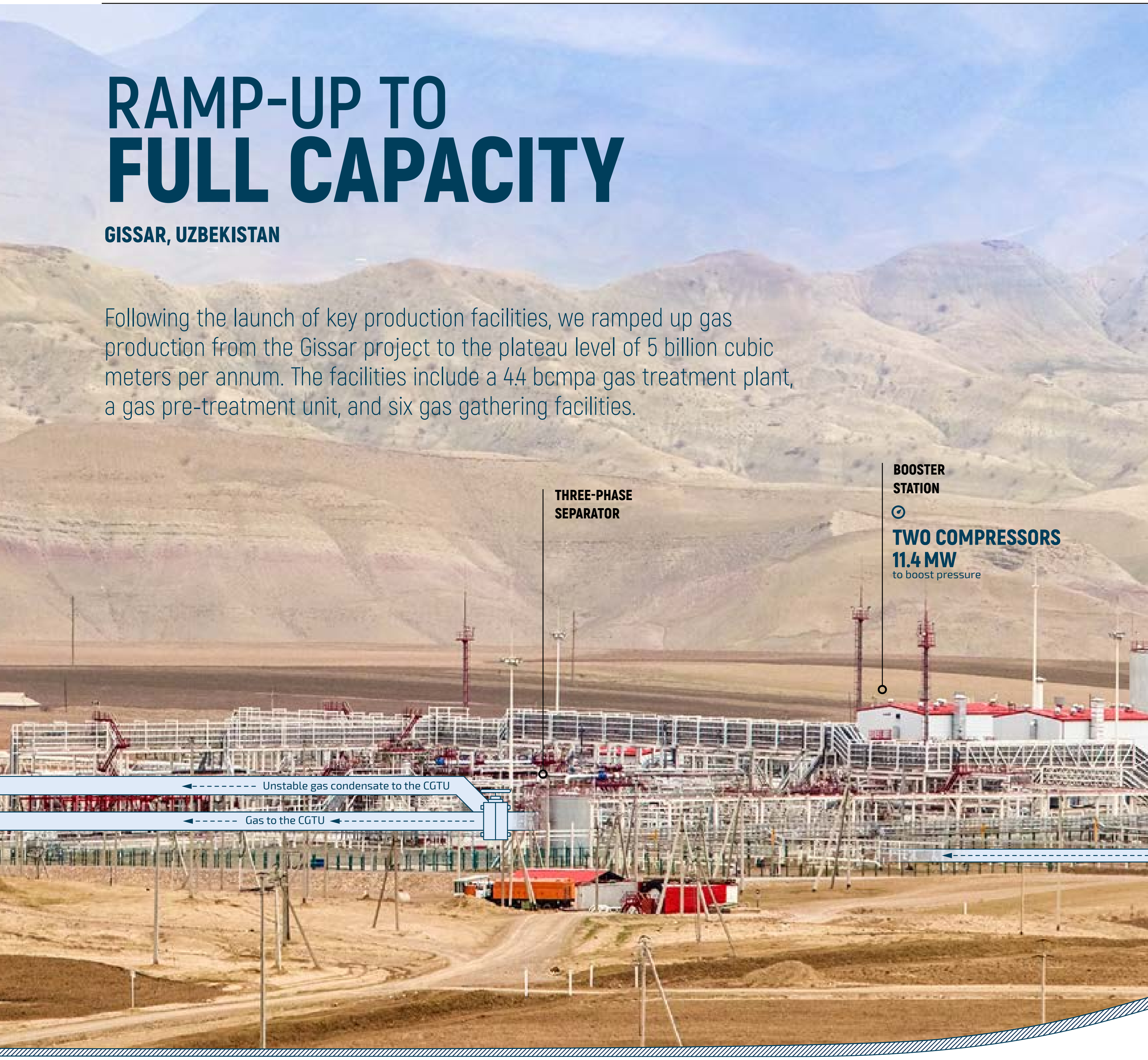
INTELLIGENT WELLS

At our Caspian Sea projects we apply advanced well drilling and completion technologies. Bilateral horizontal wells are equipped with high-tech intelligent inflow monitoring devices for effective control of reserves recovery in each borehole. We drilled two bilateral wells of TAML Level-5 complexity category in 2017.

RAMP-UP TO FULL CAPACITY

GISSAR, UZBEKISTAN

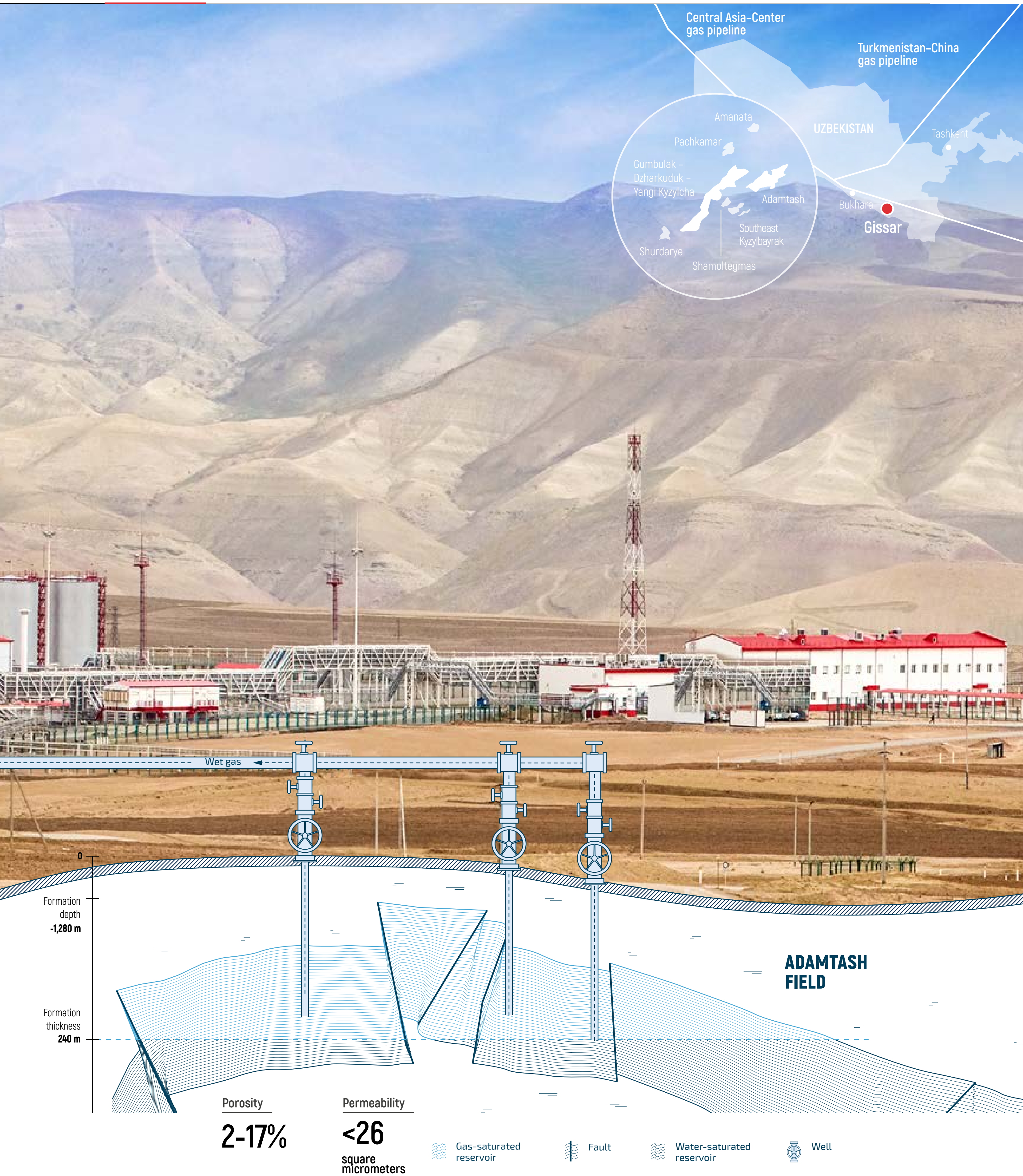
Following the launch of key production facilities, we ramped up gas production from the Gissar project to the plateau level of 5 billion cubic meters per annum. The facilities include a 4.4 bcmpa gas treatment plant, a gas pre-treatment unit, and six gas gathering facilities.



3.3 x2.2 vs. 2016
billion cubic meters
Gas production in 2017

287
million boe
Proved hydrocarbon reserves as of December 31, 2017

>300
thousand cubic meters per day
Average flow rate in 2017


Central Asia-Center
gas pipeline
Turkmenistan-China
gas pipeline
UZBEKISTAN
Tashkent
Bukhara
Gissar
Amanata
Pachkamar
Gumbulak –
Dzharkuduk –
Yangi Kyzylcha
Adamtash
Southeast
Kyzylbayrak
Shurdarye
Shamoltegmas
Wet gas
0
Formation
depth
-1,280 m
Formation
thickness
240 m
ADAMTASH
FIELD
Porosity
2-17%
Permeability
<26
square
micrometers
Gas-saturated
reservoir
Fault
Water-saturated
reservoir
Well

AHEAD OF SCHEDULE

KANDYM GPC, UZBEKISTAN

The key facility of the Kandym project is 8 bcmpa gas processing complex, one of the largest in Central Asia. We have completed Phase 1 construction of the complex in a record time – in about twenty months, six months ahead of the schedule. It is an outstanding accomplishment for a project of this scale.

4.8 **+16%** vs. 2016
billion cubic meters

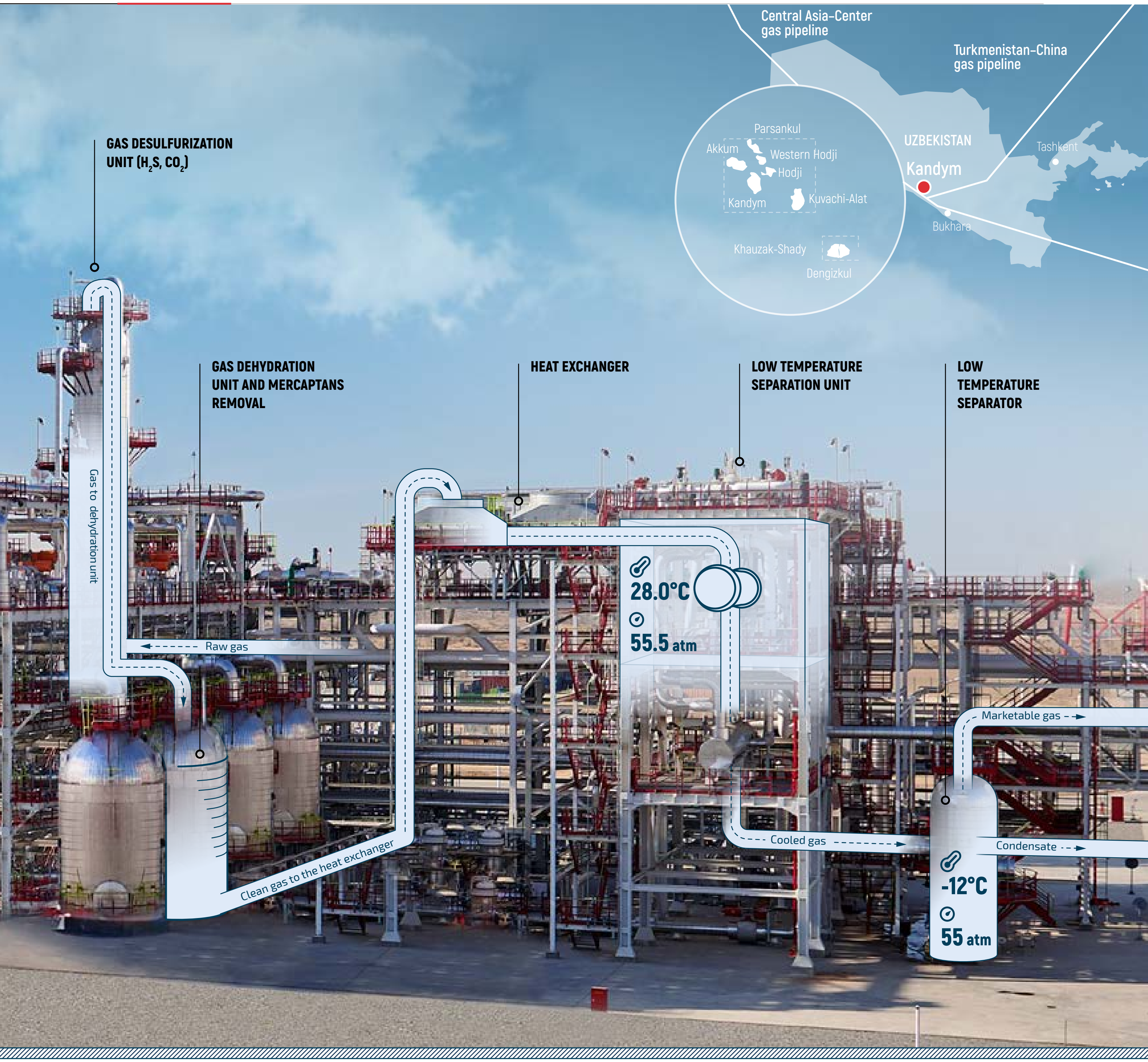
Gas production in 2017

88%

of Phase 2 completed as of December 31, 2017

>2,000
new jobs

Created on Kandym GPC



KANDYM GPC

The complex was designed for gas desulfurization and production of marketable gas, stable gas condensate, and marketable sulfur. The project is constructed in two phases, each with a capacity of 4 billion cubic meters of gas per annum.

Phase 2 construction of the complex is also expected to be completed ahead of the schedule, allowing the Company to ramp up gas production within a short time frame. The marketable gas is supplied to eastbound and northbound export directions.

20 months

Construction duration of the Phase 1

UNLOCKING THE POTENTIAL OF REFINING CAPACITIES

67.2 +2% vs. 2016
million tonnes
Total refinery throughput

1.7 +29% vs. 2016
million tonnes
Total cross supplies between the Group's refineries

4.5 +36% vs. 2016
million tonnes
Total marine bunkering volume

2017 RESULTS

REACHING THE DESIGN CAPACITY AT REFINERIES' NEW UNITS

Post reaching the design capacity of units commissioned under the Company's major refinery upgrade program, throughput volumes increased (by 1.8% across the Group and by 3.2% across refineries in Russia), and petroleum product slate significantly improved. The light product yield increased by 4.8 p.p. year-on-year to 71.3%, while refining depth improved by 1.6 p.p. to 86.8%. Fuel oil and vacuum gas oil production decreased by 3.4 million tonnes.

EFFICIENCY IMPROVEMENTS AT THE REFINERIES

For the purposes of efficiency improvement at the refineries the following was done:

- increased the utilization rates of secondary refining facilities through higher cross supplies of intermediate products between the Group's refineries.
- commissioned a rail trestle for fuel oil discharge with a capacity of up to 1 million tonnes per year at Perm Refinery to enhance inter-plant integration, and increase utilization rates of the refinery's petroleum residue processing complex and bitumen production unit.

The final investment decision was taken on the construction of a 2.1 mtpa delayed coker complex at Nizhny Novgorod Refinery.

INFRASTRUCTURE DEVELOPMENT

The Company continued efforts to grow the share of lower cost pipeline supplies in its total petroleum product shipments through:

- the launch of pipeline supplies of diesel fuel produced at Volgograd Refinery to the port of Novorossiysk
- the launch of pipeline supplies of gasoline produced at Nizhny Novgorod Refinery to the Moscow Region
- the launch of a pipeline channel for diesel fuel supply from the Company's plants to the marine export terminal of Vysotsk.

IMPROVING SALES EFFICIENCY AND DEVELOPING PREMIUM SALES CHANNELS

Optimization of the filling station network and effective marketing resulted in a 2% growth in average daily sales per station to 10.1 tonnes, including an increase to 12.8 tonnes per day in Russia.

Aircraft refueling volumes increased by 17.9% to 3.2 million tonnes due to the higher demand for jet fuel and active marketing efforts.

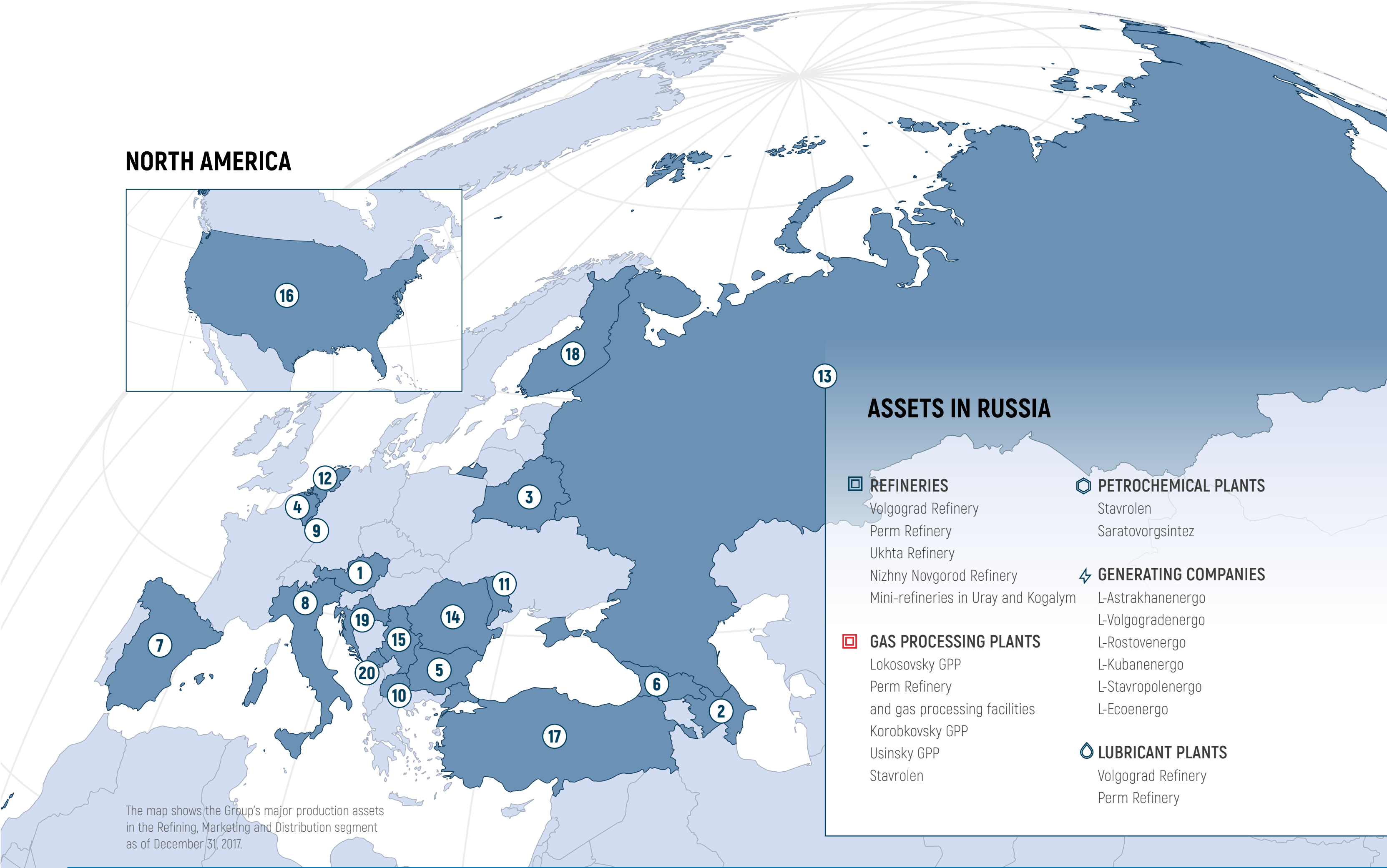
Sales of LUKOIL-branded lubricants rose 13.6% to 0.6 million tonnes as a result of an improved product mix and successful import substitution in Russia.

Due to stronger demand for the Company's products in the Baltic, marine fuel sales increased by 35.6% to 4.5 million tonnes.

2018 AND MID-TERM PRIORITIES

- Deliver on the roadmaps for refinery efficiency improvement.
- Improve product slate through stronger inter-plant integration and construction of a delayed coker at Nizhny Novgorod Refinery.
- Upgrade and increase the efficiency of the distribution network; focused growth in the non-fuel segment.
- Maintain high market share in aircraft refueling and marine bunkering.
- Focused growth and launch of new products in the lubricant and bitumen segments.

NORTH AMERICA



The map shows the Group's major production assets in the Refining, Marketing and Distribution segment as of December 31, 2017.

ASSETS IN RUSSIA

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

GAS PROCESSING PLANTS
Lokosovsky GPP
Perm Refinery
and gas processing facilities
Korobkovsky GPP
Usinsky GPP
Stavrolen

PETROCHEMICAL PLANTS
Stavrolen
Saratovorgsintez

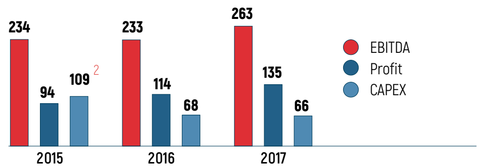
GENERATING COMPANIES
L-Astrakhanenergo
L-Volgogradenergo
L-Rostovenergo
L-Kubanenergo
L-Stavropolenergo
L-Ecoenergo

LUBRICANT PLANTS
Volgograd Refinery
Perm Refinery

Oil refining
Gas processing
Petrochemicals
Power generation
Filling stations
Transshipment
Lubricants
Aircraft refueling

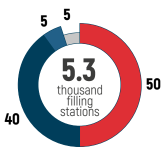
1. Austria
2. Azerbaijan
3. Belarus
4. Belgium
5. Bulgaria
6. Georgia
7. Spain
8. Italy
9. Luxembourg
10. Macedonia
11. Moldova
12. The Netherlands
13. Russia
14. Romania
15. Serbia
16. The USA
17. Turkey
18. Finland
19. Croatia
20. Montenegro

RM&D segment performance, RUB billion



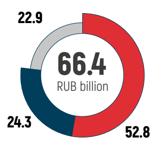
[2] Including non-cash items.

Filling stations network[1] as of December 31, 2017, %



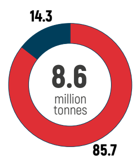
Russia
Europe
USA
Near-abroad countries

RM&D CAPEX in 2017, %



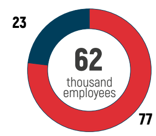
Refining
Distribution network
Other

Sales of premium ECTO fuels in 2017, %



Russia
International projects

RM&D average headcount, %



Russia
International projects

[1] Owned, leased, and franchised stations.

IMPROVED QUALITY OF PRODUCT SLATE

VOLGOGRAD REFINERY

14.1 million tonnes **+11%** vs. 2016

Throughput

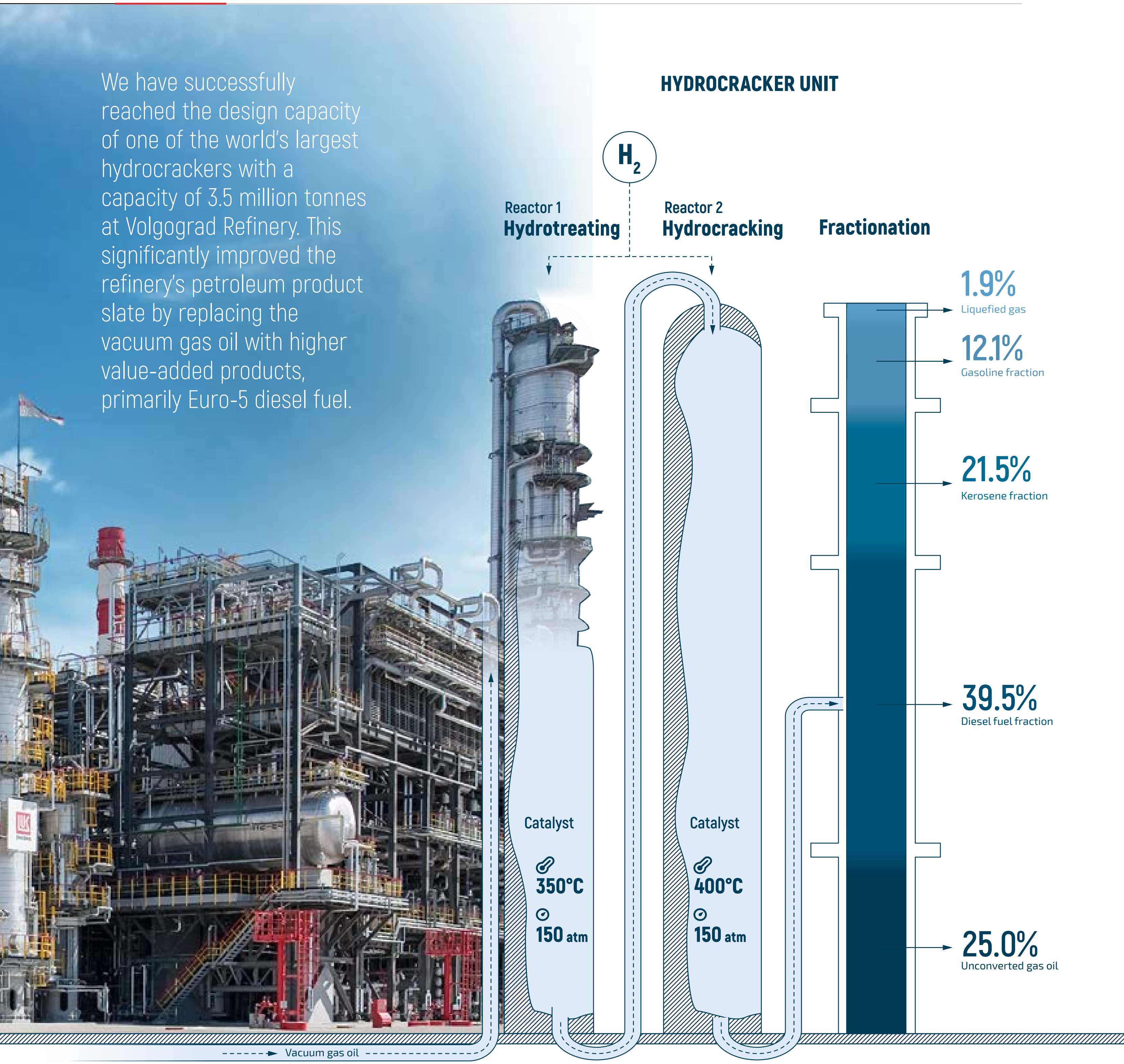
71.6% **+13 p.p.** vs. 2016

Light product yield

2.6 million tonnes

Increase in the output of Euro-5 diesel fuel and gasoline vs. 2016

We have successfully reached the design capacity of one of the world's largest hydrocrackers with a capacity of 3.5 million tonnes at Volgograd Refinery. This significantly improved the refinery's petroleum product slate by replacing the vacuum gas oil with higher value-added products, primarily Euro-5 diesel fuel.



ADVANTAGES OF HYDROCRACKING

- Increased light product yield (gasoline and diesel fuel) at Volgograd Refinery by 20%
- Improved performance products output (Euro-5 gasoline and diesel fuel, environmentally friendly marine fuels)
- Heavy residuals of hydrocracking process can be converted to base components for the lubricants production with improved quality

A hydrocracker is the core unit of the vacuum gasoil deep conversion complex that in addition consists of a combined sulfur production unit and a hydrogen production unit.

UNLOCKING THE POTENTIAL OF MARKETS

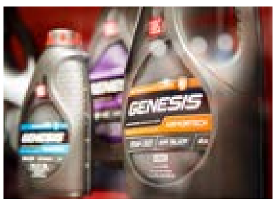
PREMIUM SALES CHANNELS

NON-FUEL GOODS

10.9%

Gross profit from sales of non-fuel goods and services in Russia growth

LUBRICANTS



13.6%

Branded motor and industrial oils sales volumes growth

BUNKERING

35.6%

Bunker fuel sales volumes growth

AIRCRAFT REFUELING

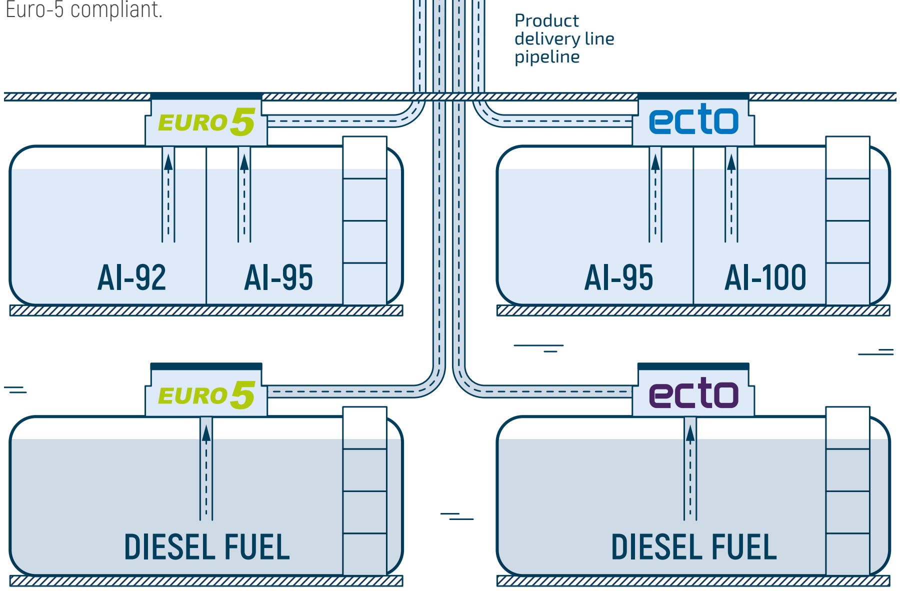
5.8%

Into-plane fuel sales volumes growth

Active development of premium sales channels, customer-oriented approach, and high-quality products allow us to grow our customer base, enter new markets, and maximize added value of our products.

EURO 5

All our motor fuels are Euro-5 compliant.



ecto

Our premium motor fuel brand with improved operational and environmental performance. In 2017, Nizhny Novgorod Refinery launched production of innovative ECTO 100 motor gasoline. The new branded fuel of 100 octane grade is highly popular among our customers and has completely replaced its predecessor fuel, ECTO 98.

The composite balanced mix of ECTO fuel additives help to protect the engine and significantly reduce the concentration of harmful substances in the exhaust gases. Each gasoline in the product range offers unique properties and is the fuel of choice for any cars or trucks.

UNLOCKING THE SOCIAL CONTRIBUTION POTENTIAL

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

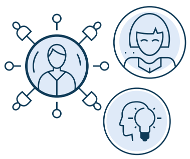
103.6
thousand employees

Average headcount in 2017

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

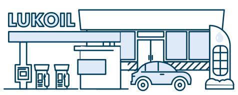
ECOLOGY

PERSONNEL



SOCIETY

CONSUMERS



2017 RESULTS

MITIGATING ENVIRONMENTAL IMPACT

Associated petroleum gas utilization reached 95.4% resulting from renovations and commissioning of new facilities in Timan-Pechora and in the Caspian Sea. Gas flaring reduction resulted in lower direct emissions of carbon dioxide and pollutants. Water consumption for own needs reduced by 9.6% and contaminated land reduced by 23.5%.

The new 2018–2020 Environmental Safety Program was approved in 2017, focusing on higher APG utilization rates, a safer pipeline system, and biodiversity conservation.

ENSURING INDUSTRIAL SAFETY

The accident frequency rate reduced to 0.19, while the number of lost-time incidents reduced by 33.3% to 16 incidents.

Due to the adjustments in the HSE Compliance KPIs calculation methodology the accountability of managers was increased.

HSE requirements for suppliers and contractors were tightened.

HR MANAGEMENT

Personnel turnover reduced to 6.7%.

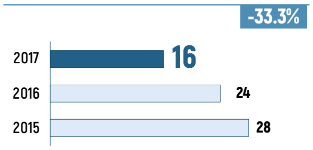
Authorization was obtained to perform independent qualifications assessment at the Qualification Assessment Center.

The number of employees who completed training courses reached 69% of the average employee headcount, and the number of completed online training courses increased by 45%.

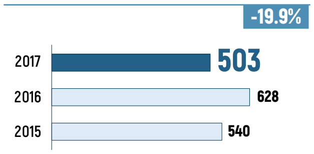
2018 AND MID-TERM PRIORITIES

- Further reduction of environmental impact. Continued upgrades of production facilities, renovation of gas treatment units and construction of new ones, delivery of efficient APG use projects across the Group's new assets, and the maintenance and replacement of pipelines. Improvement of the GHG emission management system.
- Support of social and economic development in the regions of the Company's operation.
- Leveraging talent pool, enhancing the training, succession planning and incentive systems, and ensuring the allocation of qualified personnel to priority projects.

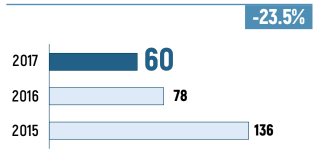
Number of lost-time incidents



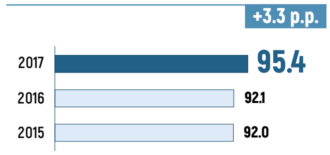
Air pollution emissions, thousand tonnes



Contaminated land as of December 31, hectares



APG utilization, %



CARING FOR CLIMATE

APG UTILIZATION

95.4%

APG utilization rate in 2017

We increase our APG utilization rate annually to reduce pollutant and direct GHG emissions into the atmosphere. The APG utilization rate across the Group increased by 3.3 p.p. in 2017 following the renovations at Usinsky gas processing plant and the launch of the gas treatment system at the V. Filanovsky field.

For more details see page 76

ENERGY EFFICIENCY

66 million kWh

Energy savings in 2017

Higher energy efficiency is one of the Company's top priorities, as it reduces production costs and GHG emissions. The Company's Energy Conservation Program covers a wide range of initiatives.

For more details see page 77

SOLAR POWER PLANT AT VOLGOGRAD REFINERY

A 10 MW solar power plant was constructed in 2017 on unused land plots at Volgograd Refinery. This project was made possible due to the Russian government's support of renewables.

12 million kWh

Planned annual power generation

Annual Volgograd solar power plant's energy equivalent

Coal
3,800 tonnes

Natural gas
3.4 million cubic meters

Fuel oil
2,900 tonnes

10,000 tonnes

Annual CO_2 emissions reduction

ALTERNATIVE ENERGY

Alternative energy development supports business diversification and lowers environmental impact. LUKOIL operates four hydro power plants in the south of Russia with a combined capacity of about 300 MW, the 84 MW Land Power wind power plant in Romania, and two solar power plants at our own refineries with 9 MW capacity in Romania and 1.25 MW in Bulgaria.

For more details see page 66

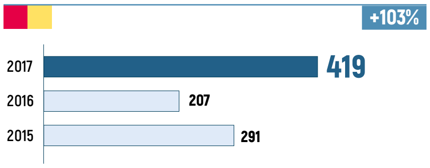
6%

share of commercial power generation represented by renewables in 2017

STRONG RESULTS

FINANCIAL PERFORMANCE

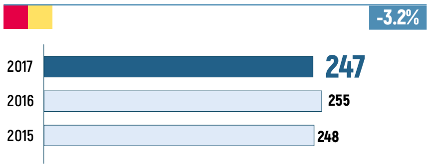
Net income, RUB billion



The key financial result; an accounting source for dividend payouts

Substantial growth of net income in 2017 was mostly due to the non-cash foreign exchange effect caused by high volatility in the foreign exchange rates and the effect of non-core asset disposals.

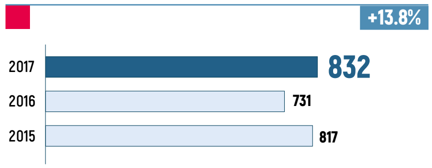
Free cash flow, RUB billion



A key metric estimating the Company's value; a cash source for dividend payouts

The Company delivers sustainably strong free cash flow in a highly volatile macroeconomic environment.

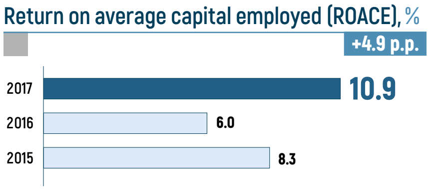
EBITDA, RUB billion



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

In 2017, EBITDA reached a historic high primarily due to the growth of high-margin production share and the improved petroleum product mix at refineries.

Return on average capital employed (ROACE), %



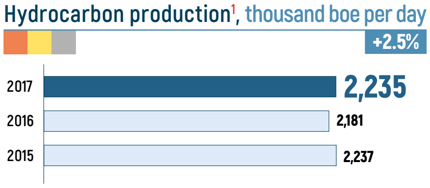
Key indicator of capital employed efficiency

ROACE increased by 4.9 p.p. due to the growth of net income and reduction of total debt.

OPERATIONAL PERFORMANCE

Exploration and Production

Hydrocarbon production[1], thousand boe per day



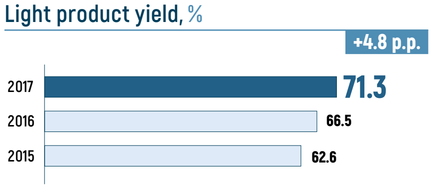
Key operational indicator

Despite the external production limitations driven by the agreement between Russia and OPEC, our hydrocarbon production increased by 2.5% due to by the development of gas projects in Russia and Uzbekistan. The share of high-margin projects in total production increased substantially.

[1] Excluding West Qurna-2 project.

Refining, Marketing and Distribution

Light product yield, %

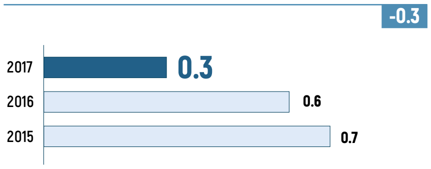


Reflects the quality of the petroleum product slate of the Company's refineries and directly impacts the refining margins.

Higher light product yield was driven by the launch on new conversion capacities the refineries in 2015–2016.

FINANCIAL STABILITY

Net debt / EBITDA

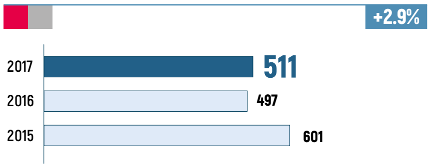


Reflects the level of debt burden

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

THE OPTIMAL BALANCE

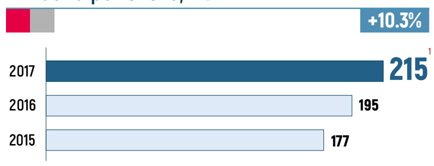
CAPEX, RUB billion



Reinvesting cash flows to support and develop business

Higher capital expenditures in 2017 were mostly due to the project development in Russia, Uzbekistan, and the Caspian.

Dividend per share, RUB



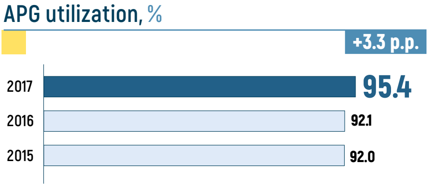
Cash distributions to shareholders in line with the Dividend Policy

2017 is our twentieth consecutive year of dividend growth.

[1] Recommended by the Board of Directors total dividend per share for 2017.

CORPORATE RESPONSIBILITY

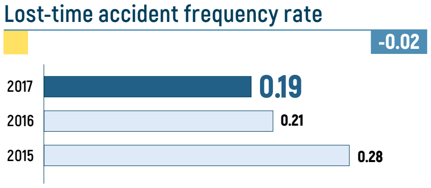
APG utilization, %



The indicator affects the direct emissions into the atmosphere and is used to calculate the "Ensuring the required HSE level" KPI.
In addition waste water discharge and waste disposal rates are also used to calculate this KPI.

In 2017, our APG utilization rate went above 95% for the first time, with a majority of growth coming from Timan-Pechora, the Urals and the North Caspian.

Lost-time accident frequency rate



One of the key indicators used to calculate "Ensuring the required HSE level" KPI.

In 2017, the lost-time accident frequency rate decreased due to the decline in the number of accidents to 16 compared to 18 in 2016.

Group's KPI is used for the Group's efficiency performance assessment

Segment's KPI is used for the segment's efficiency performance assessment.

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

Strategy KPI is used to track the Group's strategy performance

For more details on Financial Results, see Appendix 5 "Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations"

PROFESSIONAL TEAM

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.

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 2017, the Management Committee consisted of 14 persons.

26 Meetings in 2017

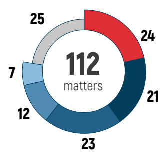
112 Matters considered in 2017

CHANGES TO THE MANAGEMENT COMMITTEE IN 2017:

- early termination of powers of Sergei Kukura, Valery Subbotin, and Lyubov Khoba;
- elected: Stanislav Nikitin, Ilya Mandrik.

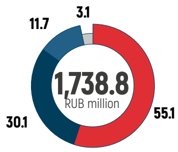
For more details on the Management Committee, see page 109

Matters considered by the Management Committee in 2017



- Restructuring
- HR
- Subsidiaries
- Local regulations
- Business performance
- Other

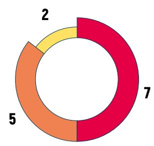
Payments[1] to the Members of the Management Committee in 2017, %



- Bonuses
- Salaries
- Other payments
- Rewards

[1] Including the remuneration of the President of PJSC LUKOIL.

Length of service on the Management Committee



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

% Over 7 years

% 1 to 7 years

% Less than 1 year

Length of service on the Management Committee and share in the Company's charter capital (as of December 31, 2017)

* Including direct and indirect ownership.

Vagit ALEKPEROV

born 1950

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

Ravil MAGANOV

born 1954

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

Alexander MATYTSYN

born 1961

- First Vice President (Economics and Finance)

Vladimir NEKRASOV

born 1957

- First Vice President (Refining and Marketing)

Vadim **VOROBYOV**

born 1961

- Senior Vice President for Sales and Supplies

0.01%

Azat **SHAMSUAROV**

born 1963

- Senior Vice President for Oil and Gas Production

0.006%

Ilya **MANDRIK**

born 1960

- Vice President for Exploration and Development

0.01%

Ivan **MASLYAEV**

born 1958

- Vice President, General Counsel

0.03%

Anatoly **MOSKALENKO**

born 1959

- Vice President for HR Management and Corporate Structure Development

0.02%

Stanislav **NIKITIN**

born 1959

- Vice President – Treasurer

0.01%

Oleg **PASHAEV**

born 1967

- Vice President for Petroleum Product Sales

0.005%

Denis **ROGACHEV**

born 1977

- Vice President for Procurement

0.002%

Gennady **FEDOTOV**

born 1970

- Vice President for Economics and Planning

0.008%

Evgeny **KHAVKIN**

born 1964

- Vice President, Chief of Staff of PJSC LUKOIL

0.008%

The composition of the Management Committee is presented as of December 31, 2017.

UNLOCKING THE POTENTIAL OF GOVERNANCE SYSTEM

GENERAL SHAREHOLDERS MEETING

The General Shareholders Meeting is the Company's supreme governance body. The Annual General Shareholders Meeting is held every year in the form of joint attendance. An Extraordinary General Shareholders Meeting was also held in 2017 in the form of absentee voting whereby shareholders were able to use an electronic voting service for the first time.

BOARD OF DIRECTORS

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

Changes to the Board of Directors in 2017:

- Guglielmo Moscato's membership discontinued;
- Lyubov Khoba elected to the Board.

For more details on the Board of Directors, see page 94

Compliance with the Corporate Governance Code (the "Code")[1]

Full
Partial
None

Full compliance with the Code

72.2% +6.4 p.p. vs. 2016

% Executive Directors

% Non-Executive Directors

% Independent Directors

Share in the Company's charter capital (as of December 31, 2017)

* Including direct and indirect ownership.

Valery GRAYFER

born 1929
- Chairman of the Board of Directors
- Non-Executive Director

0.01%

Ravil MAGANOV

born 1954
- 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

0.38%

Vagit ALEKPEROV

born 1950
- President of PJSC LUKOIL
- Executive Director
- Chairman of the Management Committee

23.13%*

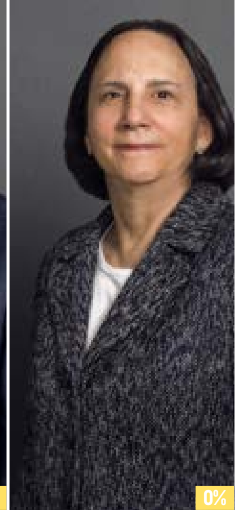
Viktor BLAZHEEV

born 1961
- Independent Director
- Chairman of the Audit Committee
- Member of the HR and Compensation Committee

0%

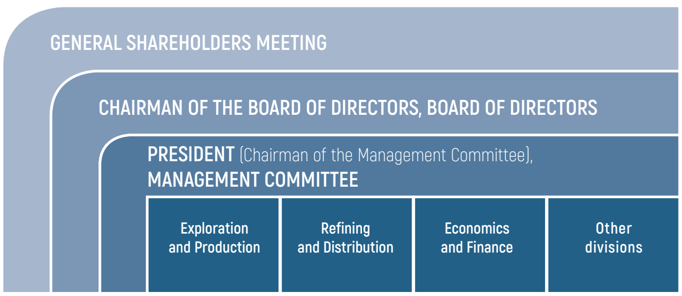
Toby Trister GATI

born 1946
- Independent Director
- Member of the Strategy and Investment Committee



0%

GOVERNANCE STRUCTURE



- External Auditor
- Audit Commission

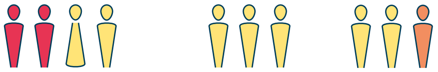
- Corporate Secretary
- Head of the Internal Audit Service

Board of Directors committees:
- Audit Committee
- Strategy and Investment Committee
- HR and Compensation Committee

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

For more details on the governance structure, see page 90

COMPOSITION OF THE BOARD OF DIRECTORS COMMITTEES



Strategy and Investment Committee

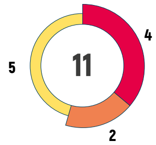
Audit Committee

HR and Compensation Committee

18% of the Board members are women

For more details on the Board of Directors, see page 94

Director status



- Executive Directors[2]
- Non-Executive Directors
- Independent Directors[3]

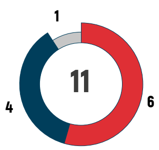
45%

of the Board members are independent in 2017

Igor IVANOV	Roger MUNNINGS	Richard MATZKE	Lyubov KHOBA	Ivan PICTET	Leonid FEDUN
born 1945	born 1950	born 1937	born 1957	born 1944	born 1956
· Independent Director · Chairman of the Strategy and Investment Committee · Member of the Audit Committee	· Independent Director · Chairman of the HR and Compensation Committee	· Non-Executive Director · Member of the HR and Compensation Committee	· Executive Director · Vice President - Chief Accountant	· Independent Director · Member of the Audit Committee	· Executive Director · Vice President for Strategic Development · Member of the Strategy and Investment Committee

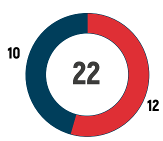
The composition of the Board of Directors is presented as of December 31, 2017

Length of service on the Board



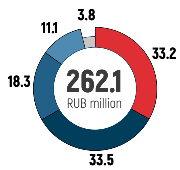
- Over 7 years
- 1 to 7 years
- Less than 1 year

Board meetings in 2017



- In absentia
- In person

Directors' remuneration[4] in 2017, %



- Remuneration
- Bonuses
- Salaries
- Compensations
- Other remuneration

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

[2] Members of the Company's executive bodies and persons employed by the Company.

[3] Recognized as independent directors as defined in the Listing Rules of the Moscow Exchange and recommendations set out in the Corporate Governance Code. Viktor Blazheev and Igor Ivanov were determined to be independent by the Resolution of the Board of Directors of PJSC LUKOIL (Minutes No. 9 dated June 21, 2017).

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

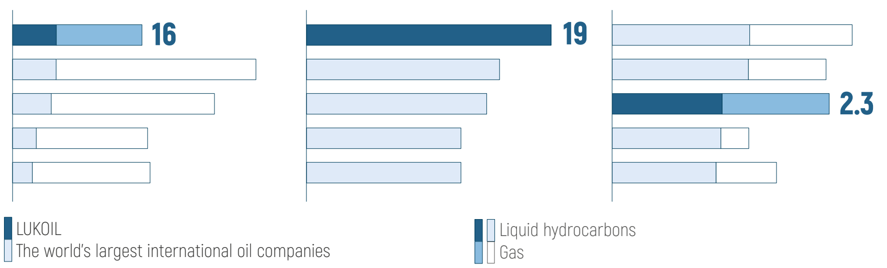
STRONG COMPETITIVE ADVANTAGES

RESOURCE BASE

Proved hydrocarbon reserves as of December 31, 2017, billion boe

Hydrocarbon reserve life as of December 31, 2017, years

Hydrocarbon production in 2017, million boe per day

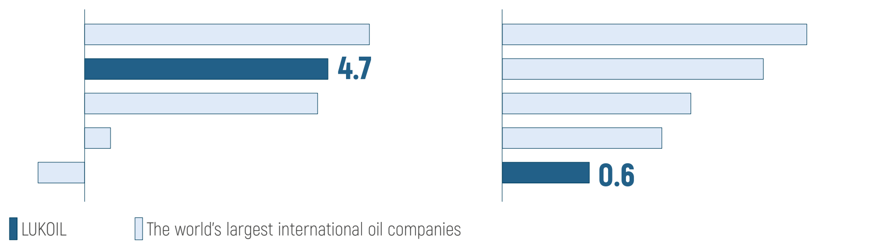


We have a vast resource base to support our future development. Our proved hydrocarbon reserves can sufficiently support 19 years of production and are primarily comprised of conventional reserves, allowing us to maintain one of the lowest development and production costs levels in the industry.

STRONG FINANCIAL PERFORMANCE AND STABILITY

Free cash flow per barrel, US dollars per boe (2015–2017 average)

Net debt / EBITDA (2015–2017 average)



We are among the leaders in terms of efficiency per barrel of production with the lowest leverage in the industry attributable to well-balanced asset portfolio, high level of vertical integration, and efficient cost management.

LUKOIL'S POSITIONING IN THE GLOBAL AND RUSSIAN OIL AND GAS INDUSTRIES

1%

of global proved oil reserves

2%

of global oil production

2%

of global oil refining

The world's largest international oil companies include Royal Dutch Shell, Total, Chevron, BP, ExxonMobil.
All figures are presented for the year 2017 unless indicated otherwise.

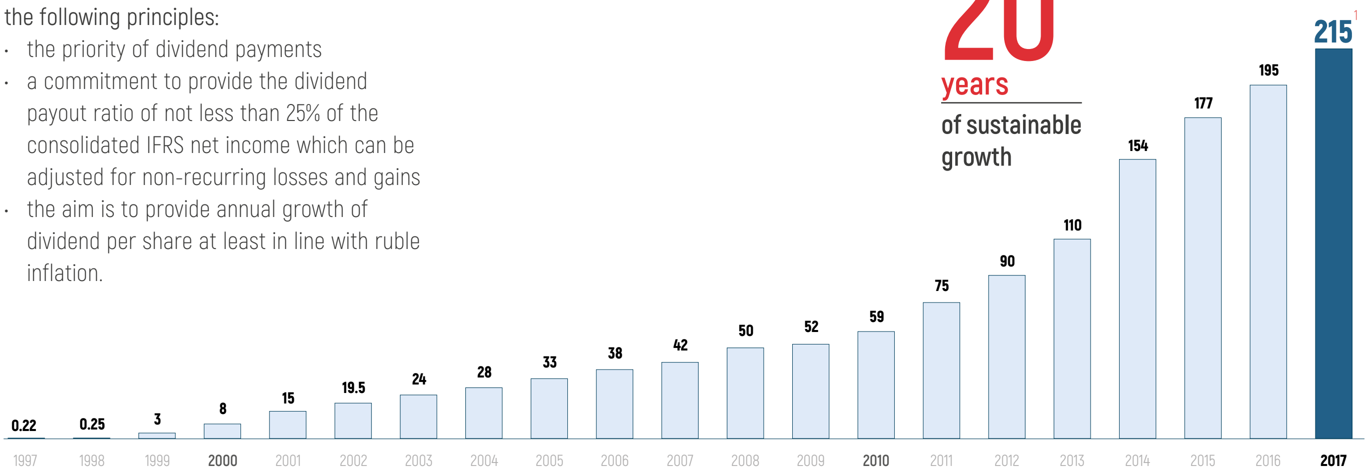
PROGRESSIVE DIVIDEND POLICY

Our progressive dividend policy is based on the following principles:

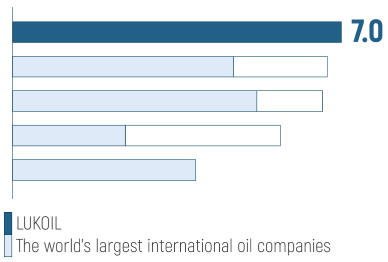
- the priority of dividend payments
- a commitment to provide the dividend payout ratio of not less than 25% of the consolidated IFRS net income which can be adjusted for non-recurring losses and gains
- the aim is to provide annual growth of dividend per share at least in line with ruble inflation.

Dividend track record, rubles per share

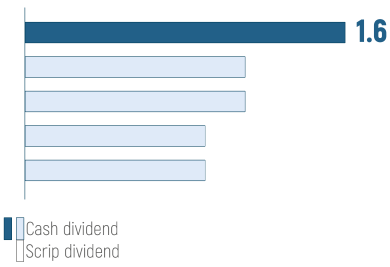
20 years of sustainable growth



Dividend yield in 2017, %[2]



Dividend coverage by free cash flow in 2017[3]



Even in the volatile macroeconomic environment we continue to increase the amount of dividend as well as distribute them fully in cash.

11% of Russian oil reserves

15% of Russian oil production

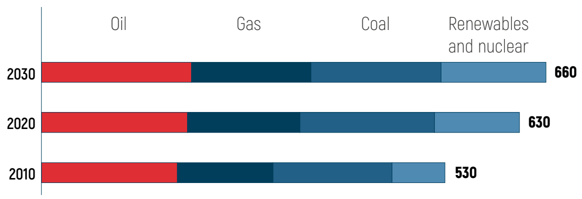
15% of Russian oil refining

[1] Total dividend per share for 2017 recommended by the Board of Directors.
[2] Dividend yield for 2017 is calculated based on the total dividend per share of RUB 215 as recommended by the Board of Directors for 2017 and the average market price of PJSC LUKOIL shares on the Moscow Exchange in 2017.
[3] 2017 free cash flow per share to total dividend per share for 2017.

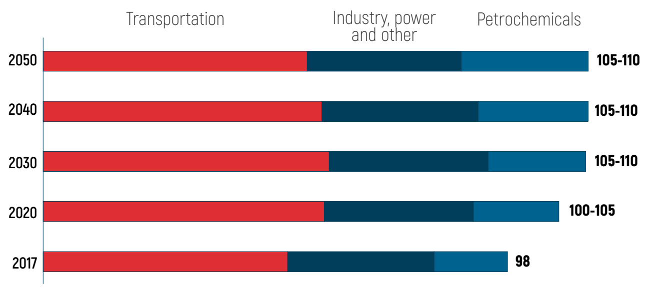
GLOBAL DEMAND GROWTH
FOR CRUDE OIL TO CONTINUE

The global demand for energy is expected to continue growing due to the increasing world population and growth of GDP per capita. Renewables will be the fastest-growing energy source. Being the cleanest-burning hydrocarbon, gas will likely be the fastest-growing fuel commodity. Coal consumption is expected to decline while oil demand is expected to grow moderately.

Energy demand forecast by energy source, million TJ



Liquid hydrocarbon demand forecast, million barrels per day



OIL MARKET DRIVERS

Demand

1. **PETROCHEMICALS** are the key growth driver
2. **TRANSPORT** is a key uncertainty factor
3. **TECHNOLOGY ADVANCEMENT AND IMPROVED ENERGY EFFICIENCY**
4. **STATE REGULATION**

Supply

1. **NATURAL DEPLETION OF CONVENTIONAL FIELDS**
2. **NEW PRODUCTION** will mostly come from technologically challenging and high-cost projects
3. **GROWING COSTS OF NEW PRODUCTION** despite technological evolution
4. **GEOPOLITICS**

DEMAND GROWTH WILL SLOW DOWN, WHILE SUPPLY COSTS WILL INCREASE

UNCERTAINTIES WILL CONTRIBUTE TO THE HIGH PRICE VOLATILITY

$50 per barrel

Base price scenario for the strategy in 2017

STRATEGY
OF BALANCED DEVELOPMENT

In 2017, the Board of Directors approved the Strategic Development Program of LUKOIL Group for 2018–2027. The updated strategy is focused on driving sustainable growth in key performance indicators and the Company's progressive dividend policy in a conservative oil price scenario, while pursuing additional growth opportunities and distributions to shareholders in a more favorable environment.

- Conservative base case price scenario
- Focus on driving efficiencies and value creation
- Transparent policy on distributions to shareholders

KEY STRATEGY ELEMENTS

	UPSTREAM	REFINING	MARKETING	FINANCE
	Focus on improving efficiency and creating value			
STRATEGIC TARGETS AT $50/BBL / TOOLS	Sustainable organic production growth	Selective upgrades at refineries Development of petro- and gas chemistry	Growing premium channels Upgrade of filling stations network	Raising ROACE Conservative financial policy Progressive dividend policy fully covered with free cash flow
Improving efficiency	Accelerating reserve recovery and converting resources into reserves	Raising operational efficiency and enhancing margins		Centralized control over cost cutting programs
Improving technology				Raising planning flexibility
High HSE standards	Zero tolerance to incidents and environmental damage			At optimal cost
Flexibility at above $50/bbl oil price	Accelerated production growth			50% of the incremental cash flow distributed to shareholders
Low priority				
M&A	M&A of discovered reserves			Focus on risk/return

The Strategic Development Program of LUKOIL Group for 2018-2027 is available at the website: **www.lukoil.com**

CHAIRMAN'S LETTER

"2017 was an important year for LUKOIL as we defined the path of further development. In December the Board of Directors unanimously approved the Strategic Development Program of PJSC LUKOIL for 2018-2027 as well as supported a number of related initiatives."

DEAR SHAREHOLDERS,

2017 was an important year for LUKOIL as we defined the path of further development. In December the Board of Directors unanimously approved the Strategic Development Program of PJSC LUKOIL for 2018-2027 as well as supported a number of related initiatives.

Delivery of the updated strategy will become a conceptually new stage for the business development. It is focused on the proactive efficiency improvement work, business processes and costs optimization, technological potential advancement. These will support the organic growth of key operational and financial indicators at the existing asset base.

The adherence to the conservative financial policy is crucial strategic factor that allows to overcome with confidence the periods of macro environment volatility and deliver on the progressive dividend policy while maintaining high financial stability.

One of the grounds for the successful delivery of the strategy is the efficient employee incentive program targeted at the attainment of the strategic goals. The Board of Directors supported the new five year long-term incentive program for the key employees that has a mechanism for allocating additional rewards to the employees who delivered outstanding results against the strategic goals.

An integral part of the updated strategy is the adherence to the sustainability principles. LUKOIL shares the sustainable development goals and principles of the United Nations. I'm pleased to report that the Company continues to create constantly value to all the stakeholders and focuses on the minimization of the environmental impact from its activity, ensuring safe work conditions, as well as social-economic development support of the regions where it operates considering the interests and traditions of local communities.

Sustainable development of the business is impossible without the continuous improvement of corporate governance system. In 2017 we continued the implementation of principles and recommendations of the Bank of Russia Corporate Governance Code. As a result, the share of fully compliant principles increased to 72%, and the share of fully or partially compliant principles amounted to 97%.

Internal audit and risk management systems improvement work was also continued. The internal controls provisions of PJSC LUKOIL was approved so as internal controls provisions in all main subsidiaries.

We also continued to improve the mechanisms ensuring the shareholders rights execution. At the Extraordinary General Meeting of shareholders in December 2017, for the first time the shareholders were offered to vote electronically. This resulted in the highest for the past years quorum of 79%.

Among the important initiatives of the reporting year in the area of corporate governance, the Board of Directors supported the cancellation of major part of LUKOIL's treasury shares as well as the launch of share buy-back program.

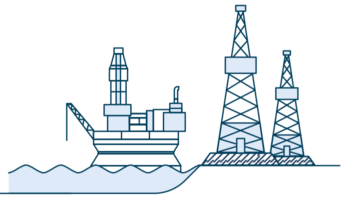
I'm also pleased to report the recent changes in the composition of the Board of Directors. Ms. Lyubov Khoba joined the Board of Directors who prior to that was taking key finance roles in the Company. Ms. Khoba's experience and professionalism, her profound knowledge of the oil business specifics will considerably contribute to the work of the Board of Directors.

The current composition of the Board of Directors is well balanced in terms of the proportion of independent, executive and non-executive members and well-diversified in terms of the knowledge, qualification, experience and business acumen of the members. Out of eleven members of the Board of Directors five are independent, which ensures objectivity of the decisions taken and evidences a high level of the development of the Company's corporate governance.

On behalf of the Board of Directors I would like to thank all the shareholders for the trust in the Company and to its management and present the Board of Directors report on the results of the priority business directions development of PJSC LUKOIL in 2017.

Valery Grayfer
Chairman of the Board of Directors of PJSC LUKOIL

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



EXPLORATION AND PRODUCTION

MACROECONOMIC OVERVIEW

In 2017, Urals crude oil prices averaged $53.1 per barrel, 27.3% higher year-on-year.

The price growth was mostly driven by the agreement of OPEC and certain non-OPEC countries, including Russia, to cut production volumes. Strong compliance with the production limitations led to lower inventories and gradual market rebalancing. Urals crude oil prices increased to a two-and-half year high of over $66 per barrel in the end of 2017.

Influenced by the oil price dynamics, the Russian ruble appreciated by 14.9% against the US dollar with the resulting average annual exchange rate of RUB 58.4 per US dollar. Ruble-denominated oil price dynamics was negatively affected by the ruble appreciation, demonstrating the increase of only 10.8% year-on-year.

In line with the tax manoeuvre parameters, the Mineral Extraction Tax (MET) base rate was increased by 7.2% in 2017, while the crude oil export duty marginal rate was reduced from 42% to 30%. Given the progressive nature of crude oil specific tax system and lower positive time lag effect of the export duty, the US dollar-denominated oil price, net of MET, and export duty increased by 13.3%, while the ruble-denominated price decreased by 1.4%.

Russian oil exporter's revenue breakdown

	2015	2016	2017	Change, 17/16, %
	$ per barrel			
Urals crude price	50.9	41.7	53.1	27.3
MET	14.1	11.8	19.1	61.9
Export duty	16.5	10.4	11.9	14.5
Net oil price	**20.3**	**19.5**	**22.1**	**13.3**
	RUB per barrel			
Urals crude price	3,105	2,795	3,098	10.8
MET	864	792	1,114	40.7
Export duty	1,005	695	693	–0.3
Net oil price	**1,236**	**1,308**	**1,291**	**–1.4**

RESERVES

LUKOIL Group has proved hydrocarbon reserves in six countries. The majority of the proved reserves is conventional, providing the Company a significant competitive advantage that ensures lower development and production costs per barrel.

As of the end of 2017, the Group's SEC proved hydrocarbon reserves amounted to 16.0 billion boe, 75% of which was oil. The Company's reserves life is 19 years in comparison to the average of 12 years among the world's largest international oil companies. LUKOIL is one of the leading international and Russian companies in terms of proved reserves life and quality.

Russia accounts for 88% of the Group's proved hydrocarbon reserves, concentrated mainly in West Siberia. Offshore fields and high-viscosity oil account for approximately 11% of the proved reserves. About half of LUKOIL's international proved reserves is in Uzbekistan, where the Company actively develops its gas projects.

Around 60% of the Company's proved hydrocarbon reserves have been classified as developed, in that they can be extracted from the existing wells using currently available technology and equipment. Following the development of gas projects in Uzbekistan and the Bolshekhetskaya Depression, the share of developed gas reserves increased from 36% in 2016 to 47% in 2017.

LUKOIL's 13.7 billion boe in contingent resources provide the potential for increasing its proved reserves as the macroeconomic environment improves, development plans evolve, costs are optimized, new technologies are introduced, and pilot works are carried out.

In 2017, LUKOIL added 501 million boe to its proved reserves through the exploration and production drilling, with the largest addition of 198 million boe from West Siberia, the Company's core oil producing region. A significant addition of 100 million boe came from further reserves development in the Russian sector of the Caspian Sea, with 95 million boe alone added from the active development of the V. Filanovsky field, launched in 2016.

The 2017 average annual oil prices growth of approximately by one quarter resulted in 153 million boe reduction in the Company's reserves in the West Qurna-2 project, which is developed under a service contract.

75%

of oil in proved hydrocarbon reserves of the Group in 2017 according to SEC

Hydrocarbon reserves and 3C contingent resources as of 31 December, 2017, million boe

	2015	2016	2017	Change, 17/16, %
Total proved reserves	**16,558**	**16,398**	**16,018**	**-2.3**
Crude oil	12,585	12,482	12,077	-3.2
Gas	3,973	3,916	3,941	0.6
Developed	9,710	9,421	9,560	1.5
Undeveloped	6,848	6,977	6,458	-7.4
Russia	14,617	14,370	14,158	-1.5
International projects	1,941	2,028	1,860	-8.3
Probable reserves	**6,760**	**6,684**	**6,409**	**-4.1**
Possible reserves	**3,216**	**2,981**	**3,087**	**3.6**
3C contingent resources	**13,881**	**14,366**	**13,681**	**-4.8**

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

LICENSES

Pursuant to the Russian legislation, hydrocarbon exploration and production operations are carried out under subsoil use licenses. LUKOIL continuously works to obtain subsoil rights, monitors potential subsoil use plots, applies for new licenses and extends the existing ones.

As of the end of 2017, the Group held 523 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 29 years. Some of LUKOIL's licenses are unique, such as the subsoil license for the Imilorskoye field in West Siberia, which indicates federal significance of the field and is valid until 2127. The remaining 10% of the Company's licenses grant the right to "prospect, explore, and appraise hydrocarbon deposits", with an average remaining validity period of about 3 years.

In the reporting period, nine new licenses in the core producing regions of West Siberia and the Urals were added to the Company's oil and gas portfolio. New licenses in regions with a well-developed infrastructure enable the Company to achieve maximum synergies with the existing assets, reduce exploration and production costs, and speed up the production launch.

The Group's international portfolio was expanded in 2017 through the acquisition of subsoil use licenses for Block 12 in Mexico, located offshore the Gulf of Mexico.

In the reporting period, the Group obtained 157 amendments to its existing subsoil licenses, had 56 licenses renewed, and registered 74 license extensions.

Number of the Group's licenses in Russia as of December 31, licenses

	2015	2016	2017
Total	502	514	523
Exploration and production	355	361	365
Prospecting and appraisal	47	47	46
Geological surveys, exploration, and production	100	106	112

523
licenses

Number of the Group's licenses in Russia as of December 31, 2017

EXPLORATION

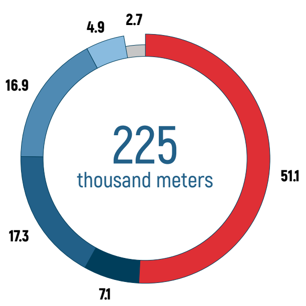
2017 RESULTS

- Discovered 6 fields and 49 deposits.
- Confirmed the productivity of the Khazri and Yuzhnaya structures in the Caspian Sea through well drilling.
- Confirmed discovery of a large Eridu field at Block 10 in Iraq.

2018 PRIORITIES

- Near-field exploration.
- The Caspian Sea – further prospecting and exploration at the Khazri, Titonskaya, and Yuzhnaya structures.
- Iraq – follow-up exploration at the Eridu field at Block 10.
- Mexico –preparations for the drilling at Block 12.

Exploration drilling in 2017, %



LUKOIL Group carries out exploration activities in ten countries, mostly concentrated in Russia. Internationally, the Company participates in exploration projects in the Gulf of Guinea, the Norwegian shelf in the Barents Sea, Mexico, Iraq, and the Black Sea.

Exploration activities have been consistently delivering good results. In 2017, the Company completed 82 prospecting wells with an 87% overall success rate and a 100% success rate in the Bolshekhetskaya Depression, the Caspian Sea, and the Ural and Timan-Pechora regions, where 6 new fields and 49 deposits were discovered. High efficiency is driven by the advanced exploration techniques and selection of the most promising areas based on research results.

2D seismic works increased by 36% to 3,235 km due to the fulfillment of the license terms in West Siberia, while 3D seismic surveys increased by 3% year-on-year to 6,522 square km.

Exploration drilling in 2017 increased by 18% year-on-year to 225 thousand meters. The growth was mainly attributable to the Volga region (9 thousand meters), Timan-Pechora (9 thousand meters) and West Siberia (7,000 meters). Drilling activities within the Company's international projects also increased by 50% to 6,000 meters, predominantly due to the increased operations at Block 10 in Iraq.

Capital expenditures on exploration, including non-cash items, amounted to RUB 33.5 billion.

3.2 **+36%** vs. 2016

thousand kilometers

2D seismic surveys in 2017

Exploration

	2015	2016	2017	Change, 17/16, %
2D seismic surveys, km	9,984	2,371	3,235	36.4
3D seismic surveys, square km	6,075	6,332	6,522	3.0
Exploration drilling, km	191	191	225	17.8
Exploration capital expenditures[1], RUB million	69,641	36,295	33,506	–7.7

[1] Including non-cash items.

KEY EXPLORATION PROJECTS IN 2017

Caspian Sea
One of the Company's priorities is further exploration works in the Caspian Sea given the potential synergies with the prior field discoveries in the region. In 2017, the Company completed the construction of Khazri-1, a 4,780-meter prospecting well in the southern part of the Central Caspian license area.

3D seismic works covering 678 square km were held at the Khazri and Titonskaya structures to define more precisely their geology and identify prospects. Following the 3D seismic interpretation, the resource base will be estimated and the exploration well drilling site at the Khazri structure will then be determined.

The Company completed additional exploration at the Yu. Kuvykin field and drilled Sarmatskaya-4, a 3,363-meter exploration well. The geological structure of the field's southern part was defined more precisely, which led to an upward revision of its gas and condensate reserves.

The Company completed drilling of a 3,842-meter prospecting well at the Yuzhnaya structure, and a survey in the open hole confirmed the productivity of Jurassic deposits.

Baltic Sea
The Company has unparalleled expertise in the Baltic Sea operations, which minimizes the risks associated with new field development and shortens new project lead times. The proximity to export markets and the Company's own transportation infrastructure reduces the transportation expenses and improves the cost efficiency of operations in the region.

In the reporting period, LUKOIL completed the construction of 2,350-meter prospecting well No. 3 at field D33. As a result, the geological structure of the field discovered in 2015 was confirmed. The Company appraised the field's commercial hydrocarbon reserves, and preparations for the design of the development stage commenced.

The 3D seismic data interpretation was completed and used to update resource estimates for the Baltic Sea fields discovered in 2015 and other prospects.

International Projects
Most international exploration activities were concentrated at Block 10 in Iraq (LUKOIL as a project operator and INPEX CORPORATION holding 60% and 40%, respectively). Following the drilling of prospecting wells No. 2 and 3, the geological model of previously discovered large Eridu field was confirmed and gushing oil flows at a rate of over 1,000 cubic meters per day were produced. The Eridu field is the largest discovery made in Iraq for the last 20 years. In the medium term, appraisal drilling and 3D seismic surveys have been scheduled as part of the exploration program of the Eridu field.

The subsoil use license for Block 12 was acquired in 2017 following the 2.1 licensing round in Mexico. LUKOIL is the project operator. The block is situated 50 km offshore in the south of Gulf of Mexico. Its area is 521 square km with an average sea depth of 200 meters. The block is located in the proximity to the recently discovered large Zama field that further raises its success potential. A range of prospects were identified following the 3D seismic surveys at the block, and drilling of the first prospecting well has been scheduled in the medium term.

DEVELOPMENT AND PRODUCTION

2017 RESULTS

- Launched production at 12 new fields in the Russia.
- Launched gas production at the Pyakyakhinskoye field.
- Increased high-viscosity oil production in Timan-Pechora by 10%.
- Commenced drilling of the first well from the Ice-Resistant Fixed Platform-2 of the V. Filanovsky field.
- Ramped up the Gissar project to design capacity, and launched Phase 1 of the Kandym GPC in Uzbekistan.

2018 PRIORITIES

- The V. Filanovsky field in the Caspian Sea – wells drilling from the field's Phase 2 offshore structures to ensure a stable plateau production level.
- The Yu. Korchagin field in the Caspian Sea – Phase 2 commissioning.
- Timan-Pechora – further growth of high-viscosity oil production.
- The Baltic Sea – production drilling start at the D41 field.
- West Siberia – decelerating production decline rate at mature fields and increasing tight oil production.
- Uzbekistan – completing Phase 2 construction for the Kandym GPC.

LUKOIL Group produces oil and gas in six countries. The Company's 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 Ural Federal District (the Yamal-Nenets Autonomous Area and Khanty-Mansi Autonomous Area – Yugra), and the Southern Federal District (the Volgograd Region, Astrakhan Region, and the Republic of Kalmykia).

Hydrocarbons production in 2017 totaled 2.3 million boe per day, with liquid hydrocarbons accounting for 79.5% of the total, and natural and associated gas accounting for the remaining 20.5%. Excluding the West Qurna-2 project, the Company's hydrocarbon production increased by 2.5%, despite the external limitations, following the development of gas projects in Russia and Uzbekistan.

Capital expenditures for oil and gas development and production, including non-cash items, increased by 5.5% year-on-year to RUB 429.2 billion in 2017.

CRUDE OIL

The Company produced 87.4 million tonnes of crude oil in 2017. Production dynamics was negatively influenced by the decrease in compensation crude oil from the West Qurna-2 project in Iraq and external production limitations driven by the agreement between Russia and OPEC.

The Company produced 81.9 million tonnes of crude oil in Russia, accounting for 14.9% of Russia's total production, as reported by CDU TEK.

The Company's 2017 oil production and its dynamics in Russia was defined by the external limitations driven by the agreement between Russia and OPEC. In compliance with this agreement, the Company was gradually decreasing its production from January to May 2017, stabilizing it at 223 thousand tonnes (1,636 thousand barrels) per day and maintaining this level till the reminder of the year, that is 6 thousand tonnes (45 thousand barrels) per day lower as compared to October 2016 level.

2.2 **+2.5%** vs. 2016

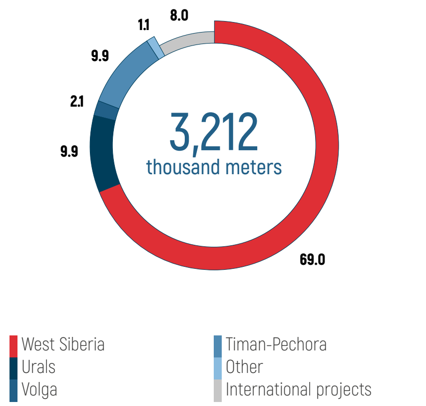
million boe per day

Hydrocarbon production in 2017 (excluding the West Qurna-2 project)

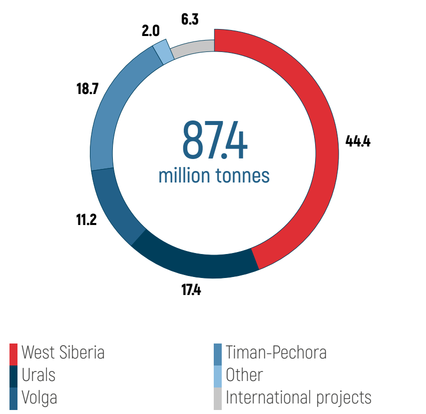
Hydrocarbon production, thousand boe per day

	2015	2016	2017	Change, 17/16, %
Total hydrocarbons	**2,439**	**2,276**	**2,269**	**–0.3**
Liquid hydrocarbons	2,052	1,875	1,804	–3.8
Gas	387	401	465	16.0
Total hydrocarbons excluding the West Qurna-2 project	**2,237**	**2,181**	**2,235**	**2.5**

Production drilling in 2017, %



Oil production structure in 2017, %



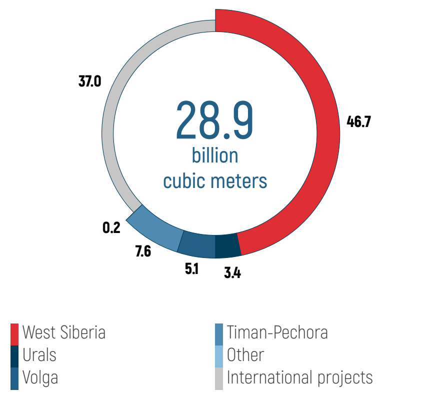
Production continued to increase at new, large fields in line with the Company's plans being offset by lower production rates at mature fields in West Siberia and Timan-Pechora to comply with external production limitations. The active development of highly-productive V. Filanovsky and Pyakyakhinskoye fields launched in 2016 was continued. Ramped up the production high-viscosity oil at the Yaregskoye and the Usinskoye fields in Timan-Pechora, and tight oil at the V. Vinogradov and the Imilorskoye fields. As a result, the share of new highly-productive fields in the Company's total production in Russia almost doubled during the year. Oil production was launched at 12 new fields, primarily in the Timan-Pechora and Volga regions during the year.

Oil production from international projects totaled 5.5 million tonnes and was negatively influenced mostly by a 64% decrease in compensation crude oil from the West Qurna-2 project in Iraq after the reimbursement of most historical costs in 2016. Excluding the West Qurna-2 project, production from international projects decreased by 1.0% and totaled 3.7 million tonnes.

Production drilling for the Group increased by 24% year-on-year to 3,212 thousand meters in 2017, with drilling activities in West Siberia accounting for the bulk of the increase. The Company commissioned 980 new production wells, an 18% year-on-year increase, with horizontal wells accounting for 28% of the total new wells.

The high flow rates at the V. Filanovsky and the Pyakyakhinskoye fields significantly contributed to the 10% growth in average flow rate of new wells in Russia. A total 30,000 oil production wells were in operation as of the end of the reporting year.

Gas production structure in 2017, %



GAS

Gas production increased by 15.8% year-on-year to 28.9 billion cubic meters in 2017 due to the development of projects in Uzbekistan and the launch of gas production at the Pyakyakhinskoye field in the Bolshekhetskaya Depression in West Siberia.

The overall gas production in Russia increased by 10.2% to 18.2 billion cubic meters in 2017, due in part to gas production start-up at the Pyakyakhinskoye field in early 2017, with a total 3.2 billion cubic meters of gas produced throughout the year.

Gas production from international projects increased by 26.8% to 10.7 billion cubic meters due to the launch of new facilities in Uzbekistan. Production increase in Uzbekistan by 43.9% (LUKOIL production share) was made possible by the Gissar project ramp-up to the design capacity and launch of the Kandym GPC Phase 1. International projects provided 37.0% of the Company's total gas production, with those in Uzbekistan constituting the largest part.

GROWTH PROJECTS

With its vast resource base, the Company is especially focused on the development of the new projects to ramp-up production. The new projects include both development of new fields and enhancing recovery 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 Caspian Sea bed's Russian sector, setting the ground for ten field discoveries in the region with the combined recoverable reserves of 1 billion tonnes of reference fuel (7 billion boe). The Company commissioned the V. Filanovsky field in 2016 and commenced drilling the field's first well in 2017 within Phase 2 of the field development. Phase 2 construction continued at the Yu. Korchagin field, while preparations were carried out to take the final investment decision on the Rakushechnoye field's development.

V. Filanovsky Field

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

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

Phase 2 of the field's construction comprises an IRP and a LQP.

Phase 3 of the construction comprises a wellhead platform.

The field has a unique geology, with highly permeable collectors yielding record-high initial flow rates. Since its commissioning, eight wells (six production and two injection wells) have been drilled at the field. Five wells were drilled in 2017, two of which are intelligent TAML Level-5 bilateral wells. The average well depth at the V. Filanovsky field exceeds 3,000 meters, while the length of each horizontal section is over 1,000 meters. The average initial flow rate was about 3,000 tonnes per day for single bore production wells and about 4,000 tonnes per day for bilateral wells, which is 100 times higher than the average initial flow rates of the Company's other new wells.

In 2017, the field produced 4.6 million tonnes of oil. As part of the field's Phase 2 development, drilling of the first production well began from the second IRP in December of 2017. Construction of a wellhead platform began in 2017 within Phase 3 development.

The field produces high-quality light low-sulphur oil which is exported via a pipeline system operated by the Caspian Pipeline Consortium (CPC). The CPC's oil quality bank ensures that the Company's selling prices reflect the high quality of its crude. Since 2017, the associated petroleum gas from the V. Filanovsky field has been supplied to the Stavrolen petrochemical complex for further processing into marketable gas and petrochemical products.

The field's infrastructure generates considerable synergies for other Caspian projects – its production start-up enabled LUKOIL to commence oil shipments from the Yu. Korchagin field via the CPC pipeline system, thereby 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 central processing platform (CPP) and then exported via the CPC pipeline system. The Yu. Kuvykin field also has potential to benefit from the V. Filanovsky field's transportation infrastructure.

Yu. Korchagin Field

The Yu. Korchagin field was discovered in 2000 and became the first field in the Caspian put on stream by LUKOIL. The field began production in 2010. The Company tested various sophisticated technological solutions when developing the field and constructing its infrastructure, gaining considerable experience and additional knowledge of the region's geology. The Company constructed intelligent production wells with horizontal section lengths exceeding 5 km through the successful utilization of technological solutions unique for Russia.

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

The field's construction project includes two phases. The Phase 1 infrastructure comprises an IRP with drilling facilities, a LQP, and an offshore transshipment facility which was used to ship all crude oil output prior to the infrastructure launch at the V. Filanovsky field.

The Phase 2 infrastructure was constructed in 2017 to tap the reserves in the field's Eastern part. The Company constructed and installed an underwater support base for a wellhead platform, completed an infield multiphase pipeline and installed power cables to the Phase 1 IRP. The topside construction works of the wellhead platform were carried out at a shipbuilding facility in Astrakhan.

Rakushechnoye Field

The Rakushechnoye field was discovered in 2001 and is the next project scheduled for development in the Caspian region. The Company plans to take advantage of the field's close proximity to the V. Filanovsky field, using existing infrastructure to shorten lead times and reduce costs of construction. During the year, the Company continued preparation for making a final investment decision on the field.

THE BALTIC SEA

The Company has unparalleled expertise in the Baltic Sea operations. The Company's first offshore field, the Kravtsovskoye field, was put on stream in the Baltic in 2004. New fields in the Baltic Sea were discovered as a result of active exploration activities in 2015, opening new prospects for the region's development. Subsoil use licenses were obtained for the D33, D29, D41, and D6-South fields in 2016. In 2017, preparations for the design of the development design stage commenced for newly discovered fields, in line with the Company's Exploration and Development Concept for the Baltic Sea.

D41 Field

At the D41 field, discovered in 2015, preparations for the production drilling scheduled for 2018, continued. The field development plans include the drilling of wells from the coast at over 8 kilometres in length to develop the field.

BOLSHEKHETSKAYA DEPRESSION (NORTHERN PART OF WEST SIBERIA)

The Bolshekhetskaya Depression fields are the Company's key gas producing assets in Russia. The Company's largest gas field, the Nakhodkinskoye field, put on stream in 2005, produced 6.4 billion cubic meters of gas in 2017. Oil production at the Pyakyakhinskoye field commenced in 2016, and its gas production infrastructure with a plateau annual production level of 5 billion cubic meters was launched in 2017. The Company is also planning to develop the Yuzhno-Messoyakhskoye and Khalmerpayutinskoye fields of the Bolshekhetskaya Depression.

Pyakyakhinskoye Field

The Pyakyakhinskoye field's oil production infrastructure includes a metering station, a field support base, a pumping station to maintain reservoir pressure, an oil treatment unit, and a petroleum gas compressor station. The field's major gas producing facility is a complex gas treatment unit.

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

Eight well pads were constructed at the field during the year, six of which are for oil production. 23 oil production wells and 26 gas wells were commissioned.

As of the end of 2017, 28 gas wells and 58 oil wells were in operation at the field. The average daily flow rate of gas well exceeds 300,000 cubic meters, while that of an oil well is about 70 tonnes, which is almost two times higher than the average flow rate of new wells across the Group. In 2017, a total 3.2 billion cubic meters of gas and 1.5 million tonnes of oil and gas condensate were produced at the field.

The oil and gas condensate from the field are supplied to the Zapolyarye–Purpe pipeline. Marketable gas is transported via a trunk gas pipeline to a main compressor station (MCS) near the Nakhodkinskoye field and pumped to the Yamburgskaya MCS.

TIMAN-PECHORA

The Timan-Pechora oil and gas province has strong potential for high-viscosity oil production growth. Heavy crude oil accounts for 5.5% of the Group's proved hydrocarbon reserves, which are predominantly located in the Yaregskoye and Usinskoye fields. The development of these reserves is stimulated through special tax rates.

Yaregskoye Field

The Yaregskoye field, the Group's largest source of high-viscosity oil, is comprised of two main producing structures: the Yaregskoye structure developed by underground mining techniques with the use of thermal steam treatment methods, and the Lyael structure, where oil is produced using counter steam-assisted gravity drainage (SAGD) technology. The field's output grew by 18.5% to 1,082 thousand tonnes in 2017.

The 75 MW Yarega power generating center was commissioned in 2017 along with Phases 3 and 4 of the Lyayel steam units, which produce 200 tonnes of steam per hour, and the Center steam unit with 100 tonnes of steam per hour.

In 2017 at the Yaregskoye structure applying the thermoshaft development method, the Company commissioned 158 underground mine production wells and 36 surface steam injection wells. Commercial use of underground low-angle upward boreholes of 800 meters in length, significantly reduced the scope and cost of mining operations while speeding up reserves development. A decision was made to launch Phase 2 of the Yaregskoye structure development to boost the field oil production.

In 2017, 21 production wells and 13 steam injection horizontal wells were commissioned at the Lyayel structure using counter steam-assisted gravity drainage technology. The annual volume of steam injected into the production formation at the Lyayel structure more than doubled, reaching 1.4 million tonnes.

Usinskoye Field

The Permian reservoir of the Usinskoye field has high-viscosity oil and is developed using thermal recovery methods. The Permian reservoir produced 2,345 thousand tonnes of crude oil in 2017, an increase of 6.7% year-on-year.

The 100 MW Usa power generating center, commissioned in 2016, operates at the field providing production facilities of the Usinskoye field and fields of the Denisovskaya Depression with an independent source of power supply.

In 2017, the Roadmap for Developing the Permian reservoir was drafted and approved. Its implementation will enable an increase in high-viscosity oil production and improve the efficiency of the field development.

Construction of two waste heat recovery boilers with a combined heat capacity of 63 Gcal per hour was initiated: the design and survey operations were completed and construction of the foundation for the boiler unit buildings commenced. On the territory of the energy center "Usa" the construction works of the working fluid (hot water) treatment unit begun to meet the needs for heat-transfer medium.

In 2017, six combined-cycle gas turbines with a combined capacity of 120 tonnes of steam per hour were commissioned at the field, along with 68 wells.

WEST SIBERIA (EXCLUDING THE BOLSHEKHETSKAYA DEPRESSION)

West Siberia is the Company's core oil producing region, accounting for 44.4% of LUKOIL Group's crude oil output, and its core resource base constituting 52.3% of LUKOIL Group's proved crude oil reserves.

The region's main prospects depend on the development of hard-to-recover reserves, and therefore a strategic goal of the Company is to develop relevant technological capabilities, including pilot operations.

Imilorskoye Field

The Imilorskoye field has considerable geological potential, and the proximity to the well-developed infrastructure supported the preparations of the field for the commercial development in the shortest period – about three years.

In 2017, the field development plan was updated and defended during the reviews by the relevant state agencies. The classification of the majority of field reserves as hard-to-recover (with a permeability of less than 2 millidarcy) was substantiated, making the project eligible for special tax rates. A decision was made to begin commercial development of the field. Considering the field's complex multilayer structure, a wide range of advanced well construction and completion technologies are applied in its development.

The field's hard-to-recover reserves are developed efficiently through the application of advanced approaches, which supported the oil production growth at the field by 23.6% to 600 thousand tonnes in 2017. LUKOIL has successfully commissioned 36 new wells at the Imilorskoye field, 10 of which are horizontal.

V. Vinogradov Field

The V. Vinogradov field is located within two license areas, Bolshoy and Olkhovsky. Consisting mostly of low-permeability reservoirs, the field has a complex geology, and is therefore developed using unique technologies while receiving special tax rates to stimulate its development.

In 2017, oil output from the field amounted to 306 thousand tonnes. The development of two pilot plots from the two pads was completed by drilling a number of horizontal production and injection wells with various placement and completion options. LUKOIL was the first in Russia to successfully test horizontal wells completion using linear fracturing fluids for multi-stage hydrofracturing (with a horizontal borehole exceeding 1,000 meters) to prevent water breakthrough from the upper horizon.

A system of low-permeability reservoir development is under construction. Unique for Russia, the system's horizontal wells are used for both oil production and reservoir pressure maintenance.

An 18 MW gas turbine power plant was commissioned in 2017, and construction and installation works commenced to expand the oil treatment unit.

INTERNATIONAL PROJECTS

The mid-term hydrocarbon production growth prospects for international projects predominantly depend on the development of gas fields in Uzbekistan.

Uzbekistan

In 2017, Uzbekistan accounted for 27.9% of gas produced by the Group, and 75.4% of the Company's overall gas production from international projects. The production in Uzbekistan increased by 43.9% to 8.1 billion cubic meters of gas (LUKOIL's production share). The Company is developing two gas projects in Uzbekistan: Kandym and Gissar.

In the reporting year, new facilities were commissioned at the Gissar project, including a complex gas treatment unit with a capacity of 4.4 billion cubic meters of gas per year and a gas pre-treatment unit, as well as six gas gathering facilities. With the launch of these facilities, the daily gas production at the Gissar cluster of fields ramped up to a design capacity of 5 billion cubic meters per year.

Phase 1 of the Kandym gas processing complex (GPC) with a capacity of 4 billion cubic meters per year was commissioned at the end of 2017 at the Kandym project, six months ahead of schedule. The plant, with a total capacity of 8 billion cubic meters per year, will be one of the largest in Central Asia. The GPC converts high-sulfur gas into marketable gas, stable gas condensate, and marketable sulfur.

The plant consists of the first and second process lines, external power and water supply facilities, a gas production and gathering system, and an export gas pipeline, as well as a field camp, a fire station, and other facilities. In 2017, the priority facilities of the field camp and utilities area, water intake facilities, power supply system, first section gas gathering system, including the linear pipeline segment and 32 wells, were commissioned. Phase 2 construction of the GPC was underway, and was completed by 88% as of the end of 2017.

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.

INTELLIGENT FIELD

An intelligent field concept (LIFE-field) developed at the Company implies integration of field management processes based on the automated computer systems and high-tech data collection systems. The concept covers the entire project development cycle, from prospecting and exploration through to decommissioning, and includes the following elements: integrated modeling, integrated planning, integrated operations center, etc. The concept has a vast potential for operational process optimization to boost production and cut costs. The key source of such optimizations is the identification of bottlenecks and subsequent efficient debottlenecking. Specifically, considerable effect is achieved through enhanced coordination of geological modeling and modeling of the field's infrastructure.

Intelligent field technologies are implemented to the fullest extent at the Company's major international projects in Uzbekistan and Iraq. In Russia, the Company actively applies these technologies in the Caspian Sea and the Urals, and their deployment is underway in other regions of LUKOIL's operations.

An integrated model was used at the V. Filanovsky field in the Russian sector of the Caspian Sea to make efficient adjustments to individual provisions of initial design solutions regarding well location and engineering.

In Uzbekistan, integrated models were used in 2017 to assess the production potential of gas wells and equipment capacity when launching the Kandym GPC. The selected mode helped to launch wells with the increased production rates. Modeling was also used to assess operating modes and optimization was performed for accelerated commissioning of wells at the Dzharkuduk-Gambulak field. The aggregate effect from these measures amounted to 124 million cubic meters of incremental gas production in 2017.

The use of an integrated model at the West Qurna-2 project in Iraq in 2017 helped to reduce the number of well shut-downs. In addition, modeling was used to determine and implement optimization measures to reduce supply pressure at the oil treatment unit. The positive effect from these measures on oil production was 276 thousand tonnes.

HI-TECH DRILLING

In 2017, we commissioned 255 horizontal wells with an average daily flow rate of 79 tonnes, including 124 wells with MZHF. The share of horizontal wells put into operation across the Group's Russian assets was 28% in 2017.

ENHANCED OIL RECOVERY

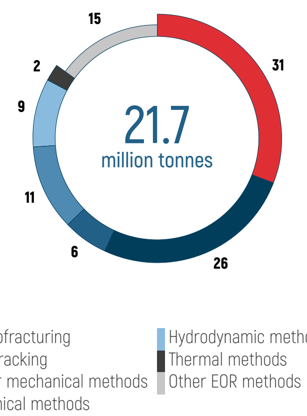
In 2017, 27% of the Company's oil in Russia was produced with enhanced oil recovery (EOR) methods, which were used both during the reporting year and previous years. LUKOIL uses mechanical, chemical, hydrodynamic, and thermal techniques to stimulate productive formations. EOR methods in 2017 were applied at 8,600 wells, up 18.7% year-on-year. Mechanical methods were the biggest contributor to the incremental production (13.4 million tonnes).

Sidetracking is highly efficient EOR method, and the Group continued to rely heavily on this method in 2017. The Group drilled a total of 261 sidetracks in 2017, which brought incremental production to 5.6 million tonnes of crude, including production from sidetracks drilled in the previous years. The high efficiency of this technique is primarily attributable to the R&D mini-projects based on the hydrodynamic modeling and more accurate forecasting of the geology and reserves structure of the plots where sidetracks were drilled.

NEW TECHNOLOGIES IMPLEMENTED IN 2017

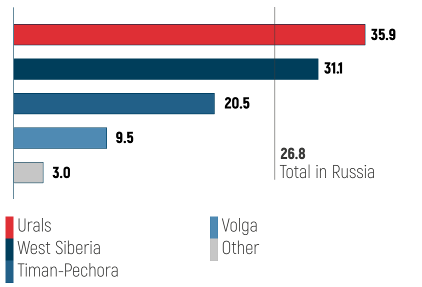
In 2017, pilot polymer flooding operations were completed at the Moskudyinskoye field in the Urals, which confirmed the expected technology performance. The Company sees high potential for rolling out this technology to other mature fields. The Company is interested in the polymer flooding technology, given the prospects to produce polymers at its own petrochemical facilities.

Incremental production from EOR technologies[1] in 2017, %



[1] Including carry-overs from previous years operations. Without affiliates.

Incremental production from EOR technologies as a share of total production in the region[1] in 2017, %



HARD-TO-RECOVER RESERVES

In 2017, consistent efforts were continued to identify and deploy the best technologies for developing hard-to-recover reserves, primarily in West Siberia. A good example of progress in this area is the Imilorskoye field where the Company began commercializing effective development technologies such as drilling multilateral horizontal wells with MZHF ensuring efficient development of hard-to-recover reserves. In 2017, crude oil output from the field grew by 24%.

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 the Usinskoye fields. In 2017, LUKOIL used thermal EOR techniques at both fields to recover 3.4 million tonnes of high-viscosity oil.

In 2017 a number of projects were delivered at the Permian reservoir of the Usinskoye field to improve technologies such as cyclic steam injection operations in directional wells on the margins of the deposit, which were first tested in 2017 in a more dense well network; thermal treatment in a horizontal well system with crossed layout of production and injection wells; dispersed injection of hot water in a horizontal injection well system; and peripheral injection of unheated produced water.

Pilot operations were carried out at the Yaregskoye field to test the technology for constructing underground wells with a length of 1,200 meters at the Yaregskoye structure, as well as the steam flood technology at the Lyayel structure. Future plans include testing the steam flood and steam-assisted gravity drainage technologies in thinner net oil pay zones of the Lyayel structure.

RESEARCH AND DEVELOPMENT

The Company's Research and Development (R&D) Program and its Pilot Project Program are focused on methodological support, and the Company's innovative development through deployment of cutting-edge solutions and technologies, and international best practice in developing hard-to-recover reserves. At refineries operated by the Group, research effort is focused on achieving enhanced energy and economic performance. R&D program also benefits from partnerships with field-specific universities.

In 2017, our R&D program covered the following areas.

Oil wells drilling:

- studying the influence of drilling muds when penetrating terrigenous reservoirs
- developing a technology to recycle and reuse drilling muds
- developing plugging mixture compositions and well cementing technologies.

Oil and gas field development:

- developing water inflow limitation technologies
- developing technologies and reagent compositions to enhance oil recovery.

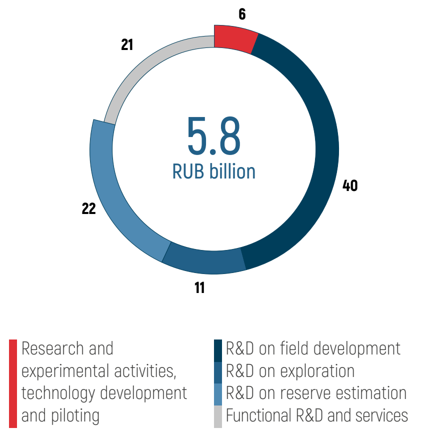
Oil and gas production:

- developing a gathering and treatment system for production fluids
- developing a piston pump with a linear motor
- developing permanent magnet synchronous motors (PMSM) for centrifugal and screw pumps operated at high temperatures.

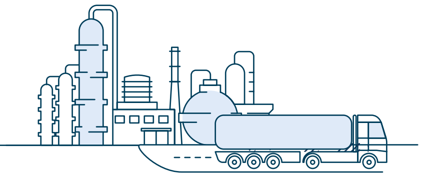
Petroleum product refining and distribution:

- developing advanced lubricants and petrochemicals – motor oils, additives, solvents, cleaners, etc.
- modernizing the petroleum bitumen manufacturing process scheme
- optimizing the operation of hydrocarbon treatment units to reduce environmental impact.

R&D Cost Breakdown in 2017, %



REFINING, MARKETING AND DISTRIBUTION



MACROECONOMIC OVERVIEW

The average benchmark refinery margin for the European part of Russia almost doubled year-on-year to $4 per barrel in 2017. The positive impact came from the larger difference between export duties for crude oil and petroleum products, driven by the rising oil prices, as well as lower export duty base rates for light products and lubricants. In particular, the motor gasoline export duty base rate decreased from 61% to 30% of crude oil duty from January 1, 2017. The margin was negatively affected by the rising motor fuel excise tax rates from January 1, 2017 and an increase of the fuel oil export duty base rate from 82% to 100% of the crude oil export duty.

Average refining margins across the Group's Russian refineries were considerably higher than the benchmark margins due to a higher share of light products in the product slate alongside a share of fuel oil and vacuum gas oil. The margins of the Group's refineries were positively affected by the increased share of light products compared to that of 2016.

The benchmark refinery margin in Europe was high in 2017, growing by 15% year-on-year due to higher spreads for the key petroleum products.

Retail margins in Russia were under pressure from growing motor fuel excise tax rates and the lag between the retail and wholesale prices.

$4 per barrel **x2** vs. 2016

Average margin of a benchmark refinery in European part of Russia in 2017

30% **-31 p.p.** vs. 2016

Gasoline export duty base rate in 2017

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

	2015	2016	2017	Change, 17/16, %
Motor gasoline				
Euro-4	7,300	12,454	13,100	5.2
Euro-5	5,530	9,484	10,130	6.8
Diesel fuel	3,450	5,009	6,800	35.8

Petroleum product export duty rates, as % of crude oil rate

	2015	2016	2017	Change, 17/16, p.p.
Motor gasoline	78	61	30	–31
Diesel fuel	48	40	30	–10
Fuel oil and vacuum gas oil	76	82	100	18
Lubricants	48	40	30	–10

OIL REFINING

2017 RESULTS

- Reached the design capacity of all the units commissioned under the upgrade program.
- Improved petroleum product slate.
- Increased the utilization rates of secondary refining facilities through higher cross-supplies of products between refineries.
- Took the final investment decision on the construction of a delayed coker complex at Nizhny Novgorod Refinery.
- Progressed further on operational excellence programs.

2018 PRIORITIES

- Proceed with the construction of delayed coker complex at Nizhny Novgorod Refinery.
- Continue the execution of ongoing operational excellence programs.
- Strengthen the Group's refineries integration through developing cross-supplies.

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 84.6 million tonnes, almost as much as the Company's total oil production in 2017.

During the reporting year, the Group's own and affiliated refineries processed 67.2 million tonnes of oil feedstock, up 1.8% year-on-year. Refineries in Russia accounted for 64% of the total processing volumes.

REFINERIES IN RUSSIA

In 2017, the throughput at the Group's refineries in Russia increased by 3.2% to 43.1 million tonnes. The output mix improvement driven by the successfully completed upgrade program, optimized utilization of secondary processes, and favorable macroeconomic environment contributed to the strong financial results the Group's refineries in Russia in 2017. Capital expenditures of the refineries in Russia totaled RUB 25 billion in 2017, down 23% year-on-year. The decrease was due to the completion of the major upgrade program at these refineries.

In 2017, LUKOIL took the final investment decision on the construction of a delayed coker complex with a feedstock capacity of 2.1 million tonnes per year at its Nizhny Novgorod Refinery. The complex will use heavy residuals from the refining process as feedstock, and produce mainly diesel fuel, straight-run gasoline, and gas fractions, as well as dark products – vacuum gas oil and coke. The launch of the delayed coker complex and related optimization measures will increase the output of light products at Nizhny Novgorod Refinery by more than 10%. Increased secondary refining capacity and optimized refinery utilization will help reduce fuel oil output by 2.7 million tonnes per year.

Oil feedstock refining and petroleum products output at LUKOIL Group refineries

	2015	2016	2017	Change, 17/16, p.p. (unless otherwise noted)
Feedstock processing, thousand tonnes	**64,489**	**66,061**	**67,240**	**1.8%**
Petroleum products output, thousand tonnes	**60,900**	**62,343**	**63,491**	**1.8%**
Gasolines (motor and straight-run), %	22.1	24.7	25.6	0.9
Diesel fuel, %	35.2	36.4	40.4	4.0
Fuel oil and vacuum gas oil, %	24.1	20.1	14.3	–5.7
Lubricants and components, %	1.5	1.6	1.8	0.2
Other products, %	17.1	17.3	17.9	0.6
Light product yield, %	62.6	66.5	71.3	4.8
Refining depth, %	81.6	85.2	86.8	1.6
Nelson Index	8.2	8.8	8.8	–

During 2017, major efforts were taken to develop and launch new types of products at refineries in Russia. In particular, Nizhny Novgorod Refinery started producing ECTO 100, a premium gasoline with improved performance properties.

In the reporting year, LUKOIL continued efforts to increase the refining depth through the use of alternative feedstock and higher utilization of secondary processes, including strengthening of inter-plant integration. Specifically, in 2017, cross-supplies between the Group's refineries increased by 29.3% year-on-year to 1.7 million tonnes. In 2017, a rail trestle for the fuel oil discharge with a capacity of up to 1 million tonnes per year was commissioned at Perm Refinery. The rail trestle enhanced inter-plant integration and ensured the supply of heavy petroleum feedstock from Nizhny Novgorod Refinery to the petroleum residue processing complex and bitumen production unit of Perm Refinery.

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 yield (excluding mini-refineries) was 69.2% (62.9% in 2016). The refining depth (excluding mini-refineries) reached 86.7% (84.7% in 2016). Fuel oil and vacuum gas oil yields reduced by 33% year-on-year, mainly due to the lower output of these products at Volgograd and Nizhny Novgorod Refineries.

REFINERIES IN EUROPE

In 2017, the throughput at the Group's refineries in Europe decreased by 0.7% to 24.1 million tonnes. The decrease was driven by the overhaul of the refinery in Romania, optimization of the residual asphalt hydrocracker at the refinery in Bulgaria and reduced refining margin of straight-run fuel oil.

In 2017, following a change in the market environment, we modified the utilization structure of the refineries in Europe by cutting fuel oil throughput in favor of higher crude oil throughput due to the reduced price spreads between fuel oil and crude oil. As a result, the light product yield increased to 75.1% (72.7% in 2016).

In 2017, the capital expenditures of the Group's refineries in Europe totaled RUB 10 billion, broadly flat year-on-year.

Key performance metrics of the Group's Russian refineries in 2017

Refinery	Feedstock refining, million tonnes	Products output, million tonnes	Light product yield, %	Refining depth, %	Nelson Index
Total	**43.1**	**40.7**	**69.2**	**86.7**	**7.4**
Nizhny Novgorod Refinery	15.5	14.7	63.7	76.6	7.3
Volgograd Refinery	14.4	13.8	71.6	92.3	6.9
Perm Refinery	12.4	11.5	68.0	96.4	9.4
Ukhta Refinery	2.3	2.2	52.5	74.6	3.7
Mini-refineries in Uray and Kogalym	0.2	0.2	–	–	–
Cross-supplies	–1.7	–1.7	–	–	–

Key performance metrics of the Group's European refineries in 2017

Refinery	Feedstock refining, million tonnes	Products output, million tonnes	Light product yield, %	Refining depth, %	Nelson Index
Total	**24.1**	**22.7**	**75.1**	**86.9**	**10.2**
Ploieşti Refinery, Romania	2.4	2.3	80.3	99.5	10.0
Burgas Refinery, Bulgaria	7.0	6.5	77.3	86.7	13.0
ISAB Refinery, Italy	9.6	8.8	73.8	87.5	9.3
Zeeland Refinery, Netherlands (LUKOIL's share)	5.1	5.1	72.3	80.2	8.4

PRODUCTION AND MARKETING OF LUBRICANTS

2017 RESULTS

- Increased sales of LUKOIL-branded lubricants by 13.6%.
- Increased Group's share in the global market for marine lubricants to 12% (10% in 2016).
- Exceeded 700 items of product mix
- Increased production of own additives by 20%.
- Entered China's and Mexico's markets.

2018 PRIORITIES

- Construct the lubricants plant in Kazakhstan.
- Start implementing a major program to develop the next generation lubricants for global car manufacturers.
- Pursue further import substitution.
- Increase the share of high value-added products.
- Expand the distribution geography.

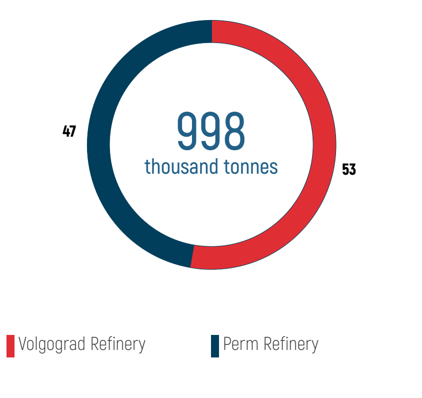
LUKOIL Group produces lubricants at seven own sites, two joint ventures, and 25 contracted plants. Russian assets comprise full cycle production facilities at Perm and Volgograd Refineries, a lubricant blending plant in Tyumen, and INTESMO joint venture producing lubricants in Volgograd. LUKOIL's overseas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

In 2017, 45% of lubricants in Russia were produced at facilities operated by LUKOIL Group. In 2017, total lubricant production increased by 8.8% to 1,126 thousand tonnes, and sales of LUKOIL-branded oils were up 13.6% to 585 thousand tonnes. Production and sales growth was driven, among other factors, by the active implemented import substitution program and a favorable market environment.

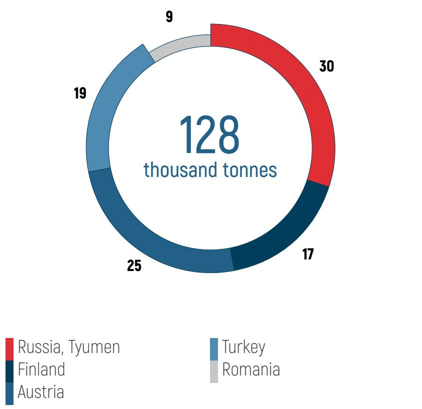
LUKOIL markets oils and lubricants in over 100 countries. One of the Group's key priorities is to develop its product mix in line with modern requirements. In 2016, we developed 50 new lubricant types, including a range of advanced lubricating coolants. The product mix exceeded 700 items. Consumers of LUKOIL's oils include all of the Russia based plants of foreign car manufacturers where car engines are assembled and filled: Volkswagen, Ford, Renault, MAN, and others. The number of valid approvals from global car and industrial equipment manufacturers increased. LUKOIL's GENESIS ARMORTECH VN motor oil became the only Russian product to obtain the VW 504 00/507 00 approval, Volkswagen's most popular modern specification.

The largest Russian lubricant producer INTESMO, a joint venture between LUKOIL and Russian Railways, launched in 2014, increased its output by 25%. The plant houses an engineering center, unique in Russia, where lubricants are developed and tested. For three years of operation, the center adopted 200 testing methods of plastic lubricants and oils, developed and launched the production of 115 types of lubricants, many of which outperform foreign counterparts by operational characteristics.

Full cycle lubricant production in 2017., %



Lubricant blending in 2017, %



Lubricant production and blending, thousand tonnes

	2015	2016	2017	Change, 17/16, %
Full cycle lubricant production	812	917	998	8.8
Lubricant blending	117	118	128	8.5

GAS PROCESSING

2017 RESULTS

- Increased the processing capacity due to the higher capacity utilization at the Lokosovsky GPP.

2018 PRIORITIES

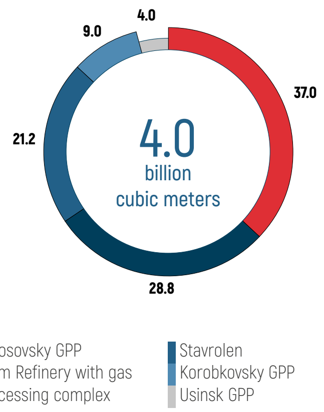
- Maximize synergy from vertical integration by increasing APG utilization, growing the output of liquid hydrocarbons and marketable gas, and providing feedstock to the Group's power generating assets.

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 petrochemical complex in the Stavropol Territory. The Group's GPPs process APG produced by LUKOIL in Russia into liquid hydrocarbons and marketable gas.

In 2017, gas processing increased by 3.5% to 4.0 billion cubic meters, mainly due to the increased capacity utilization at the Lokosovsky GPP, as well as higher processing volumes at the Perm Refinery and the Usinsk GPP.

In 2017, the output of liquid hydrocarbons at the Group's GPPs was 1.7 million tonnes versus 1.3 million tonnes in 2016 due to increased natural gas liquids output at the Lokosovsky GPP and higher output of liquefied petroleum gases at the Perm Refinery. Marketable gas production remained flat year-on-year at 2.5 billion cubic meters.

Gas processing in 2017, %



Gas processing, million cubic meters

	2015	2016	2017	Change, 17/16, %
Total	**3,660**	**3,901**	**4,038**	**3.5**
Lokosovsky GPP	1,944	953	1,497	57.1
Perm Refinery with gas processing complex	995	1,134	1,162	2.4
Korobkovsky GPP	434	418	362	-13.4
Usinsk GPP	287	137	161	17.3
Stavrolen	–	1,259	856	-32.0

PETROCHEMICALS

2017 RESULTS

- Obtained a license to increase sodium cyanide output at Saratovorgsintez to 36 thousand tonnes per year.

2018 PRIORITIES

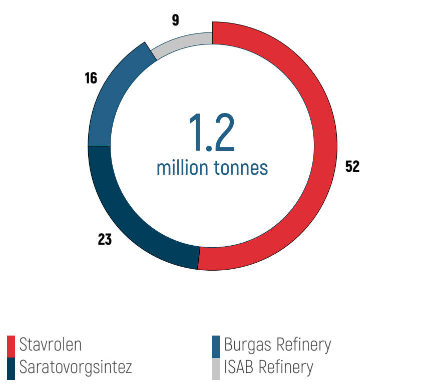
- Conduct feasibility studies for projects to develop petrochemical facilities across the Group's subsidiaries.

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

In 2017, the Company reduced its output of petrochemicals by 7.8% to 1.2 million tonnes, mainly due to the overhaul at Stavrolen. Retrofitting of polyethylene production facilities at Stavrolen was mostly completed in the reporting year.

Stavrolen has one of the largest pyrolysis units in Russia. In 2016, ethylene production upgrades were completed, providing the possibility to increase the share of gas in the processed feedstock. Gas is supplied to the plant via a pipeline leading to a 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 generating unit and to Gazprom's gas transportation system. The new vertically integrated chain allowed to monetize the Caspian APG with maximum efficiency.

Petrochemicals output in 2017, %



Petrochemicals output

	2015	2016	2017	Change, 17/16, p.p. (unless otherwise noted)
Marketable products output, thousand tonnes	**1,073**	**1,270**	**1,171**	**-7.8%**
Polymers and monomers, %	34.0	34.8	34.8	–
Organic chemicals, %	44.6	39.9	40.4	0.5
Pyrolysis products, %	21.2	25.1	24.6	–0.5
Other, %	0.2	0.1	0.2	0.1

POWER GENERATION

2017 RESULTS

- Commissioned a 75 MW power generating center at the Yaregskoye field.
- Commissioned steam-generating units at the Usinskoye field (six units with an aggregate capacity of 120 tonnes of steam per hour).
- Completed the construction of a 10 MW solar power plant at Volgograd Refinery.
- Launched innovative cooling systems at a CCGT-235 in Astrakhan and a CCGT-135 in Budennovsk.

2018 PRIORITIES

- Commission steam-generating units at the Yaregskoye and the Usinskoye fields.
- Commission a hydroelectric unit (24 MW) as part of the renovation project at the Belorechensk HPP.
- Improve the performance of production facilities.
- 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 5.7 GW, with commercial power generation accounting for 71% and supply power generation for 29% of the total. Power generating facilities in the Group's asset portfolio help to strengthen vertical integration and ensure high APG utilization rates while at the same time reducing electricity costs at its production facilities.

COMMERCIAL POWER GENERATION

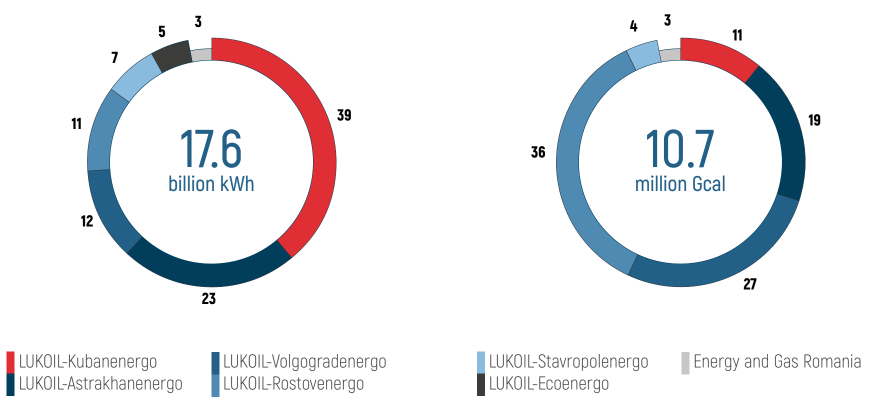
The Group's main commercial heat generating facilities are located in the south of the European part of Russia. In particular, LUKOIL accounts for 99% of electricity generation in the Astrakhan Region and 63% in the Krasnodar Territory. In 2017, the Group's commercial electricity generation totaled 17.6 billion kWh, while heat supplies totaled 10.7 million Gcal.

Under the Wholesale Capacity Supply Agreement, which guarantees return on investment in the construction of modern CHPPs, generating facilities with a combined capacity of 949 MW were commissioned in the south of Russia, exceeding the obligations under the Agreement by 59 MW.

Commercial electricity and heat generation

	2015	2016	2017	Change, 17/16, %
Electricity, million kWh	17,776	18,315	17,552	–4.1
Including from renewable energy sources, million kWh	652	977	1,053	9.0
Heat, million Gcal	12.8	12.4	10.7	–13.4

Commercial electricity output and heat supplies in 2017, %



The commissioned facilities include a CCGT-410 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 hydroelectric power plants (HPPs) located in Russia with an aggregate capacity of 291 MW and a combined output of 813 million kWh in 2017.

One of the Company's important hydroelectric generation projects is renovation of the Belorechensk HPP. The two hydroelectric units are planned to be fully replaced with the increase of the installed capacity from 16 MW to 24 MW of each unit. Thus, total hydroelectric installed capacity will amount to 48 MW post renovation. In 2017, tenders were held to select the general contractor, core generating equipment was ordered, and some electrical and auxiliary equipment was replaced.

The project 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 in Romania (9 MW) and Bulgaria (1.3 MW). These plants are built on an unutilized industrial sites of the refineries and supply electricity to local grids. In 2017 the construction of a 10 MW solar power plant was completed at unutilized sites of Volgograd Refinery.

The project benefited from the government support mechanisms stimulating renewable power generation – capacity supply agreements. Going forward, the Company intends to replicate the successful solar power plant project at other unutilized sites across the Group's refineries.

In addition, the Group owns the 84 MW Land Power wind power plant in Romania, which benefits from the government support of renewable power generation. In 2017, the annual output of the plant totaled 228 million kWh.

SUPPORTING POWER GENERATION

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

In 2017, supporting power generation at the Group's oil and gas production, processing and distribution entities totaled 6,222 million kWh, up 17% year-on-year. The share of in-house generation in the total electricity consumption for production purposes across the Group increased from 26% to 30% over the year.

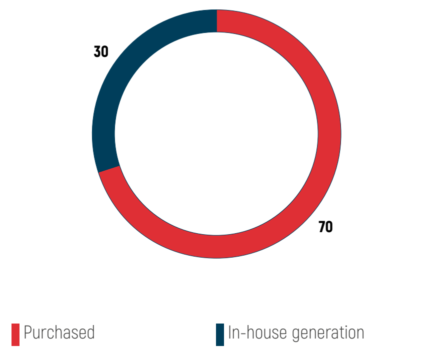
In 2017, the Group's supporting power generation capacity increased by 7% to 1.6 GW with the launch of a 75 MW power generating center at the Yaregskoye field, providing the field's production facilities and Ukhta Refinery with an independent source of power supply.

1.1 **+9%** vs. 2016

billion kWh

Electricity generation from renewable energy sources in 2017

Power consumption by the Group's production entities in 2017, %



WHOLESALE AND TRADING

2017 RESULTS

- Increased the transshipment through the Company-owned oil marine terminals by 8%.

2018 PRIORITIES

- Diversify sales markets.
- Increase transportation via the Company's own infrastructure.

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

The aggregate sales of crude oil, petroleum products, and petrochemicals totaled 205.0 million tonnes in 2017, up 2.2% year-on-year, primarily due to the increased oil purchases.

CRUDE OIL

Crude oil sales decreased by 3.4% to 74.8 million tonnes in 2017, primarily due to the lower volumes of compensation oil from West Qurna-2 in Iraq. The markets outside of the Customs Union accounted for approximately 93.2% of the Company's total crude oil sales, while 3.1% was sold in Russia and 3.7% in other countries of the Customs Union.

The Company sold 2.3 million tonnes of crude oil in the domestic market, a 67.8% year-on-year decline, primarily due to the lower crude oil demand from key consumers. Following lower domestic sales, the Company's exports subsequently increased by 7.9% to 36.6 million tonnes in 2017. The share of exports outside of the Customs Union increased from 91.1% to 92.3% primarily due to the production growth in the North Caspian and at the Yaregskoye field, both of which enjoy export duty benefits. International crude oil sales increased by 72.5 million tonnes, or by 3.1%.

The most efficient way to monetize the crude oil produced by the Group was processing it at own refineries. Crude oil supplies volumes to the Group's refineries in Russia reached 43.1 million tonnes in 2017, up 3.2% year-on-year, largely due to the upgrade of Volgograd Refinery and scheduled repairs at Nizhny Novgorod and Volgograd Refineries in 2016. Crude oil supplies to the Group's refineries in Europe totaled 24.1 million tonnes in 2017, down by 0.7% year-on-year. Supplies of oil for processing at third-party refineries amounted to 6.5 million tonnes, increasing nearly by nine times year-on-year. This in turn was driven by the Group's subsidiary three-year supply contract signed late in 2016 with a Canadian refinery, in line with the Company's development of trading activities.

Oil supplies and sales, million tonnes

	2015	2016	2017	Change, 17/16, %
Sales in Russia	10.8	7.1	2.3	–67.8
Supplies to own Russian refineries	41.9	41.8	43.1	3.2
Exports from Russia	34.2	33.9	36.6	7.9
International sales	68.1	70.3	72.5	3.1
Supplies to the Company's own European refineries	18.8	20.4	22.0	7.9

PETROLEUM PRODUCTS

Sales of petroleum products amounted to 128.5 million tonnes in 2017, up 5.7% year-on-year, primarily due to the increased refining at the Company's own and third-party refineries.

Sales of petroleum products in Russia accounted for approximately 19.3% of the total or 24.8 million tonnes. The growth of 14.1% year-on-year was mostly driven by the increased refining activities in Russia and partial redirection of exports to the domestic market driven by the Company's changed product slate and a more favorable market environment. The Company's retail sales in Russia amounted to 10.1 million tonnes, up 1.8% year-on-year.

Russian exports of petroleum products declined in 2017 by 6.5% to 17.5 million tonnes, following a reduction in the share of fuel oil in the output mix of the Group's refineries in Russia. The Company's fuel oil exports were down by 25.3% in 2017, and their share in LUKOIL's total exports of petroleum products declined from 19.7% in 2016 to 15.8%, while exports of diesel fuel increased by 25.3% with its export share growing from 42.8% to 57.4%.

Petroleum products sold in the international market accounted for 80.7%. International wholesale sales increased by 4.2% to 99.5 million tonnes mostly due to the Group's subsidiary three-year supply contract signed with a Canadian refinery late in 2016, in line with the Company's development of trading activities. International retail sales declined by 3.2% to 4.1 million tonnes due to the sale of several distribution networks in 2016.

Sales of petroleum products[1], million tonnes

	2015	2016	2017	Change, 17/16, %
Total	**125.3**	**121.6**	**128.5**	**5.7**
Domestic market	19.8	21.7	24.8	14.1
International market	105.5	99.9	103.7	3.8

Exports of petroleum products[1], million tonnes

	2015	2016	2017	Change, 17/16, %
Total	**20.4**	**18.7**	**17.5**	**–6.5**
Diesel fuel	7.3	8.0	10.1	25.3
Gasoline	0.3	0.4	0.3	–18.9
Jet fuel	0.2	0.2	0.1	–58.4
Lubricants	0.6	0.6	0.6	3.0
Fuel oil	6.8	3.7	2.8	–25.3
Other	5.2	5.8	3.6	–36.8

[1] From 2016 including gas products produced at the Company's own GPPs.

GAS

The supplies of marketable natural gas, APG, and dry stripped gas produced at LUKOIL Group GPPs to the external consumers and the Group's commercial electricity companies totaled 24.4 billion cubic meters, up 20.0% year-on-year. In particular, LUKOIL Group supplied 5.9 billion cubic meters of marketable APG, up 1.5% year-on-year. Russia accounted for 60.4% of the Group's total gas supplies or 14.7 billion cubic meters, 11.1 billion cubic meters of which were supplied to Gazprom Group. International gas supplies amounted to 9.6 billion cubic meters, up 27.3% year-on-year, due to the gas production growth in Uzbekistan.

128.5 **+5.7%** vs. 2016

million tonnes

Sales volumes of petroleum products in 2017

Breakdown of gas supplies, million cubic meters

	2015	2016	2017	Change, 17/16, %
Total	**20,251**	**20,315**	**24,370**	**20.0**
Domestic[1]	13,325	12,739	14,729	15.6
To Gazprom Group	9,295	8,794	11,140	26.7
To other consumers	3,940	3,945	3,589	–9.0
International	7,016	7,576	9,641	27.3

[1] Excluding the Company's gas supplies to its own plants as feedstock.

24.4 +20% vs. 2016

billion cubic meters

Gas supplies in 2017

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 36 million tonnes per year. The Company also uses for oil transshipment its own floating oil storage unit in the Caspian Sea.

In 2017, transshipment via the Group's own infrastructure totaled 21.8 million tonnes of crude oil and petroleum products. Crude oil transshipment grew by 7.8% year-on-year to 11.0 million tonnes mainly due to the increased transshipment of the Company's own oil from Timan-Pechora and the Caspian Sea. This resulted in the share of crude oil exports via own transportation infrastructure growing to 25.3% (23.7% in 2016).

Petroleum products transshipped via own terminals declined by 6.9% to 10.8 million tonnes due to the lower exports from Russia. In 2017, petroleum product shipments via the Group's terminal in the port of Vysotsk totaled 10.1 million tonnes.

LUKOIL also holds a 12.5% stake in the Caspian Pipeline Consortium (CPC). The Company's oil exports via the CPC more than quadrupled in 2017 to 3.5 million tonnes. The CPC's oil quality bank ensures that the Company's selling prices reflect the high quality of its crude.

In 2017, the Company exported 1.1 million tonnes of crude oil via the East Siberia–Pacific Ocean (ESPO) pipeline. This route recognized the premium quality of the Company's light oil from West Siberia as compared to the conventional Urals crude exports to the West. In addition, the light West Siberian crude oil is transported to the port of Novorossiysk via a separate pipeline, which prevents mixing with heavy oils.

In December 2017, the Company started supplies of diesel fuel produced at Volgograd Refinery to the port of Novorossiysk via Transneft's new petroleum product pipeline Volgograd Refinery–Tinguta–Tikhoretsk–Novorossiysk (the South project). The pipeline capacity is 8.7 million tonnes per year. The Company transported approximately 250,000 tonnes in December 2017.

In June 2017, the Company launched transportation of motor gasoline produced at Nizhny Novgorod Refinery to the Moscow Region via Transneft petroleum product pipeline. Transportation totaled 0.2 million tonnes in 2017. A shift to pipeline supplies for motor gasoline helps minimize the Company's transportation costs.

TRADING

LUKOIL performs trading operations in all regions of 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 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, Canada and other countries and supplies crude oil and petroleum products to LUKOIL Group's refineries in Europe. In 2017, 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%.

LITASCO continued to increase trading volumes in 2017 across the world, including Europe, Asia, the Americas, the Middle East and Africa.

PREMIUM SALES CHANNELS

2017 RESULTS

- Increased the average daily sales volumes per filling station to 10.1 tonnes.
- Divested underperforming filling stations, developed a network of automated filling stations, and outsourced auxiliary services.
- Increased bunker fuel sales by 36%.
- Increased aircraft refueling sales by 18%.
- Increased the gross profit from sales of related non-fuel goods at filling stations in Russia by 11%.

2018 PRIORITIES

- Increase further efficiency of the sales network by improving the cost management system, implementing a customer-oriented policy.
- Increase non-fuel sales.
- Retaining high market share in aircraft refueling and marine bunkering.
- Focused growth and launch of new products in lubricants and bitumen segments.

RETAIL SALES

LUKOIL sells the bulk of petroleum products in the retail market via its well-diversified distribution network of 5,258 filling stations and 129 oil depots in 18 countries.

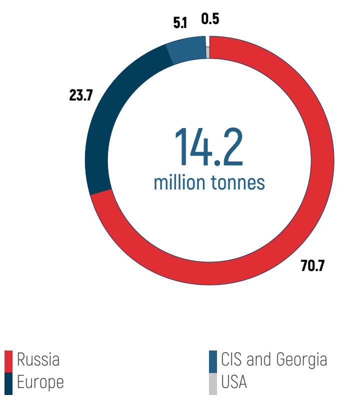
In 2017, the Company's total retail sales amounted to 14.2 million tonnes of petroleum products, of which 10.1 million tonnes were sold in Russia and 4.1 million tonnes abroad.

The Company's marketing efforts resulted in a 1.8% year-on-year increase in retail sales of petroleum products. Under the distribution network optimization program in Russia, 25 filling stations were sold, seven leased out, 25 outsourced, and five shut down; two oil depots were sold and one leased out. The customer-oriented policy, construction and upgrading of filling stations helped boost daily sales per filling station in Russia to the average of 12.8 tonnes.

International retail sales of petroleum products fell by 3.2% year-on-year following the sale of filling stations in Poland, Lithuania, Latvia, and Cyprus in 2016 in line with the strategy to enhance integration of the sales network with Group-owned refining facilities. The sold networks comprised approximately 300 filling stations, or 10% of the total number of the Group's filling stations abroad as of the beginning of 2016. Organic sales growth (excluding sold filling stations) exceeded 2%. The operational optimization of the networks in Europe and the CIS countries covered 48 filling stations (lease agreements were terminated, and underperforming or suspended filling stations were sold). The average daily sales per filling station abroad increased to 6.7 tonnes.

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 2017, the number of active cards in Russia exceeded 11.7 million, up 4% year-on-year. The total sales of petroleum products via LICARD exceeded 8.6 million tonnes in 2017, up 6% year-on-year.

Breakdown of retail sales in 2017, %



Retail sales of petroleum products

	2015	2016	2017	Change, 17/16, %
Number of filling stations[1] as of December 31	**5,556**	**5,309**	**5,258**	**–1.0**
Domestic sales	2,544	2,603	2,609	0.2
International sales	3,012	2,706	2,649	–2.1
Total retail sales, thousand tonnes	**14,063**	**14,193**	**14,238**	**0.3**
Domestic sales	9,562	9,900	10,083	1.8
International sales	4,501	4,293	4,155	–3.2
Average daily sales at own filling stations, tonnes per day	**9.5**	**9.9**	**10.1**	**2.0**
Domestic sales	12.6	12.7	12.8	0.8
International sales	6.3	6.5	6.7	3.1

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

BRANDED FUEL

LUKOIL actively promotes sales of branded fuels with improved efficiency and environmental performance under the ECTO brand. In 2017, sales volumes of ECTO fuels in Russia were up 14% at 8.6 million tonnes. Sales of gasoline and diesel fuels also increased both in Russia and abroad. Sales of the premium ECTO 100 motor gasoline were launched in June 2017. The Company's retail network of filling stations has fully replaced ECTO Sport (Euro-5 AI-98) with the new improved, higher performance ECTO fuel. The launch of ECTO 100 increased consumer demand (+18% as compared to the second half of 2016).

NON-FUEL GOODS AND SERVICES

In 2017, the Company continued its efforts to develop sales of related non-fuel goods and services at its filling stations. Gross profit from non-fuel sales in Russia reached RUB 6.6 billion, a 11% increase year-on- year. Gross profit from international sales was $85 million, up 11% year-on-year.

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

The Company plans to continue focusing on accelerated growth and efficiency improvement of the related retail sales non-fuel goods and services:

- prioritizing growth in sales of coffee and fast food products, the highest margin and most popular products sold at filling stations
- establishing partnerships with suppliers, and negotiating better terms with suppliers of non-fuel goods
- inventory optimization and reducing slow moving inventories of non-fuel goods
- improving customer service quality at filling stations
- development and rollout of loyalty programs.

These efforts are expected to drive a significant improvement in gross profits from non-fuel goods and services to better cover the operating costs of filling stations.

BUNKERING

LUKOIL is one of the largest suppliers of bunker fuels, with bunkering operations covering 18 ports in six Russian regions. LUKOIL carries out its overseas operations in Bulgarian and Romanian ports. LUKOIL's bunkering fleet in Russia consists of 18 tankers with a total dead weight of 48,000 tonnes and operates mainly in the ports on the Baltic Sea, the Barents Sea, and the Black Sea, and on inland waterways.

In 2017, the Group sold 4.5 million tonnes of bunker fuel, up 35.6% year-on-year. The growth was mainly driven by increased supplies of marine fuel to the Baltic region where requirements to sulphur content in bunker fuel were introduced. The high quality of its bunker fuel allowed the Company to increase market share quickly.

The Group's share in bunker fuel supplies to the Russian market increased from 27% to 33%.

AIRCRAFT REFUELING

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

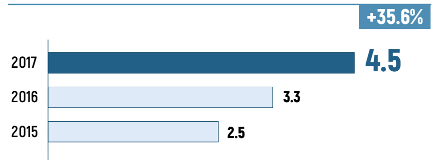
Aircraft refueling sales in Russia exceeded 3.2 million tonnes in 2017, up 18% year-on-year. This significant growth was driven by a 25% increase in jet fuel output at the Company's own refineries in Russia – to 2.7 million tonnes, due to the successful completion of an upgrade program of LUKOIL's refineries in Perm, Volgograd, and Nizhny Novgorod in 2016, as well as their gradual ramp-up to the design parameters.

The high margin into-plane fuel sales were up 6% in 2017 reaching 1.9 million tonnes. During the past five years, the share of into-plane refueling grew from 43% to 58% in the total sales in aircraft refueling.

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

The Company continues developing its network of refueling facilities through projects at new airports. Specifically, in 2017, into-plane refueling operations were launched in the airports of Yekaterinburg and Rostov-on-Don. The Group's aircraft refueling network covers 32 Russian airports. LUKOIL operates nine own refueling facilities, with another six operated by joint ventures.

Bunker fuel sales, million tonnes



CORPORATE RESPONSIBILITY

ENVIRONMENTAL PROTECTION

2017 RESULTS

Improved key environmental impact indicators:

- Reduced air emissions: achieved APG utilization rate over 95%.
- Reduced contaminated land area, reduced water consumption for own needs.

2018 PRIORITIES

- Lower pollutant and greenhouse gas emissions to the atmosphere.
- Zero environmental impact from emergencies and incidents.
- Lower consumption of water resources.
- Production waste disposal to generation ratio of not less than 1.

Being aware of its social account for the rational use of natural resources and preserving the environment, LUKOIL seeks to conform with the highest environmental protection standards. The Company's responsible business practices were recognized by winning the Best Socially-Oriented Oil and Gas Company Contest held by the Russian Ministry of Energy at the 7th St. Petersburg International Gas Forum.

Key environmental impact indicators were improved in 2017 resulting in the attainments of all targets set by the 2014–2018 Environmental Safety Program earlier than planned.

The key achievement of 2017 was the higher associated petroleum gas (APG) utilization rate of 95.4% across the Group driven by the upgrades and new facilities commissioning in Timan-Pechora and in the Caspian in 2017.

Reduced gas flaring helped cut air pollution. In addition, in the reporting year water consumption for own needs was reduced by 9.6% and contaminated land area by 23.5%. The share of contaminated wastewater in the total water discharge remained low at 0.5%, and production waste disposal rate was equal to waste generation rate.

The new 2018–2020 Environmental Safety Program of LUKOIL Group Entities was developed in 2017. It comprises over 900 initiatives targeting:

- further increase of APG utilization rates
- reduce pollutant and greenhouse gas emissions to the atmosphere
- zero contaminated wastewater discharge to land
- lower water intake from the natural water reservoirs
- reclamation of disturbed or contaminated land
- diagnostics, major repairs, and replacement of pipelines, etc.

CLIMATE CHANGE

LUKOIL recognizes the importance of preventing global climate change and supports Russia's contribution to the global effort to reduce greenhouse gas emissions. The underlying concept of the system for monitoring, reporting, and verifying the amount of greenhouse gas emissions in Russia implies introducing unified methods and implementing measures that will help reduce the carbon intensity of the Russian economy. LUKOIL is involved in developing the statutory and regulatory framework governing greenhouse gas emissions and plans its operations in accordance with the decisions made.

Greenhouse Gas Emissions

In 2017, the total direct greenhouse gas emissions by the Group's Russian entities reduced by 0.5% to 31,138 thousand tonnes of CO_2 equivalent.

In 2016–2017, the Company enhanced the corporate GHG emissions tracking and management system. Calculations of the total direct greenhouse gas emissions were made using the methodology of the Russian Ministry of Natural Resources and Environment.

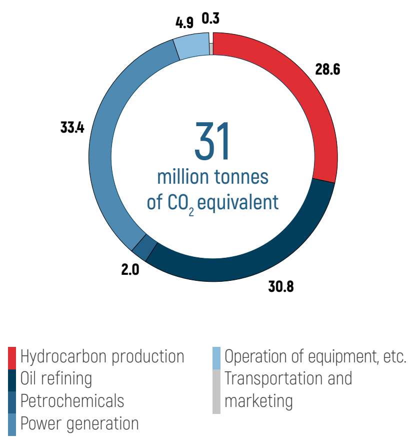
To achieve the target greenhouse gas emission reduction, the Company takes comprehensive efforts in a number of areas:

- **Increased APG utilization.** Every year, the Company builds new and upgrades existing utilization facilities, invests in pipeline and infrastructure construction. These efforts help to boost APG utilization rates and, accordingly, reduce direct CO_2 emissions.
- **Alternative power generation.** LUKOIL develops alternative power generation projects to reduce its environmental footprint and diversify its business. LUKOIL has a large portfolio of renewable power generation facilities that accounts for 6% of commercial power generated by the Company in 2017.
  The Company supported the launch of the first Renewable Energy Department in Russia at the Gubkin Russian State University of Oil and Gas to train personnel and develop competencies in renewable energy.
- **Energy efficiency.** The Company implements the 2017–2019 Energy Conservation Program to improve its energy efficiency. Twenty-seven LUKOIL Group subsidiaries implemented the ISO 50001:2011 compliant energy management system.

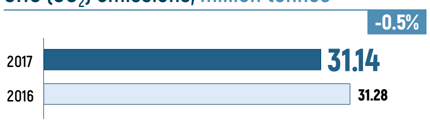
GHG Emissions Disclosure

Since 2013, LUKOIL has been participating in the Carbon Disclosure Project (CDP), an international initiative for disclosure of greenhouse gas emissions. The Company's 2017 CDP report earned PJSC LUKOIL a "D" score for its commitment to address climate change, which corresponds to the average score for Russian companies.

GHG emissions in 2017, %



GHG (CO_2) emissions, million tonnes



ENVIRONMENTAL SPENDING

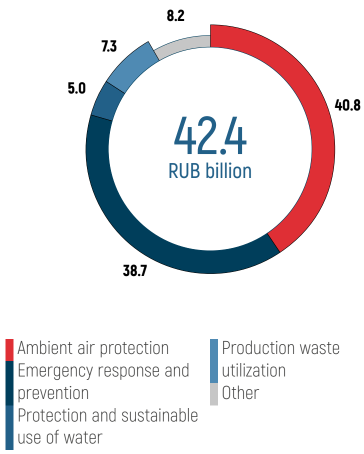
LUKOIL's environmental spending in Russia totaled RUB 42.4 billion in 2017, down 20.5% year-on-year, mainly due to the completion of main APG utilization facilities construction works. Pipeline diagnostics and replacement also accounted for a significant portion of environmental expenditures.

HSE CONSIDERATIONS IN THE SELECTION OF SUPPLIERS AND CONTRACTORS

In accordance with its internal regulations, potential contractors undergo a pre-qualification process to verify their compliance with the established requirements for health, safety, and environment (HSE) of PJSC LUKOIL. LUKOIL's corporate standards set out mandatory requirements for contractors on HSE, fire safety, and emergency prevention activities that have to be adhered. Compliance with such requirements, that are in integral part of a contract with a contractor, is audited during the pre-qualification process that contractors undergo prior to taking part in the competitive tender procedures. LUKOIL Group entities check the compliance with the established HSE requirements by monitoring contractor's performance at the Company's facilities.

In 2017, in order to mitigate risks related to contractors failing to comply with LUKOIL's HSE requirements, amendments to the Regulations on Holding Tenders to Select Suppliers and

Environmental expenditures (capital and operating) in 2017, %



Contractors of LUKOIL Group entities were prepared, tightening the requirements to bidders. In particular, additional assessment criteria were added:

- fire occurrences due to the bidder's fault in the last three years
- existence of procedures to control the conditions of workplace, equipment, and tools, as well as the safety of operations
- experience of providing services for LUKOIL Group entities with zero incidents.

LUKOIL launched the process of mandatory industrial safety certification of contractors' managers using its distance-learning system, and implemented the Guidelines for Technical Auditing of Contractors.

THE GROUP'S KEY ENVIRONMENTAL EFFORTS

WATER

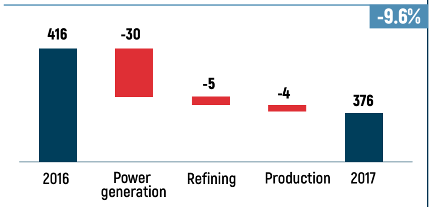
RATIONAL USE OF WATER RESOURCES, PREVENTION OF WATER POLLUTION

The main volume of water consumption for own needs (about 65%) is consumed by business sector «Power generation» to provide generating facilities. The business sector «Production» accounts for 26% of water consumption for own needs.

KEY 2017 INITIATIVES

- Decomissioning of the outdated equipment at the Krasnodar CHPP.
- Construction of water treatment facilities at the Yaregskoye field.

Water consumption in Russia for own needs, million cubic meters



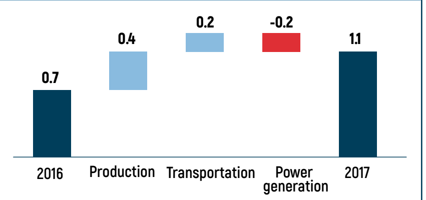
Water consumption was reduced through the decommissioning of outdated equipment.

PRESERVING BIODIVERSITY

KEY 2017 INITIATIVES

- Release of more than 90 million juvenile fish of valuable species into rivers and water reservoirs during 2017 under PJSC LUKOIL's biodiversity conservation program .
- Carried out a training session on animal death prevention in case of an oil spill at the Varandey Terminal by the Company, the Sea Alarm Foundation, and the Ministry of Natural Resources and Environment of the Russian Federation.
- Developed plans on biodiversity conservation in the Russian Arctic Zone.
- Carried out educational training sessions on biodiversity conservation in Naryan-Mar.

Waste water discharge in Russia, million cubic meters



The increase was driven by production growth at priority projects.

AIR

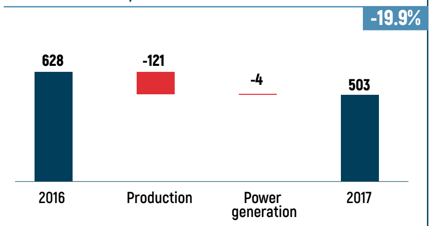
MINIMIZING AIR EMISSIONS

The E&P business segment accounts for the bulk of the Group's air emissions, at 85%, while APG flaring accounts for up to 65% of the Group's total emissions based on its current utilization rate.

KEY 2017 INITIATIVES

- Design, construction, and upgrade of APG utilization facilities, including commissioning of 18 facilities.
- Launch of the Lokosovsky GPP after repairs.
- Reduction of the share of fuel oil in the fuel mix at LUKOIL-Volgogradenergo's CHPP.
- Commissioned the 75 MW Yarega power generating center.
- Launched a gas desulfurization unit at the Usinsk GPP.
- Launched six combined-cycle gas turbines producing 120 tonnes of steam per hour at the Usinskoye field.
- A shift in the product mix towards products with improved environmental performance helps to reduce indirect air pollution. Production of Euro-5 compliant fuels helps reduce soot and nitrogen oxide emissions; additive packages included in ECTO fuels help to reduce considerably the concentration of harmful substances in exhaust gases.

Air emissions, thousand tonnes



Air emissions were reduced through APG utilization improvement and APG flaring reduction.

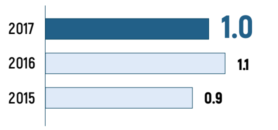
LAND

HIGHER ACCUMULATED WASTE DISPOSAL RATE

KEY 2017 INITIATIVES

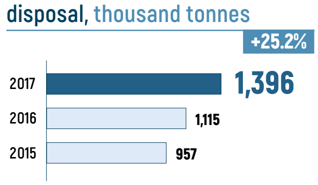
- Construction of modern landfills to process solid and liquid oil-contaminated waste in the Komi Republic and West Siberia.

Annual volumes of waste disposal to new waste generation

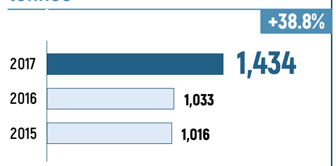


The Company maintains an equal level of waste generation and disposal.

Production waste utilization and disposal, thousand tonnes



Waste generation, thousand tonnes



Waste generation increased in 2017 due to the increase in drilling volumes.

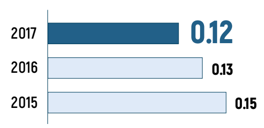
PREVENTION OF CONTAMINATION AND RATIONAL USE OF LAND

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

KEY 2017 INITIATIVES

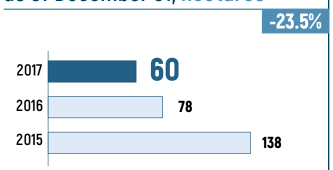
- Increase of the reclamation of disturbed land for 9.4%.
- Increase of the annual pipeline replacement rate (measured as a percentage of total length) to 2.8% (2.3% in 2016).
- Increase of the share of new pipelines with anti-corrosion coating to 65.4% (61.9% in 2016).
- Replacement of 1,317 km of outdated pipelines.

Failures per km of pipeline[1] in Russia



LUKOIL's efforts reduced the number of failures per km of pipeline to 0.11.

Contaminated land as of December 31, hectares



Major efforts to eliminate environmental damage caused by pipeline failures and recultivate contaminated land reduced contaminated land area by 23.5% in 2017.

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

UTILIZATION OF ASSOCIATED PETROLEUM GAS (APG)

LUKOIL uses APG reinjection to maintain pressure while also transporting 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.

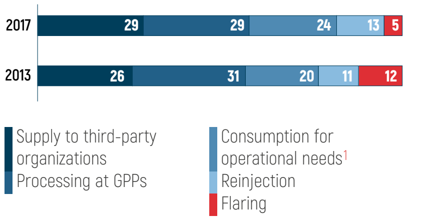
Through the consistent implementation of Efficient APG Use Program, the Company annually APG increases utilization rate that exceeded 95% in 2017.

Under the Group's Efficient APG Use Program for 2017–2019, 32 APG utilization facilities were designed, constructed, and upgraded in 2017. Seventeen facilities were commissioned.

Commissioning of key APG utilization facilities

Following the construction and commissioning of APG utilization facilities in the past five years, APG flaring was reduced by 0.8 billion cubic meters, while increasing reinjection, own consumption, and supplies to third-party organizations.

Gross APG production structure, %



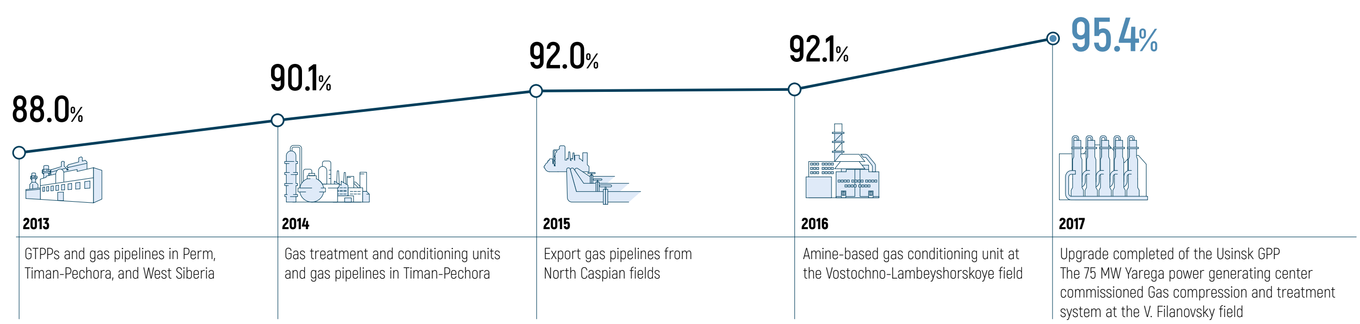
APG utilization projects completed in 2017

Region	Field	Facility
North Caspian	V. Filanovsky field	• Gas compression and treatment system • Fuel gas treatment system at IRFP 1 • Gas lift pipeline from RB to IRFP 2
Timan-Pechora	Usinskoye field	• Upgrade of the Usinsk GPP was completed • Six steam-generating units launched
	Yu. Rossikhin field	• A working fluid heater launched
	Vostochno-Lambeyshorskoye field	• A high-pressure compressor station commissioned
	Yaregskoye field	• 75 MW Yarega power generating center
Urals	Chashkinskoye field	• APG pipeline: the Kurbaty–Churaki pipeline looping • Unva–Olkhovka pipeline (as part of the refurbishment project)
Volga	Vozdvizhenskoye, Poltavskoye, Avralinskoye fields	• Five multiphase pipelines • A compressor station to divert gas from a low-pressure gas flare for the Company's operational needs • A working fluid heater launched • Oil line heater

APG utilization in key regions of operation, %

	2015	2016	2017
Total	**92.0**	**92.1**	**95.4**
Russia	91.9	91.7	95.2
West Siberia	96.3	96.5	97.0
Urals	92.7	92.3	96.5
Volga	94.8	91.5	95.7
Timan-Pechora	77.8	82.0	89.9
Other	98.4	98.0	97.3
International projects	93.5	98.1	97.6

Commissioning of key APG utilization facilities



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

ENERGY EFFICIENCY

Energy efficiency and energy saving across all operations is a strategic priority for PJSC LUKOIL and an important part of cost-cutting and performance improvement initiatives. Efficient use of fuel and energy (FER), which make up the significant part of the Group's operating expense, is among LUKOIL Group entities' major commitments.

Key energy-saving initiatives in 2017 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.

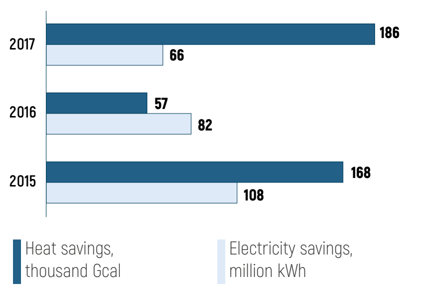
In the E&P segment, construction of small diameter wells is a good example of cost cutting and speeding up the development of reserves and resources through the technology advancement. Such wells are 25% cheaper than traditional wells, and enable efficient development of reserves which are economically unfeasible when developed using standard wells. In 2017, the first multilateral small diameter well was constructed.

The Company is implementing a program to switch to energy-efficient pumps. An example of a successful operating costs reduction project is the development and deployment of our own downhole permanent magnet synchronous engines (PMSMs). Pumps with permanent-magnet engines make it possible to cut power costs by more than 10% as compared to the conventional asynchronous pumps. In the medium term, the Company plans to replace all asynchronous motors with PMSMs.

In the Downstream segment, the energy efficiency program for 2018–2020 stipulates measures aimed at heat integration of facilities that produce and consume heat, furnace efficiency upgrade, and maximization of gas utilization.

FER consumed by LUKOIL Group are made up of electricity (33%), heat (20%), and fuel (47%).

Results of energy-saving initiatives



Energy consumption of PJSC LUKOIL, by type

	2017 consumption	
	in volume terms	in monetary terms, RUB million
Electricity	18,488 thousand kWh	94.3
Heat	15,160 Gcal	25.3

HEALTH AND SAFETY

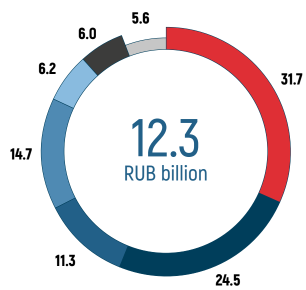
2017 RESULTS

- Key occupational injury rates reduced.
- Accountability of managers strengthened by the amendments to the calculation methodology of the HSE Compliance KPIs.
- A pilot project to introduce a system of remote industrial safety monitoring at the Group's facilities was delivered.

2018 PRIORITIES

- Improve response times to prevent accidents and mitigate emergency situations.
- Prevent emergencies caused by contractors or subcontractors.
- Improve working conditions and quality of staff education, hands-on training, and employee skills assessments.

Industrial safety (capital and operating) expenditures in 2017, %



- Emergency response and prevention
- Personal protective equipment and working conditions
- Use of modern technology for improving and protecting working conditions
- Buildings, constructions, and territories maintenance
- Management optimization and regulatory compliance
- Facilities compliance
- Other

PJSC LUKOIL has consistently ranked high among Russia's largest oil and gas companies for its health and safety performance. Activities in industrial safety conducted in 2017 helped the Company reduce key workplace injury rates in Russia: the number of lost-time incidents reduced by 33% to 16 cases, total incidents reduced by 11% to 16 cases, the number of injuries reduced by 33% to 18 people, and the accident frequency rate reduced to 0.19. Furthermore, the complete elimination of workspaces with the highest levels of harmful exposure and hazardous operating conditions was an important achievement.

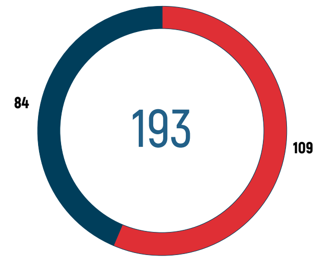
In response to the increased number of accidents in 2017, additional measures were taken to increase accountability across all management levels, intensify skills assessment for management and contractors through LUKOIL Group's certification committees, and tighten contractor requirements in compliance with the Company's HSE policy.

Quality control, including corporate supervision, is one of the crucial tools for solving health and safety issues.

In 2017, supervisory authorities of LUKOIL Group conducted about 5 thousand inspections and identified about 30 thousand breaches, the majority of which (over 86%) was reconciled in the reporting year.

Conducting regular drills is the Company's most important tool to prevent serious accidents. During the year, 193 drills of different levels were conducted, with oil and oil product spills accounting for 109 drills.

Drills conducted in 2017



- Oil and oil product spill response
- Other

Key workplace injury rates in Russia

	2015	2016	2017	Change, 17/16, %
Number of lost-time incidents	28	24	16	–33.3
Number of incidents	24	18	16	–11.1
Number of injuries	30	27	18	–33.3
Number of fatalities	7	4	3	-25.0
Accident frequency rate[1]	0.28	0.21	0.19	–9.5

[1] Accident frequency rate (AFR) is calculated as the ratio of workplace injuries to an average headcount in the reporting period per 1,000 workers. AFR = number of incidents× 1,000 / average headcount.

Number of accidents

	2015	2016	2017	Change, 17/16, accidents
Accidents at hazardous production facilities	11	2	6[2]	4

[2] including 2 accidents due to contractors.

Over 10,500 on-site training sessions took place with the participation of a total 75,500 employees. During practice activities, special emphasis was placed on ensuring that the response plans for various incidents were realistic, as well as on the readiness and adequacy of efforts and means involved in emergency situations containment.

During the year, the Company and the Federal Environmental, Industrial, and Nuclear Supervision Service of Russia (Rostechnadzor) delivered a pilot project to introduce a system of remote industrial safety monitoring at the Group's facilities in order to promptly assess industrial safety and forecast potential incidents.

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:

- no fatalities at the fault of the employer
- compliance of the HSE Management System with requirements of the ISO 14001 and OHSAS 18001 international standards
- accident frequency rate
- relative rate of air emissions
- relative rate of wastewater discharge into surface water bodies
- annual waste disposal to new waste generation ratio, etc.

PJSC LUKOIL's HSE compliance assessments are used in the motivation system for executives at all levels, workers, and specialists. To improve motivation and strengthen accountability for ensuring the required level of HSE compliance across all management levels of the Company, the Regulations on the HSE Compliance KPI Assessment were amended in 2017. In particular, tougher criteria of aggregate material damage caused by accidents were applied, and a zero incident criterion was introduced in the quarterly assessments.

TRAINING CENTER IN ASTRAKHAN

Since 2011, a Corporate Training Center has been operating in the Astrakhan Region. Its key objectives are to prepare workers for performing their professional duties at offshore facilities, to form staff knowledge, skills, and behavioral conduct, also during accidents, to educate staff on industrial, fire and environmental safety, health safety, and prevention and mitigation of accidents, as well as to provide psychological training.

Training is conducted for the Group's employees, third-party companies, relevant ministries, subcontractor representatives, and individuals. More than 6,000 people benefited from LUKOIL's training programs during 2017.

- Since 2013, the center has been an approved provider of OPITO specializing in training staff of offshore oil and gas companies (Great Britain).
- Since 2015, the center has been an accredited provider of the Joint Oil Industry Fire Forum (JOIFF) (Great Britain).
- The center successfully passed the GOST ISO 9001-2015 (ISO 9001:2015) compliance certification in 2017.
- The center was granted a perpetual certification of the Federal Air Transport Agency (Rosaviatsia) in 2017 for a number of educational programs.

PERSONNEL

2017 RESULTS

- Reduced employee turnover rate to 6.7%.
- Obtained authorization to perform independent assessment of certain qualifications at the Qualification Assessment Center.
- Increased the number of employees who completed training courses.
- Signed a new agreement with the International Labor Organization (ILO) for 2018–2022.

2018 PRIORITIES

- Improve the employee assessment and development system.
- Introduce mobile learning techniques, develop and acquire new courses for the knowledge base.
- Introduce an online instruction system.
- Develop and implement a unified approach to training for filling station staff.

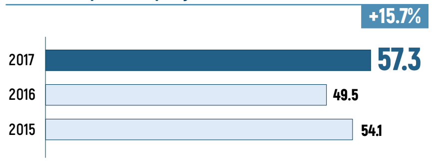
LUKOIL Group's HR Policy is a policy of a unified integrated company with a strong and sustainable corporate culture and an intrinsically coherent system of corporate values. All elements of HR Policy are structured to ensure maximum flexibility for the Company and the ability not only to adapt promptly and efficiently to social and political, and economic changes, but also pro-actively initiate and successfully implement changes and innovations.

In order to increase productivity and optimize costs, management delayering continued in 2017, as well as aggregation of small and similar units based on internal analysis and benchmarking against other companies with identical assets.

In 2017, the Group's average headcount was 103.6 thousand employees, down 2% year-on-year. The reduction was driven by the sale of LLC KARPATNEFTEKHIM (Ukraine).

As part of restructuring and switching to the new management model, management was delayered in foreign Exploration and Production subsidiaries through abolition of local governance structures, optimization of organizational structures and staffing at certain projects. International project and asset management functions were centralized at the corporate level, while the freed-up staff was transferred to other facilities and re-employed.

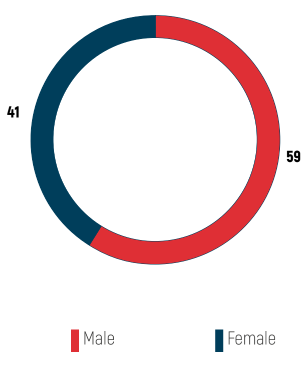
Revenue per employee, RUB million



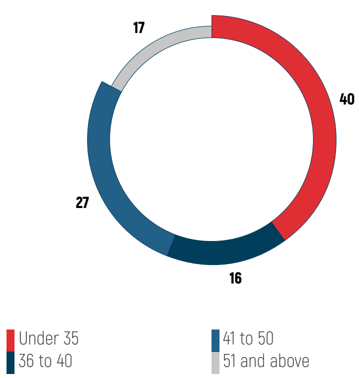
Recruitment

Staff is recruited by publishing vacancies on the Company's website, and leveraging the internal talent pool. Candidate selection and assessment relies on a number of assessment procedures including tests, questionnaires, interviews, and comprehensive assessment methods provided by an independent company.

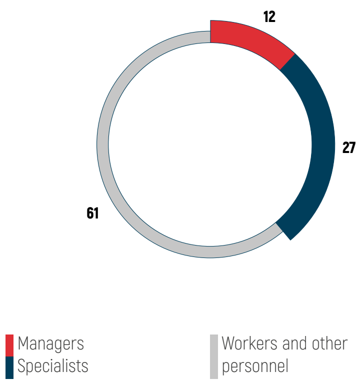
Personnel breakdown by gender as of December 31, 2017, %



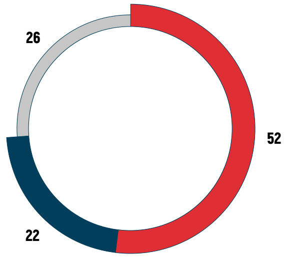
Personnel breakdown by age as of December 31, 2017, %



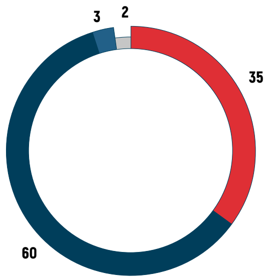
Personnel breakdown by job category as of December 31, 2017, %



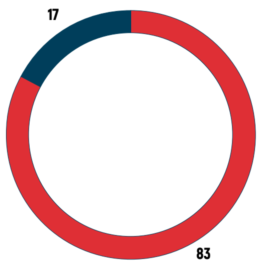
Personnel breakdown by education level as of December 31, 2017, %



Personnel breakdown by segment as of December 31, 2017, %



Personnel breakdown by geography as of December 31, 2017, %



The Company's new employees undergo induction workshops to familiarize them with corporate documents, the Company's policy, values, development strategy, corporate culture, its history and future prospects, documents on social policy and employee development, and corporate security system.

Employee Development System

The Company has a continuous training system in place to provide its personnel with all the necessary knowledge and skills. Employee development is based on annual professional development plans.

Twice a year, the Company holds traditional Professional Training Days for the management of the Group entities, involving all top managers of our subsidiaries. During the event, participants discuss the most important issues related to their jobs.

We use a full range of advanced educational tools and techniques available today, including business case studies, workshops, trainings, overseas internships, professional development courses, oil industry related courses offered by multifunctional centers of applied qualifications, retraining programs, professional training days, and distance learning. For many years, over 50% of the Company's average headcount benefit from our training courses each year; in 2017, around 70 thousand employees (68% of the average headcount) passed trainings.

To improve operational efficiency and drive innovation, we deployed a Corporate Knowledge Management System (covering over 10 thousand employees and 260 expert communities). This framework helps to capture and disseminate best practices, ensure effective communications, and jointly explore and address common operational problems.

The Company has in place a distance learning system helping us optimize compulsory training costs. The system covers more than 60 Group entities and over 100,000 users. In 2017, the Company's employees completed 99 thousand training courses an increase of 46% year-on-year. Over 10 thousand employees passed professional competence tests. In 2017, employees successfully passed HSE certification by the Group entities' Commissions. Further development of the distance learning system is one of the priorities of the HR Policy.

6.7 % **-0.5 p.p.** vs. 2016

Personnel turnover ratio in 2017

WORK WITH SERVICE AND CONTRACTING ORGANIZATIONS

The Company works with service companies and contractors to minimize risks related to unqualified actions of the staff by introducing contract provisions on qualification requirements for the staff engaged to work at the Group's facilities.

To promote constructive cultural and educational collaboration and improve the levels of training for local staff, the Company holds an annual international conference focused on training and development of local workforce in Tashkent, Uzbekistan. In 2017, as part of collaboration with Uzbekistan, internships were organized at the Group entities for 25 employees of JSC Uzbekneftegaz.

Youth Policy

The Company's youth policy is aimed at attracting young employees, creating a favorable environment and opportunities for their successful and efficient self-fulfillment and professional realization. In 2017, the Company had a total of 42.8 thousand young employees (aged 35 and younger), with 12.1 thousand hired during 2017. The Company has in place a three-level young talent management system targeting schoolchildren, university students, and young employees.

Onboarding programs for young specialists include various annual trainings and workshops, scientific and technical contests and conferences, and the Young Professional Day team-building event. The Best Young Professional of the Year contest is conducted to encourage young professionals to be more active.

The concept of mentorship is one of the cornerstones of the Company's young talent management system, which helps ensure continuity of professional experience, operational excellence, and corporate culture. Only the most qualified, loyal and best-performing employees are appointed as mentors.

A good example of a succession planning system is the Young Energy Employee School miltimodule project in power generation segment. The project results include reduced turnover rate and improved overall motivation. LLC LUKOIL-Engineering runs a Young Innovator Academy project aimed at fostering professionalism and intelligence in innovation-prone employees, implementing their projects, and enhancing team spirit.

Personnel Motivation

The personnel motivation system comprises financial and non-financial remuneration. Non-financial remuneration includes state and corporate awards, such as certificates of merit and letters of gratitude, that boost personal motivation.

EDUCATIONAL PROGRAMS FOR ENGINEERS

To train engineers, the Company collaborates with leading higher educational institutions that offer oil and gas degree programs. LUKOIL promotes employee development in collaboration with the following strategic partners:

- the Gubkin Russian State University of Oil and Gas;
- Perm National Research Polytechnic University;
- Tyumen Industrial University;
- Ukhta State Technical University;
- Ufa State Petroleum Technological University;
- Astrakhan State Technical University;
- Volgograd State Technical University;
- the Mendeleev Russian University of Chemical Technology.

The collaboration includes work placement and pre-graduation internships for students and on-the-job training for professors at the Group entities; participation of students and professors of higher education institutions in scientific and technical contests and the Company's young specialists conferences. A Summary Action Plan for collaboration between the Group entities with oil and gas, chemistry, and energy related education facilities is approved annually.

Motivation system

Total remuneration

Financial

- **Direct**
  - **Fixed component**
    - basic salary
    - additional payments
  - **Variable component**
    - short-term bonuses
    - long-term bonuses
- **Indirect**
  - **Social benefits**
    - mandatory (state-funded)
    - voluntary (corporate)
  - **Additional benefits**
    - generally available
    - for eligible employee categories

Non-financial

- **State-funded**
- **Corporate**

Qualification Assessment and Occupational Standards

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

In line with Federal Law No. FZ-238 On Independent Assessment of Qualifications dated July 3, 2016, a Qualification Assessment Center was established at LLC LUKOIL-INFORM. In 2017, the National Council for Professional Qualifications in the Oil and Gas Industry authorized the Qualification Assessment Center to conduct independent assessments of the following qualifications: oil, gas, and gas condensate production operator (qualification levels 4 and 5), oil and gas industry process unit operator (qualification levels 3 and 4). Functions and employee qualifications are aligned with occupational standards, and common approaches are developed to manage occupational standards across the Group in order to ensure the compliance with the provisions of Federal Law No. 122-FZ dated May 2, 2015 with regards to professional standards.

Social Policy for Employees

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

All employees of the Group's foreign entities are provided with the employer's social support, with 53% of employees covered by collective agreements. In its Russian entities, LUKOIL also pursues an extensive social policy offering a variety of benefits, guarantees, and privileges that all employees are entitled to.

The total cost of social programs for employees, their families, and retirees amounted to RUB 18 billion in 2017, while the cost of social infrastructure maintenance exceeded RUB 1 billion.

Key programs included:

- **Health.** In the reporting year, the Company's expenses on health, including voluntary medical insurance, totaled RUB 2.3 billion. Primary health care services were available to employees at over 100 first-aid posts.
- **Housing.** In 2017, RUB 1.3 billion was allocated to address the housing needs of LUKOIL Group employees.
- **Private pension plans.** Over 43 thousand employees participated in the corporate contribution pension scheme as of the end of 2017, with their total contributions exceeding RUB 593 million. The Group's contributions under all private pension plans both in Russia and overseas in 2017 totaled around RUB 2 billion.

18
RUB billion

Social expences for employees, their families, and retirees in 2017

Talent Pool Management

The Company builds a talent pool to ensure the continuity of management. The grounds for being included in the talent pool include employee performance, professional and business qualities, potential for managerial tasks, and assessment results.

The management talent pool of PJSC LUKOIL until 2019 was approved in 2016, as well as one for the Group entities.

LUKOIL prepares individual three-year development plans for each employee in the talent pool and monitors their progress annually, changing and amending plans where appropriate. These development plans are controlled by the Company's Vice Presidents and the top managers of its subsidiaries. Talent pool members are trained in the best Russian and foreign educational organizations and training centers. The main focus for the talent pool is the development and maintenance of managerial and corporate skills at the required level.

Human Rights

The Company respects universal human rights and abides by the UN Universal Declaration of Human Rights in its operations. The commitments taken under the United Nations Global Compact cover all the Company's businesses and require information sharing with the organizations it interacts with.

The Company maintains a constructive dialog on corporate social responsibility and adherence to human rights with government authorities, employers, and trade unions in the regions where it operates. The Company also cooperates with the International Labor Organization (ILO). LUKOIL is committed to complying with key principles of labor relations and environmental protection adopted in the UN and ILO conventions. After joining the UN Global Compact, the Company developed and introduced documents such as the Code of Business Conduct and Ethics of OJSC LUKOIL, the Rules for Corporate Culture of LUKOIL Group Entities, and the Social Code of PJSC LUKOIL. Compliance with business ethics standards is obligatory for the members of the Board of Directors, the Management Committee, the Audit Commission of PJSC LUKOIL, and all the Company's employees. Compliance with regulations and policies by all LUKOIL Group entities is subject to internal inspections, including extraordinary, by the Business Ethics Commission.

EXPERT ASSESSMENT

The Company ranked among Russian leaders of the Corporate Human Rights Benchmark, an international benchmark of corporate human rights performance, landing second place among Russian companies and first place in the Russian energy sector. Sponsored by eight global investors and banks, the rating is based on compliance of publicly available corporate information with the UN Guiding Principles on Business and Human Rights.

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

Human resources management policy can be viewed on the website **www.lukoil.com** on the Human resources management page.

The Company's key principles and approaches in social responsibility are described in the Social Code of PJSC LUKOIL. In 2017, a new version of the Social Code of PJSC LUKOIL was approved, covering major aspects of human rights, anti-discrimination provisions, equal pay for equal work provisions, staff development, as well as contractors' compliance with the same principles and approaches. Apart from the Social Code, the matters of social responsibility, human rights, ethical behaviour, and control mechanisms are described in the Code of Business Conduct and Ethics.

To ensure compliance with the corporate business ethics standards and the respect of human rights, the Company set up a Business Ethics Commission, which is chaired by its President. Should any alleged human right violation occur, employees can address the employer directly or with the help of independent trade union structures. The Company accepts confidential reports that may be submitted via communication channels available on a 24-hour basis.

The full text of the Social Code is available at **http://www.lukoil.com/Responsibility/SocialPartnership/SocialCodeofPJSCLUKOIL**

The full text of Code of Business Conduct and Ethics is available at **http://www.lukoil.com/FileSystem/9/136634.pdf**

Diversification

To eliminate and avoid potential discrimination, LUKOIL's HR Policy is guided by principles of equal opportunities for all employees regardless of gender, age, race, and religion.

The Company approved local regulations on job quotas for the disabled to contribute to the employment of people with disabilities, totaling 2% of its average headcount. Special working conditions, benefits, and guarantees are provided for disabled employees, including shorter work hours with the same salary and a longer annual leave, as well as suitable working places, equipment customization and additional light installments.

For more details on the corporate business ethics, see "Reference Information and Ethic"

COOPERATION WITH THE INTERNATIONAL LABOR ORGANIZATION

LUKOIL was the first Russian company to cooperate with the ILO (since 2012). Following their successful cooperation over the last five years, the Company and the ILO signed a new cooperation agreement in 2017 for 2018–2022. The Company shares ILO principles and abides by them through implementing recommendations and joint initiatives. During the year, LUKOIL participated in the 10th European Regional Meeting of the ILO as part of the official Russian delegation.

To enhance its social dialog practice, the Company held a training program for employees of LUKOIL Group entities at the ILO International Training Center in Turin. During the year, heads of HR and the Group's trade union leaders completed a training program named "Social Dialog Development in LUKOIL: Recent Trends and International Best Practices".

INTERACTION WITH THE SOCIETY

2017 RESULTS

- Signed new cooperation agreements in regions where the Company operates.
- Delivered a number of major charity projects in education, healthcare, culture, and social infrastructure construction.
- Provided sponsorship support for professional sports teams and competitions.
- Increased customer loyalty index by pursuing a customer-oriented policy.
- Continued cooperation with federal authorities and NGOs.

2018 PRIORITIES

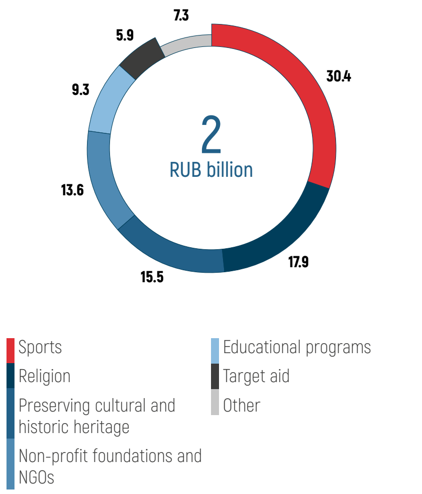
- Delivery of social and charity programs in regions in which the Company operates
- Development of a support program to increase disabled people's accessibility to sports, particularly adaptive sports.
- Sustainable development of the Company's regions of operation and raising the quality of life in urban and rural areas through the support of healthcare, education, and social enterprises.

The Company conducts its business in a sustainable way, striking a balance between social and economic development progress and environmental potential.

LUKOIL shares and supports the goals of the 2030 Agenda for Sustainable Development adopted by the UN General Assembly in Resolution 70/1, as businesses play an important role and contribute significantly to the well-being of society. Conscious of its responsibility to all stakeholders in the countries and regions where it operates, LUKOIL maintains a dialog through the reports and targeted programs while taking into account cultural and historic characteristics of the communities.

Expenses on charity and agreements with Russian regions and municipalities totaled about RUB 9 billion in 2017, out of which over RUB 6 billion spent for agreements. Apart from charity expenses, the Company provides annual sponsorship across a number of areas, with expenses totaling RUB 3.2 billion in 2017.

Breakdown of the Group's charity expenses[1] in 2017, %



[1] Excluding expenses on agreements with Russian regions and municipal entities.

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 as well as supporting those from more functional families to develop their abilities and talents.

LUKOIL runs a comprehensive program for the social adaptation of underprivileged youth in its support of the Kstovo Oil Technical College in the Nizhny Novgorod Region, which is attended by the boarders of the Company's supported orphanages. Students regularly visit the Company's Nizhny Novgorod Refinery to learn about its operations and develop skills and practical knowledge.

The Company supports specialized children's institutions in all regions of its operation. In 2017, substantial support was provided in the form of renovations and equipment for the Veliky Ustyug orphanage, School No. 1 in Kogalym, Family Support Center No. 11 in St. Petersburg, Boarding School No. 2 in Nolinsk, Kirov Region, and kindergartens in the Nizhny Novgorod and Saratov Regions, the Stavropol and Perm Territories. In the Komi Republic, the Company built a kindergarten, purchased school buses, equipment, and multimedia technology for ten schools and renovated their classrooms. Two kindergartens seating a total 230 children were opened in the Perm Territory.

Cars were donated to the Krasnogorsk orphanage and the Alnashi orphanage in the Udmurt Republic.

LUKOIL also continued its program to support children's schools by donating musical instruments to schools in the Stavropol Territory, the Komi Republic, the Udmurt Republic, the Perm Territory, and Moscow. Children with disabilities are a specific focus of LUKOIL's social efforts. Books were donated to special schools in Saratov, Izhevsk, and Elista in 2017 as part of the program "Illustrated Books for Small Blind Children". For eleven years, the Company has been running a program granting scholarships to graduates of LUKOIL-sponsored orphanages, with 49 graduates receiving the scholarship in 2017.

Educational programs

The Company adopts an annual comprehensive action plan on collaboration with higher educational institutions offering oil and gas, petrochemical, and energy degree programs. The Company's Subsidiaries provide career counselling for school and university students by organizing visits to their institutions and holding open days. The Company cooperates with a number of educational institutions and considers them strategic partners. The cooperation includes part-tuition fee sponsorship for promising students, an internship program providing both internship and undergraduate practice at the Group's facilities, internship at Group entities for professors, and student and university professors in both conferences and research and development contests for the Company's young professionals.

Scholarship programs

LUKOIL has been awarding personal scholarships for over 17 years to support the most talented students of universities and other educational institutions offering oil and gas, petrochemical, and energy degree programs. In 2017, the corporate scholarship totaling RUB 6.6 million was made available to a total of 180 students from cities across Russia. Under its program to support young professors, the Company provided personal grants totaling RUB 10.3 million to 89 academics lecturing at Russia's leading oil and gas universities and other academic institutions.

Healthcare support

The Company supports some of Russia's largest specialized medical research centers, and is committed to developing healthcare across the Group's geography. In 2017, the Company's aid was provided to the Russian Cardiology Research and Production Complex, Innovative Surgery Development Center, the Mezensk District Central Hospital and the Liman Regional Hospital in the Arkhangelsk Region, and 21 healthcare facilities in the Perm Territory. The Company repaired the children's ward of the Kharabalinsky District Central Hospital and purchased medical equipment for the Ikryaninsky District Central Hospital in the Astrakhan Region. Following major renovations, the surgery facility of the U. Dushan Chernozemelsky District Hospital reopened in the Republic of Kalmykia. LUKOIL also equipped the perinatal center named after O. Shungaeva with modern medical technology and purchased a lung ventilator for the Children's Republican Medical Center.

Social project contest

Among LUKOIL's most successful social investment initiatives is an annual social and cultural project contest that has been held by the Company since 2002. The traditional goals of the contest support initiatives solving the most pressing social problems and the improvement of the Company's charity efforts. The contest was held in 21 Russian regions in 2017, and the Company allocated grants for 740 selected projects totaling about RUB 105 million.

Supporting indigenous and minority peoples of the North

In line with international law and best practices, the Company cooperates with representative bodies of indigenous peoples of the North, regional administrations, heads of municipalities, the Assembly of Indigenous Minorities of the North, and the leading NGOs of the North.

Taking into account the diversity of stakeholders and the specific attributes of each region, the Company supports indigenous minorities of the North in a wide variety of ways, including preserving minorities' national culture and languages, building social facilities, and providing compensatory payments, education, healthcare, snowmobiles, specialized equipment, construction materials, fuels and lubricants, and animal feed for deer, as well as organizing and holding thematic conferences.

Preserving cultural and historic heritage

The Company supported regional theaters in 2017, including the Astrakhan and Saratov Opera and Ballet Theaters, the Kstovo Puppet Theater, and the Perm Youth Theater. LUKOIL was also a partner for the 4th International Contest for Vocal Singers named after M. Magomaev and the Opera Live Music Festival. The Company funded the restoration of several paintings from the State Historical Museum in Moscow and the Astrakhan Gallery named after Pavel Dogadin, and provided financial support for seven exhibitions.

The Company continued providing support to the Tchaikovsky Grand Symphony Orchestra conducted by Vladimir Fedoseyev, the Perm State Tchaikovsky Opera and Ballet Theater, and the Kaliningrad Regional Philharmonic Hall. LUKOIL has been sponsoring the Spasskaya Tower International Military Music Festival for several years, constructing a piece of art (a pumpjack for oil production) for the Spasskaya Tower for Kids project in celebration of the festival's 10th anniversary.

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. In 2017, the Company supported both constructions and reconstructions of sports facilities and sports grounds in the Perm Territory, the Republic of Kalmykia, the Stavropol Territory, and the Khanty-Mansi Autonomous Area.

Support for religious groups

The Company is actively involved in the revival of religious rites and spiritual culture. In 2017, LUKOIL supported 11 churches, monasteries, and orthodox preparatory schools, and continued financial support of the construction of a new church in Kogalym.

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 sporting competitions .

In 2017, the Company continued its long-standing support for professional sports teams and competitions, specifically Spartak-Moscow Football Club, United Basketball League Non-Profit Organisation, Cross Country Ski Federation of Russia, LUKOIL Racing Team, Zarya Kaspiya Handball Club, the Spartak Volgograd water polo team, Children's Football League, and the Automotorsport Federation of the Republic of Kazakhstan. The Company has also consistently supported the charity hockey project "From Pure Heart" in support of sportsmen and children with disabilities.

During the year, LUKOIL was an official sponsor of the 2017 Russian Formula One Grand Prix; Spartak-Moscow won their 22nd Russian Football Championship for 2016–2017, several tours ahead of its finale, and won the Russian Super Cup in July; LUKOIL Children's Champion Cup expanded both its format and geography; the LUKOIL Racing Team, victorious both domestically and internationally, celebrated its 20th anniversary; and Sergey Ustiugov, member of Russia's national cross country ski team, broke an all-time record by winning five of seven stages within the 2017 Tour de Ski international competition.

STAKEHOLDER RELATIONS

Interaction with federal authorities and non-profit organizations, including 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 2017, the Company, in cooperation with non-profit organisations (RSPP, the Chamber of Commerce and Industry of the Russian Federation, the Union of Oil & Gas Producers, the Civic Chamber of the Russian Federation, and others), submitted over 200 opinions on draft laws and other regulations to federal executive and legislative authorities (tax and customs regulations, promotion of competition, industrial and environmental safety, subsoil use, etc.).

Being a member of the Russian Trilateral Commission since 2008, the Company can directly submit proposed amendments to labor laws and regulations while they are being drafted and considered by the Russian Government. In 2017, over 150 items on amendment of existing laws and approval of new ones were reviewed, along with social and economic decisions.

Interaction with regional authorities

In 2017, 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. In the reporting year, LUKOIL signed new cooperation agreements with the Volgograd, Nizhny Novgorod, Saratov, and Kaliningrad Regions, and the Yamal-Nenets Autonomous Area. Under existing agreements, 24 protocols and addenda were signed (the Khanty-Mansi, Yamal-Nenets, and Nenets Autonomous Areas; Komi Republic and Republic of Kalmykia; Perm, Krasnodar, and Stavropol Territories; Voronezh, Kaliningrad, Samara, Astrakhan, Arkhangelsk, and Saratov Regions).

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. The Company's experts conduct the assessment based on bidders' qualification questionnaires as per the established procedure. If the Company is not satisfied with assessment results, the potential bidder is screened out of the tendering process.

Interaction with customers

In 2017, the number of active participants in the Customer Loyalty Program across Russia exceeded 10.9 million. 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 varying from –100 to +100. In 2017, LUKOIL's NPS was up 1 to 43. The Company also operates a Single Hotline for customer calls. In the reporting year, the share of complaints in the total number of calls to the Single Hotline was 55%, down 3 p.p. year-on-year. The majority of complaints dealt with actions by staff and the technical condition of filling stations.

CORPORATE GOVERNANCE

2017 RESULTS

- Launched electronic voting at the General Shareholders Meeting.
- Improved the risk management and internal control system.
- Approved internal documents, ensuring shareholder rights and regulating the remuneration of the Board of Directors.
- Increased transparency in sustainable development.

2018 PRIORITIES

- Improvements to the procedures for the Board of Directors' performance.
- Continued development upon internal controls.
- Updating the Company's internal documents to incorporate regulatory changes.

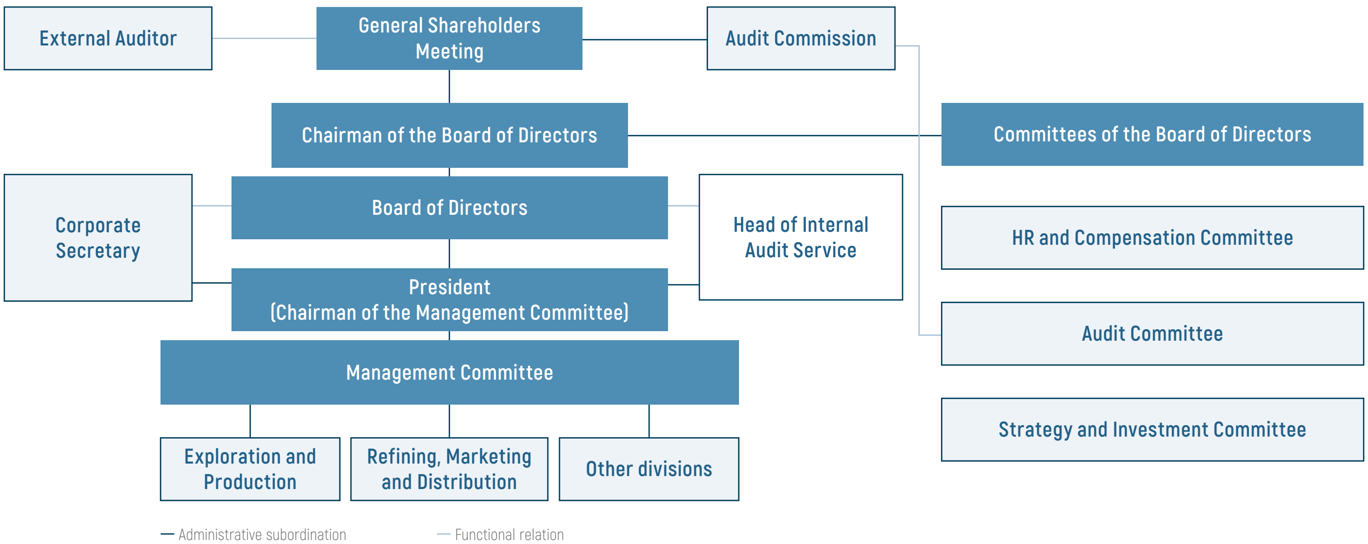
An efficient corporate governance system is a vital tool ensuring sustainable development and successful implementation of the corporate strategy to create shareholder value.

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

Key principles underlying the PJSC LUKOIL corporate governance system:

- respect for, and protection of, the rights of shareholders and investors
- consistent and collegial decision-making
- active approach and professional skills of the Board of Directors
- a stable and transparent dividend policy
- information openness and transparency
- zero tolerance for corruption in any form
- adherence to ethical standards
- corporate social responsibility

Corporate Governance Structure of PJSC LUKOIL



DEVELOPMENT OF CORPORATE GOVERNANCE SYSTEM

- 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
- Regulations on the Corporate Secretary of PJSC LUKOIL
- Code of Business Conduct and Ethics of OAO LUKOIL
- Risk Management and Internal Control Policy of PJSC LUKOIL

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

CORE COMMITTEES

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

In 2017, the Company focused on improving corporate procedures and practices in compliance with the Corporate Governance Code (the "Code") recommended by the Bank of Russia. In particular, the Company:

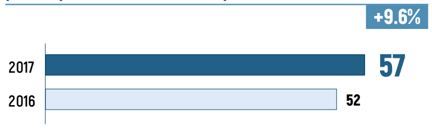
- **Launched electronic voting.** In 2017, shareholders were offered the opportunity to register online for General Shareholders Meetings and attend them remotely, as well as vote on agenda items.
- **Improved the risk management and internal control system.** In the reporting year, LUKOIL took a number of steps to improve the performance of its risk management and internal control. Specifically, the Company approved the Regulations on Internal Control at PJSC LUKOIL, developed and approved similar regulations for all main subsidiaries, and prepared and held introductory sessions on organizing and operating internal controls.

For more details on the internal control and risk management system, see the "Risk Management and Internal Control" section

- **Approved internal documents ensuring shareholder rights and regulating the remuneration of the members of the Board of Directors.** A new version of the Regulations on Provision of Information to Shareholders of Public Joint Stock Company "Oil Company 'LUKOIL'" was approved to incorporate regulatory changes. Amendments to the Director Compensation and Expense Reimbursement Policy of PJSC LUKOIL and to the Procedure for Remuneration and Reimbursement of Expenses of Members of the Board of Directors and Audit Commission of PJSC LUKOIL were also approved.
- **Increased transparency in sustainable development.** To keep the Company's sustainability data updated, as well as to attain compliance with international best practices, LUKOIL Group's Sustainability Report will be prepared on an annual basis starting from 2017.

As a result of the Company's efforts in 2017 towards improving its corporate governance, PJSC LUKOIL now fully complies with 72% of the principles outlined in the Code, up from 66% in 2016[1]. As of the end of the reporting year, PJSC LUKOIL complied with almost all core principles of the Corporate Governance Code.

Number of the Corporate Governance Code principles with full compliance



[1] Code compliance is assessed using guidelines based on comparisons in PJSC LUKOIL practices with detailed Code recommendations. If any single detailed recommendation in a paragraph is not complied with, the compliance with this paragraph is deemed partial. If none of the detailed recommendations in a paragraph are complied with, this paragraph is deemed as not complied with by the Company.

EXPERTS ASSESSMENT

In 2017, the Independent Directors Association (IDA) in cooperation with the Higher School of Economics, the Bank of Russia, the Moscow Exchange, and the Russian Union of Industrialists and Entrepreneurs (RSPP) compiled an index of corporate governance. The survey was based on the Good Governance Index guidelines developed by the British Institute of Directors and CASS Business School taking into account the specifics of corporate governance practice in Russia and the national stock market development level. The survey covered 53 Russian companies included in the A1 quotation list of the Moscow Exchange as of the beginning of April 2017. LUKOL was included in the Top 15 companies with the best results.

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

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

Self-assessment of the Corporate Governance Practice for Compliance with the Principles and Recommendations of the Code[1]

Corporate governance principles	Number of principles recommended by the Code	2016			2017		
		Full compliance	Partial compliance	No compliance	Full compliance	Partial compliance	No compliance
Rights and equal opportunities for shareholders in exercising their rights	13	9	3	1	9	3	1
Board of Directors of the Company	36	24	11	1	27	8	1
Corporate Secretary of the Company	2	1	1	–	2	–	–
Remuneration system for Directors, executive bodies, and other key executives of the Company	10	7	3	–	8	2	–
Risk Management and Internal Control System	6	5	1	–	5	1	–
Company disclosures and information policy	7	6	1	–	6	1	–
Material corporate actions	5	–	5	–	–	5	–
Total score	**79**	**52**	**25**	**2**	**57**	**20**	**2**
	100%	**65.8%**	**31.7%**	**2.5%**	**72.2%**	**25.3%**	**2.5%**

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

GENERAL SHAREHOLDERS MEETING

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

- amendments and addenda to the Company Charter and approval of any new versions
- decisions on the number of Board members, election of its members, and early termination of their powers
- election of Audit Commission members and early termination of their powers
- approval of the Company's auditor
- payment (declaration) of dividends for reporting periods
- approval of the Company's annual reports and annual accounting (financial) statements
- approval of internal documents governing the activities of the Company's bodies
- approval of transactions or making decisions for their subsequent approval in cases stipulated by 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, the new version of which was approved by the resolution of the Extraordinary General Shareholders Meeting dated December 18, 2012, as amended. The procedure for holding the General Shareholders Meeting provides an equal opportunity for all Company shareholders' attendance.

The General Shareholders Meetings held in 2017 had the record-high quorum percentage. In addition, the meetings had a record-high number of issued depositary receipts representing the Company's shares participating in the meetings.

Shareholders demonstrated strong support for each of the Board's resolutions on agenda items of the Company's 2017 Annual General Shareholders Meeting. Votes in favor on all agenda items[1] ranged between 96.6% and 99.8%.

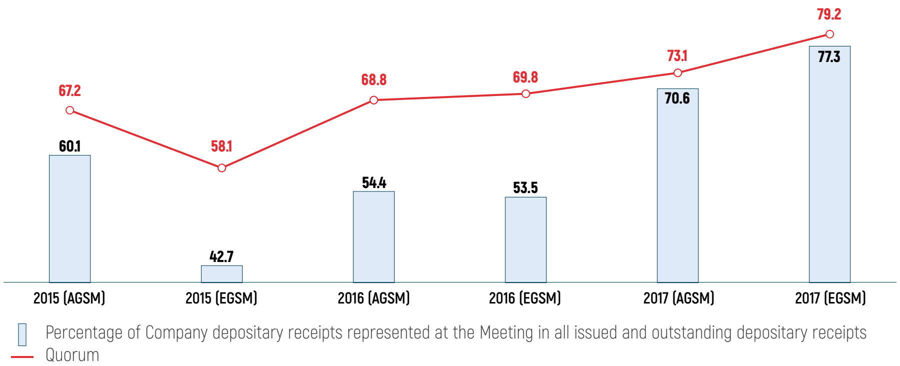
In compliance with the Corporate Governance Code and enabling deeper informed resolutions, the Extraordinary General Shareholders Meeting dated December 4, 2017 was the first to include the Board's approaches to, and recommendations on, the agenda of PJSC LUKOIL's Extraordinary General Shareholders Meeting within the list of materials distributed to shareholders.

The possibility for shareholders to use electronic voting constitutes was another innovation being introduced at the Extraordinary General Shareholders Meeting, which enabled the Company's shareholders to vote regardless of where their rights registration took place.

General Shareholders Meetings of PJSC LUKOIL held in 2017

Annual General Shareholders Meeting June 21, 2017 In person (in the form of joint attendance of LUKOIL's shareholders to discuss agenda items and pass resolutions on matters put to vote), with voting ballots sent (delivered) prior to the meeting (Minutes No. 1 dated June 23, 2017).	• PJSC LUKOIL's 2016 Annual Report and annual accounting (financial) statements were approved, profit for the period was distributed, and the resolution on dividend payouts for 2016 was passed. New Board and Audit Commission were elected; decisions on remuneration and compensation of expenses to members of the Board of Directors, and decisions on remuneration of the Audit Commission members were made; the Company's auditor was approved. • Amendments were approved for the Company's Charter, the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting of PJSC LUKOIL, and the Regulations on the Board of Directors of PJSC LUKOIL. A related party transaction was approved.
Extraordinary General Shareholders Meeting December 4, 2017 Absentee voting (Minutes No. 2 dated December 6, 2017)	• Resolutions were passed on the interim dividend payout for nine months of 2017 and a partial payment of the Board of Directors' remuneration, as well as on PJSC LUKOIL's membership in the All-Russia Association of Employers The Russian Union of Industrialists and Entrepreneurs, and a related-party transaction was approved.

Quorum at General Shareholders Meetings and participation of depositary receipt holders, %



[1] The percentage of participant votes during the general meeting on agenda items, excluding those related to the election of PJSC LUKOIL Board members and Audit Commission members.

BOARD OF DIRECTORS

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

The Board's authority and formation process as well as procedures for convening and holding Board meetings are determined by the Charter and Regulations on the Board of Directors approved by the Resolution of the Annual General Shareholders Meeting of OJSC LUKOIL dated June 27, 2002, as amended.

The Board of Directors is responsible for:

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

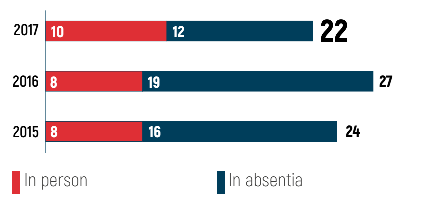
Consisting of 11 members, the Board of Directors is elected during the General Shareholders Meeting through cumulative voting, whereby nominees with the highest number of votes are elected to the Board of Directors. Director elections must be included in the agenda for the Annual General Shareholders Meeting. Shareholders holding in aggregate at least 2% of the Company's voting shares may submit their nominations to the Board of Directors within 60 days from the end of the reporting year.

The Board of Directors carries out its annual approved action plans, including performance reviews of the Company for both the first half of the year and the full year, decisions on the Company's business priorities, General Shareholders Meetings preparations, and consent to, or subsequent approval of related-party and other transactions as defined by the PJSC LUKOIL Charter.

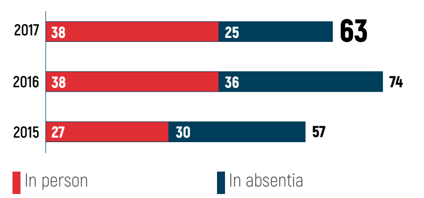
BOARD OF DIRECTORS' PERFORMANCE

The Board of Directors held 22 meetings in 2017, comprising 10 meetings held in person and 12 meetings held in absentia. The vast majority of matters throughout the year were discussed during in-person meetings, with 38 discussed in person and 25 in absentia. Approximately half of the matters were associated with corporate governance. During the reporting year, the number of matters related to the Board's resolutions approving or consenting to transactions reduced by almost a third due to changes in laws governing major and related party transactions, which enabled the Board to devote more time to the strategic affairs of the Company's management.

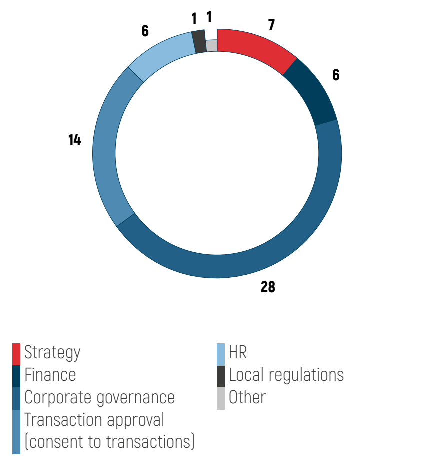
Meetings



Matters discussed



Matters discussed by the Board of Directors in 2017



Key Decisions of the Board of Directors in 2017

Agenda and decisions	Objectives and background
Corporate governance	
Amendments were approved for the Director Compensation and Expense Reimbursement Policy of PJSC LUKOIL as well as the Procedure for Remuneration and Reimbursement of Expenses of Members of the Board of Directors and Audit Commission of PJSC LUKOIL.	The Policy was brought into compliance following a decision from the Company's 2017 General Shareholders Meeting replacing Board member remuneration for in-person attendance of Board Committee meetings to that of a member of the Board of Directors acting as a Board Committee member.
Decisions were adopted as part of preparing and holding the Company's Annual and Extraordinary General Shareholders Meetings.	Decisions were made to comply with the Federal Law On Joint-Stock Companies. The Extraordinary General Shareholders Meeting passed a resolution to pay out interim dividends and make a partial payment of the Board of Directors' remunerations.
The Board of Directors Performance Report for 2016–2017 was approved.	The annual self-assessment of the Board of Directors' performance is a crucial tool for improving the Board's performance, which received a positive assessment for 2016–2017.
The Corporate Secretary Performance Report was approved.	Under the Regulations on the Corporate Secretary of PJSC LUKOIL, the Corporate Secretary reports his/her performance to the Board of Directors at least once a year. The Corporate Secretary's performance received a positive assessment.
The recognition of Victor Blazheev and Igor Ivanov as independent members of the PJSC LUKOIL Board of Directors was discussed.	Since Victor Blazheev and Igor Ivanov met the formal criteria of being related to the Company by exceeding the seven-year tenure as Board members, a special decision of the Board should be taken to deem them independent, as outlined in the Corporate Governance Code and Listing Rules of PJSC Moscow Exchange.
Matters governing the internal audit were discussed.	Improvements to the internal audit system.
Discussions regarding the operation and improvement of the corporate risk management and internal control system.	Improvement of the Company's risk management and internal control system in compliance with the Corporate Governance Code recommendations while effecting the best corporate governance practice of this system to PJSC LUKOIL subsidiaries.
Summarized the results for the previous year of monitoring the Company's compliance with Federal Law No. 224-FZ dated July 27, 2010 On Countering the Misuse of Insider Information and Market Manipulation and on Amending Certain Laws of the Russian Federation.	PJSC LUKOIL's activities are regulated by Federal Law No. 224-FZ dated July 27, 2010, which is aimed at consolidating a company's action framework to prevent market manipulation and the misuse of insider information while improving the protection of rights and legitimate interests of investors. Efforts to align the Company's compliance with Federal Law No. 224-FZ dated July 27, 2010 were deemed both successful and in compliance with applicable regulations.
The new version of the Regulation on Provision of Information to Shareholders of Public Joint Stock Company "Oil company 'LUKOIL'" was approved.	The new version of the Regulation was developed to bring it into compliance with the provisions of the Federal Law On Joint Stock Companies, which took effect in 2017 and revised the accessibility of joint-stock company documents to shareholders.
Strategy, Operating activity and Finance	
LUKOIL Group's 2016 results, objectives for 2017, and near-term objectives were discussed. Priorities for 2017 were established. Discussions on the first half of 2017 results and performance of the Budget and the Investment Program of LUKOIL Group for 2017.	Control over the Company's operating activity to achieve LUKOIL Group's strategic goals.
LUKOIL Group's Strategic Development Program for 2018–2027 was approved.	Securing improved performance and long-term sustainable development of PJSC LUKOIL.
The LUKOIL Group Budget's key targets for 2018–2020 were approved.	Achievement of the Company's strategic goals.

Agenda and decisions	Objectives and background
Recommendations were provided on the distribution of Company profits and losses based on the 2016 full-year results, on the size of dividends on PJSC LUKOIL's shares based on the 2016 full-year results, and the dividend payout procedure.	The Company's profit distribution and 2016 dividend payouts, as well as dividend payout procedure.
The matter of determining dividends for nine months of 2017 was discussed.	Paying out the interim dividends to the Company's shareholders.
The competitive data analysis was discussed, segmented into the Company's performance indicators from recent years and efforts to improve the Company's performance in developing Russian shale formations.	Control and achievement of the Company's strategic goals.
Field development in the North Caspian Petroleum Province was discussed along with the Company's performance in line with field commissioning schedules.	Control and achievement of the Company's strategic goals.
The progress of the Program to Develop Oil Production from Hard-to-Recover Reserves was discussed.	Monitoring the progress of the Program to Develop Oil Production from Hard-to-Recover Reserves and determining future priorities.
LUKOIL Group's progress in growing its oil and gas reserves during 2016–2017 was discussed.	Monitoring and ensuring strategic targets achievement.
The Social Code of OJSC LUKOIL was amended.	Corporate governance improvement.
Discussed health and safety performance and efforts to improve occupational safety.	Improvement of the HSE management system.

In 2017, members of the Board of Directors actively attended Board of Directors and Committee meetings.

In-person participation of Directors in BoD and its Committees' meetings in 2017

Members of BoD	In-person meetings (10 meetings)	Strategy and Investment Committee (5 meetings)	Audit Committee (7 meetings)	HR and Compensation Committee (6 meetings)
Valery Grayfer	5/10			
Vagit Alekperov	10/10			
Victor Blazheev	10/10		7/7	5/6
Toby Gati	10/10 (2)	5/5 (1) (since June 2017)		
Igor Ivanov	9/10	5/5	7/7 (1)	
Ravil Maganov	9/10	3/5		
Roger Munnings	10/10 (1)			6/6
Richard Matzke	10/10			6/6 (1)
Ivan Pictet	10/10 (3)		6/7 (6)	
Leonid Fedun	9/10	5/5		
Lyubov Khoba (since June 2017)	6/6			
Guglielmo Moscato[1] (until February 2017)	1/1			

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 attendance via telephone or a video conference call. Participation in a meeting via the aforementioned means of communications shall qualify as attendance in person.
"9/10 (1)" in the table signifies attendance at nine out of ten meetings held, including one meeting through a conference call. Matching numbers of held and attended meetings indicate that the Director was highly involved in the activities of the Board of Directors and/or its Committee.

[1] As of February 2017, Guglielmo Moscato is considered as no longer a member of the Board of Directors.

THE BOARD OF DIRECTORS' PERFORMANCE ASSESSMENT

In 2017, the Board of Directors conducted a self-assessment of its performance for 2016–2017, whereby the members of the Board of Directors were surveyed through questionnaires on the Board's performance as a governance body during their tenure (from the date of election to the Board of Directors in June 2016 and to the date of termination of powers in June 2017).

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

- improve the performance of the Board of Directors and its members;
- provide an objective basis for determining the 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.

Upon completion of the relevant Committee assessment, the results are discussed between the Chairman of the Board of Directors and the Committee Chairmen. Assessment results are summarized.

All items scoring 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 and its Committees (draft action plans) are submitted for discussion by the Board of Directors.

If the assessment criteria are to be changed, the HR and Compensation Committee may bring the relevant matter to the Board's attention.

Based on the latest self-assessment, the Board of Directors achieved positive results in 2016–2017. The assessment results were taken into account during the preparation of action plans for the Board of Directors and its Committees.

BOARD OF DIRECTORS' COMPOSITION

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

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

The Board of Directors included four executive directors in 2017, comprising 36% of the total, thus enabling deep integration between the Board and the Company's executive bodies.

Guglielmo Moscato's membership in the Board of Directors was discontinued in 2017 after five years of service. Lyubov Khoba was elected to the Board of Directors.

PJSC LUKOIL's corporate governance system has been formulated in line with the Bank of Russia's principles and recommendations outlined in the Corporate Governance Code. The Code regulations take the international corporate governance practice into account as well as 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, experience, expertise, and business skills.

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

The Board of Directors currently includes two women – Toby Gati (elected in 2016) and Lyubov Khoba (elected in 2017), thereby making the representation of women in the members of the Board at 18% of the total.

Four of the eleven members of the Board of Directors are foreign nationals, comprising 36% of total Board members. Foreign directors' participation in the Board of Directors aids international business networking and helps other business cultures contribute a positive influence to the Company's existing corporate culture.

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

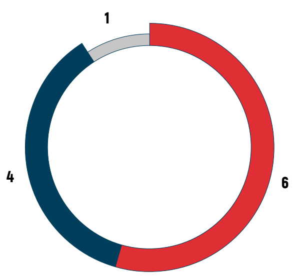
Board of Directors' Membership as of December 31, 2017

Executive directors[1]	Vagit Alekperov, Ravil Maganov, Leonid Fedun, Lyubov Khoba[2]
Non-executive directors, including the Chairman of the Board of Directors	Valery Grayfer, Richard Matzke
Independent directors	Victor Blazheev[3], Toby Gati, Igor Ivanov[3], Roger Munnings, Ivan Pictet
Total	**11 members**

Key skills of Board members

Board Members	Status	Key skills								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 Non-executive	•	•	•	•	•	•	•	•	65	0,01
Vagit Alekperov	Executive	•	•	•	•	•	•	•	•	49	23.13[4]
Victor Blazheev	Independent[3]		•		•	•	•		•	8	–
Toby Gati	Independent	•			•	•	•	•	•	1	–
Igor Ivanov	Independent[3]	•	•			•	•	•	•	8	–
Ravil Maganov	Vice Chairman Executive	•	•	•	•	•	•	•	•	40	0.38
Roger Munnings	Independent	•	•	•	•	•	•	•	•	25	–
Richard Matzke	Non-executive	•	•	•	•	•	•	•	•	56	0.0003[4]
Ivan Pictet	Independent	•	•		•	•	•	•	•	5	-
Leonid Fedun	Executive	•	•	•	•	•	•	•	•	24	9.91[4]
Lyubov Khoba	Executive[2]	•	•	•	•	•	•	•	•	35	0.36

Length of service on the Board of Directors as of December 31, 2017



Less than 1 year
1 to 7 years
Over 7 years

[1] In line with the Corporate Governance Code recommendations, executive directors are both members of the Management Committee of PJSC Lukoil and Company employees.
[2] On March 1, 2018, Lyubov Khoba resigned as Vice President and Chief Accountant of PJSC LUKOIL, and can now be considered a non-executive director.
[3] Deemed as independent directors by the Resolution of the Board of Directors dated June 21, 2017 (Minutes No. 9).
[4] Including direct and indirect ownership.

INDEPENDENT DIRECTORS

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

The Company's Board of Directors comprised eleven members as of the end of the reporting year, five of which were independent directors – a sufficient number for significantly influencing the decision-making process.

The Listing Rules of the Moscow Exchange and the Corporate Governance Code recommendations have determined the members of two Committees, primarily comprising independent directors. The Audit Committee consists solely of independent directors, while the HR and Compensation Committee consists of two independent directors (including the Committee's Chairman) and one non-executive director.

The Company's Board of Directors understands the value of participation of independent directors in the Strategy and Investment Committee, and as of year-end, two of the four Committee members 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 other critical matters that may affect the interests of LUKOIL's shareholders.

DETERMINATION OF DIRECTORS' INDEPENDENCE

The HR and Compensation Committee assessed the independence of each director and nominee to the Board of Directors as per the Listing Rules of PJSC Moscow Exchange and provisions of the Corporate Governance Code, carrying out this function three times during 2017.

In March 2017, the HR and Compensation Committee assessed the professional qualifications and independence of all nominees to the Company's Board of Directors. The analysis was based on data and questionnaires assessing independence received from the Board nominees, and their personal information provided to the Board of Directors. The analysis of the nominees' biographies proved their impeccable business reputation and professional qualifications, knowledge, expertise, and experience necessary to make decisions within the authority of the Board and essential to efficiently performing its functions.

The independence assessment questionnaires included the new stricter requirements of the Moscow Exchange Listing Rules for director independence criteria that came into effect on October 1, 2017.

The HR and Compensation Committee assessed the independence of the Board's incumbent Directors in July and October 2017. Independence was also assessed through questionnaires.

Furthermore, by the Resolution of the Board of Directors dated June 21, 2017 (Minutes No. 9), two Directors, Victor Blazheev and Igor Ivanov, were deemed independent, although they met the formal criteria of being related to the Company due to having exceeded the seven-year tenure as Directors detailed in the Corporate Governance Code and Listing Rules of PJSC Moscow Exchange. The resolution was adopted due to Mr. Blazheev's and Mr. Ivanov's terms in office as members of the PJSC LUKOIL Board of Directors not exceeding a combined twelve years. Mr. Blazheev and Mr. Ivanov are not, and have never been members of either the Company's executive bodies or any entity controlled by the Company, they do not hold the Company's shares, they neither provide nor have ever provided services to the Company, and have always taken a responsible approach to their duties as members of the Board of Directors of PJSC LUKOIL – a testament to their independence, objective and fair opinions and judgements.

EXPERT ASSESSMENT

Independent member of the Board of Directors, Roger Munnings, was ranked in the "50 Best Independent Directors of the Year 2017" category of the National "Director of the Year" Award.

INDUCTION OF NEW MEMBERS OF THE BOARD OF DIRECTORS

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

Key elements of the program 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 heads of corporate business units.
- **Familiarization with internal documents.** New members are provided with key corporate documents and information about the Company.
- **Familiarization with operations.** New members make on-site visits to the Group's production facilities.

The induction training program for newly elected Directors of PJSC LUKOIL was approved by the Resolution of the HR and Compensation Committee dated April 24, 2017 (Minutes No. 4). The Corporate Secretary conducts the Program and coordinates the interaction of all involved parties alongside the assistance and management of the HR and Compensation Committee.

The Board of Directors maintains the following information and technical resources to ensure its efficient functioning within the Company:

- A modern IT environment with a secure communication channel to archive meeting minutes and ensure the prompt, remote delivery of briefing materials to foreign Directors attending meetings
- Specialized bilingual software via mobile devices to help prepare Board and Committee members for meetings
- A specialized self-assessment application for the members of the Board of Directors and its Committees
- Video conference call software for meetings of the Board and its Committees.

Lyubov Khoba was elected to the Board of Directors in 2017 and completed all key stages of the induction program despite her in-depth knowledge of the Company and its business practices to both ensure her quickest possible involvement in the Board's activities and make use of her professional experience and expertise. Lyubov Khoba familiarized herself with key corporate documents describing the procedures of the Board of Directors and its Committees, the rights and duties of Directors, and the information and technical resources available to Board members that are used to promptly provide information on upcoming meetings of the Board of Directors and its Committees.

BIOGRAPHICAL DETAILS OF MEMBERS OF THE BOARD OF DIRECTORS[1]

Valery
GRAYFER

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

Born in 1929.
Graduated from I.M. Gubkin Moscow Oil Institute in 1952. Candidate of Technical Sciences (PhD). Awarded seven orders, four medals, awarded a Certificate of Honor of the Supreme Soviet of the Tatar ASSR, and a Certificate of Honor from the President of the Russian Federation. Lenin Prize and Russian Government Prize Winner. Professor at the Gubkin Russian State University of Oil and Gas.

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

Since 1996: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).
Membership in the governance bodies of other organizations:
Since 2010: Chairman of the Board of Directors of JSC RITEK.

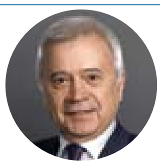
Ravil
MAGANOV

- Vice Chairman of the Board of Directors
- Executive Director
- 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, Distinguished Energy Industry Specialist. Awarded four orders and five medals, awarded a Certificate of Honor from the President of the Russian Federation. Has a Letter of Acknowledgement from the Government of the Russian Federation. Three times winner of the Russian Government Prize in Science and Engineering.

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

Since 1993: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).
Membership in the governance bodies of other organizations:
Since 2000: Member of the Supervisory Board of LUKOIL INTERNATIONAL GmbH.



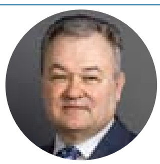
Vagit
ALEKPEROV

- Executive Director
- President
- Chairman of the Management Committee

Born in 1950.
Graduated from M. Azizbekov Azerbaijan Oil and Chemistry Institute in 1974. Doctor of Economics. Full member of the Russian Academy of Natural Sciences. Distinguished Energy Industry Specialist, and Honored Oil Specialist. Awarded five orders and eight medals, awarded a Certificate of Honor and three Letters of Acknowledgement from the President of the Russian Federation. Two times winner of the Russian Government Prize.

- 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.
- 1993–2015: President of OAO LUKOIL.
- Since 2015: President of PJSC LUKOIL.

Since 1993: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).
Membership in the governance bodies of other organizations:
Since 2000: Chairman of the Supervisory Board at LUKOIL INTERNATIONAL GmbH.
Since 2012: Chairman of the Community Council at Our Future Fund for regional social programs.
Since 2012: Member of the Bureau of Management Committee of the Russian Union of Industrialists and Entrepreneurs.



Victor
BLAZHEEV

- Independent Director[2]
- 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. Awarded the titles of the Distinguished Lawyer, Honored Worker of Higher Professional Education of the Russian Federation, and Honored Worker of Science and Technology of the Russian Federation, awarded a Medal of the Order "For Merit to the Fatherland", 2nd class. Since 1999, he has combined his teaching activities with various official administrative positions at Moscow State Law Academy (MSAL).

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

Since 2009: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).
Membership in the governance bodies of other organizations:
Since 2007: President of Kutafin Moscow State Law University (MSAL).

[1] As of December 31, 2017.
[2] Determined to be independent by the Resolution of the Board of Directors dated June 21, 2017 (Minutes No. 9).

Toby
GATI

- Independent Director
- Member of the Strategy and Investment Committee

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

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

Since 2016: Member of the Board of Directors of PJSC LUKOIL.
Membership in the governance bodies of other organizations:
Since 2012: member of the Council on Foreign Relations and the U.S.–Russia Business Council (USRBC).
Since 2016: President of TTG Global LLC.

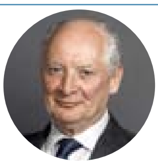
Igor
IVANOV

- Independent Director[1]
- Chairman of the Strategy and Investment Committee
- Member of the Audit Committee

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

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

Since 2009: Member of the Board of Directors of PJSC LUKOIL (formerly OAO LUKOIL).
Membership in the governance bodies of other organizations:
Since 2011: President of the Russian International Affairs Council (RIAC) not-for-profit partnership.
Since 2013: Member of the Board of Managing Directors of Rissa Investments N.V.
Since 2016: Member of the International Advisory Board at UniCredit Group.



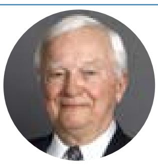
Roger
MUNNINGS

- Independent Director
- Chairman of the HR and Compensation Committee

Born in 1950.
Graduated from the University of Oxford in 1972 with a Master of Arts degree in Politics, Philosophy, and Economics. Fellow of the Institute of Chartered Accountants in England and Wales, made a Commander of the Most Excellent Order of the British Empire, by HM the Queen. Former Deputy Chairman of the Management Board of the Association of European Business (AEB) in Russia; member of the Management Board of the American-Russian Business Council; Chairman of the Institute of Audit Committees in Russia; member of the UK Government's working group on trade and investments between Great Britain and Russia.

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

Since 2015: Member of the Board of Directors of 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 Director
- Member of the HR and Compensation Committee

Born in 1937.
Graduated from Iowa State University in 1959, Pennsylvania State University in 1961, and St. Mary's College of California in 1977. MSc in Geology, Master of Business Administration.
Awarded a public non-governmental medal "For the Development of the Oil and Gas Complex of Russia" and the "Director of the Year 2006" National Award, Russia, in the "Independent Director of the Year" category sponsored by the Independent Directors Association (IDA) and PricewaterhouseCoopers.

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

Member of the Board of Directors of of PJSC LUKOIL (formerly OAO LUKOIL) in 2002–2009 and since 2011.
Membership in the governance bodies of other organizations:
Since 2001: Board member of PHI, Inc.
Since 2015: Member of the Advisory Board of the Energy Intelligence Group.
Since 2016: Member of the Advisory Board of Directors of the US-Russia Chamber of Commerce.

[1] Determined to be independent by the Resolution of the Board of Directors dated June 21, 2017 (Minutes No. 9).

Ivan
PICTET

- Independent Director
- Member of the Audit Committee

Born in 1944.
Graduated from the School of Business Administration at the University of St. Gallen in 1970 (Master of Economics).

- 1982–2010: Managing Partner of Pictet & Cie.
- 1995–2014: Member of the International Advisory Board of Blackstone Group International Limited.
- 2005–2015: Member of the Investments Committee of the UN Joint Staff Pension Fund.
- 2014–2015: Chairman of the Investments Committee of the UN Joint Staff Pension Fund.
- 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.

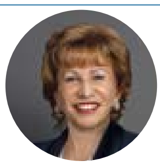
Leonid
FEDUN

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

Born in 1956.
Graduated from M.I. Nedelin Higher Military Command School in Rostov in 1977. Graduated from the Higher School of Privatization and Entrepreneurship in 1993. Candidate of Philosophy (PhD). Honored Oil Specialist. Awarded two orders and four medals.

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

Since 2013: Member of the Board of Directors of of PJSC LUKOIL (formerly OAO LUKOIL).
Membership in the governance bodies of other organizations:
Since 2012: Chairman of the Board of Directors of Football Club Spartak Moscow.
Since 2012: Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs.



Lyubov
KHOBA

- Executive Member of the Board of Directors
- Vice President / Chief Accountant of PJSC LUKOIL (until March 1, 2018)

Born in 1957.
Graduated from the Sverdlovsk Institute of National Economy in 1992. Candidate of Economics (PhD). Distinguished Economist of the Russian Federation. Honored Oil Specialist, Distinguished Energy Industry Specialist. Awarded two orders and two medals.

- 1991–1993: Chief Accountant of Production Association Kogalymneftegaz.
- 1993–2000: Chief Accountant of OAO LUKOIL.
- 2000–2003: Vice President of OAO LUKOIL, Head of the Main Division of Financial Accounting of OAO LUKOIL.
- 2003–2004: Chief Accountant / Vice President of OAO LUKOIL.
- 2004–2012: Chief Accountant of OAO LUKOIL.
- 2012–2015: Vice President / Chief Accountant of PJSC LUKOIL.
- 2015 through February 28, 2018: Vice President / Chief Accountant of PJSC LUKOIL.

Since 2017: Member of the Board of Directors of PJSC LUKOIL.
Membership in the governance bodies of other organizations:
Since 2001: Member of the Supervisory Board of LUKOIL INTERNATIONAL GmbH.
Since 2012: Chairperson of the Supervisory Board of LUKOIL Accounting and Finance Europe s.r.o.

In 2017, no member of the Board of Directors received any loans (credits) from the Company.

LIABILITY INSURANCE OF BOARD MEMBERS

Pursuant to the Policy (contract) on insuring the liability of directors, officers, and corporations for 2017–2018, PJSC LUKOIL insures the liability of:

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

The insured amount (liability limit) makes up at least $150 million in aggregate for Coverages A, B, and C, including legal defense costs. The total insurance premium is up to $450,000.

BOARD 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 significant issues and preparation of relevant recommendations:

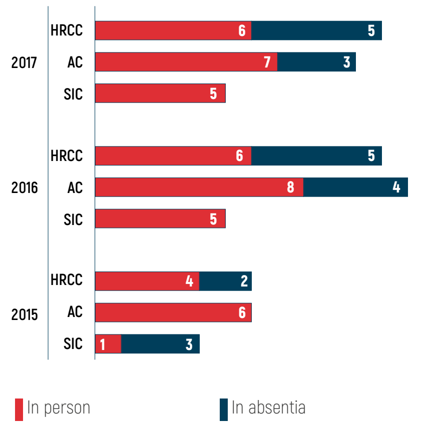
- Strategy and Investment Committee (SIC)
- Audit Committee (AC)
- HR and Compensation Committee (HRCC).

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 among the members of the Board of Directors; 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 develop objective and well-balanced recommendations. For instance, the Audit Committee is comprised exclusively of independent directors, while the heads of the HR and Compensation Committee and the Strategy and Investment 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.

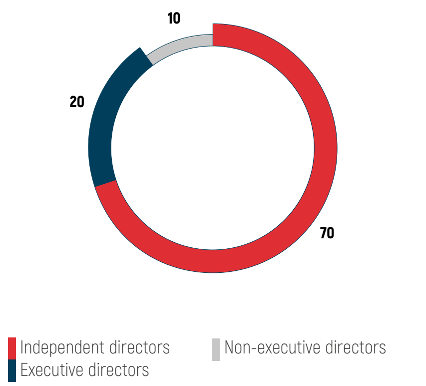
Both employees of the Company and third parties may attend Committee meetings by invitation of a Committee Chairman. However, they may not vote on agenda items.

Statistics of Committee meetings

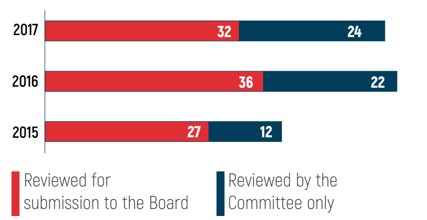


More than a half of all matters discussed by the Board of Directors were previewed by Committees of the Board of Directors ensuring detailed discussion of the most essential matters brought up for approval of the Board of Directors.

Committees' membership as of December 31, 2017, %



Matters discussed



Strategy and Investment Committee

«

In 2017, the Strategy and Investment Committee focused on establishing LUKOIL's growth priorities for the next ten years and maintaining sustainability.

Having reviewed the Company's Strategic Development Program for 2018–2027, the Committee presented its approval recommendations to the Board of Directors. The new Program takes into account significant changes in the macroeconomic environment and seeks to maintain the Company's competitive edge, maximize the efficient use of its existing assets potential, control costs, optimize operations, ensure sustainable cash flow growth and continuously create shareholder value.

The Committee discussed sustainability report preparations twice in 2017. We understand the importance of keeping an open line of communication with our stakeholders and maintaining the transparency of the Company's sustainability efforts, therefore our 2017 sustainability report will be the first to be reported on an annual basis, in line with international best practices.

I am confident that these initiatives will be valued by the investor community and other stakeholders.

The Committee also made recommendations to the Board of Directors on the distribution of the Company's profit and dividend payouts, in accordance with key principles outlined in the new Dividend Policy adopted in 2016.

»

Igor Ivanov

Chairman of the Strategy and Investment Committee

Committee tasks	Key topics covered in 2017
• Making recommendations to the Board of Directors on: - defining the strategic objectives of the Company's business - defining the Company's business priorities - the Dividend Policy, dividend per share, and dividend payout procedure - the distribution of the Company's profit (losses) for the reporting year • Assessment of the Company's long-term performance. • Involvement in monitoring the progress against the Company's Strategic Development Program.	• Strategic Development Program of LUKOIL Group for 2018–2027 • Recommendations to the Board of Directors on distribution of the Company's 2016 profit and losses, as well as on the dividend amount per share, and the dividend payout procedure • Recommendations to the Board of Directors on the dividend per share of PJSC LUKOIL for 9M 2017, and the dividend payout procedure • Approaches to Group-wide harmonization of reserves appraisal and hydrocarbon production plans in line with Russian laws and international reporting requirements • Progress report for the Mid-Term Target Research and Technology Development Program of LUKOIL Group for 2016–2018 • Preparing the Company's Sustainability Report • Sustainability Report for 2015–2016

Committee membership

Independent Directors	• Igor Ivanov (Committee Chairman) • Toby Gati
Executive Directors	• Ravil Maganov • Leonid Fedun

The Company understands the importance of sustainability and social responsibility matters and plans to amend its Regulations on the Strategy and Investment Committee in 2018 to update the Committee's sustainable development functions.

Audit Committee

«

In 2017, the Audit Committee made a strong effort mainly in controlling the Company's financial and business operations, such as conducting regular reviews of the Company's consolidated financial statements for completeness and accuracy, assessment of the most material accounting issues.

We continued major transformations of the Company's internal audit initiated in 2016 and actively improved our internal audit guidelines on monitoring the performance of both the corporate governance system and the risk management and internal control system.

In particular, the Company approved the Temporary Procedure for Audit Assessment of the Risk Management Performance at LUKOIL Group, and the Temporary Procedure for Audit Assessment of the Corporate Governance Performance at PJSC LUKOIL.

The Committee paid close attention to monitoring the reliability and performance of the risk management and internal control system due to the fact that the Company management's initiatives in 2017 aimed at improving internal controls performance through the optimized use of the Company's resources and minimization of avoidable losses.

The effect of internal control procedures is often observable in the long term. Therefore, we have a strong focus on improvements in this area, as an efficient risk management and internal control system will ultimately drive the Company's performance and financial stability.

»

Victor Blazheev
Chairman of the Audit Committee

Committee tasks	Key topics covered in 2017
• Reviewing the Company's accounting (financial) statements for completeness, accuracy, and reliability • Making recommendations on the Company's proposed independent auditor and the auditor's remuneration • Reviewing the independent auditor's opinion, determining the auditor's independence, objectivity, and absence of a conflict of interest • Assessment of the internal audit performance, review of the effectiveness of control and audit procedures, and consideration of relevant improvement proposals • Reviewing the Company's internal audit action plans and budget • Assessment of the effectiveness of the Company's risk management and internal control procedures, reviewing the reliability and performance of the risk management and internal control system and the corporate governance system • Making recommendations on preliminary approval of the Company's Annual Report	• Discussion of material accounting issues, including the Company's accounting policy • Review of the auditor's opinion to be subsequently sent to shareholders as materials for the Annual General Shareholders Meeting • Material matters arising in the course of the external audit • Operation and enhancement of the Company's risk management and internal control system • Recommendations to the Board of Directors on the proposed auditor for subsequent approval by the General Shareholders Meeting • Review of the Temporary Procedure for Audit Assessment of the Corporate Governance Performance at PJSC LUKOIL • Recommendation to the Board of Directors on approval of the 2018 Annual Audit and Consulting Plan of PJSC LUKOIL's Internal Audit Service and the 2018 Internal Audit Budget • Amendments to PJSC LUKOIL's local regulations on internal audit • Review of draft consolidated financial statements of PJSC LUKOIL prepared under IFRS • Recommendations to the Board of Directors on preliminary approval of the 2016 Annual Report • Review of control and audit procedures and the Temporary Procedure for Audit Assessment of the Risk Management Performance at LUKOIL Group

Committee membership

Independent Directors	• Victor Blazheev (Committee Chairman) • Igor Ivanov • Ivan Pictet

HR and Compensation Committee

«

During the year, the HR and Compensation Committee of the Board of Directors fulfilled the requirements of the regulatory environments to which LUKOIL is subject and acted in accordance with the terms of reference given it by the Board of Directors.

The Committee continues to develop its procedures and coverage in line with developments in the Corporate Governance Code of the Russian Federation. It is also engaged in the initiative of the LUKOIL Corporate Secretariat to have a team monitoring developments in international best practice in corporate governance and, is, thereby constantly assessing whether LUKOIL's corporate governance is fit for purpose and, where necessary, improving it.

Amongst its work in the year, the Committee:

- assessed the results of the Long-Term Incentive Plan which matured in 2017 and reviewed the proposed Long-Term Incentive Plan for 2018-2022;
- assessed the relevance and complementary nature of the professional qualifications and experience of the nominees to the Board of Directors and reviewed the independence of each nominee to Independent Director. As part of this process, all Board members were asked to consider and confirm their own status as well as to consider that of their fellow Board members; and
- developed recommendations to the Board of Directors on the Director Compensation and Expenses Reimbursement of LUKOIL and the procedures for compensation and reimbursement of expenses of members of the Board of Directors and of the Audit Commission of LUKOIL. The most significant amendment to the former approach was to establish the basis of fixed remuneration as proper fulfillment of the duties of a Board Committee member rather than for in-person attendance at meeting.

The Committee also produced recommendations to the Board of Directors for approval of proposals by the President of the Company for LUKOIL Management Committee members by pre-assessing the performance of ongoing Management Committee members against their targets and by carrying out an assessment of candidates proposed to replace members leaving the Management Committee.

»

Roger Munnings
Chairman of the HR and Compensation Committee

Committee tasks	Key topics covered in 2017
• Assessing the performance of the Board of Directors, its members and Committees, identifying priority areas to strengthen the Board composition • Communicating with shareholders to prepare recommendations for voting on the election of the Board of Directors • Making recommendations on staff appointments • Development and regular reviews of the Company's policy on remuneration of members of the Board of Directors, the Management Committee, and the President • Making recommendations to the Board of Directors on determining the remuneration of the Corporate Secretary • Pre-assessing the performance of the Management Committee members and the President during 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-assessment of the performance of the Management Committee members during the year in line with the Regulations on PJSC LUKOIL Management Remuneration and Incentive System • Pre-assessment of the performance of the Corporate Secretary • Recommendations to the Board of Directors on amending the Director Compensation and Expense Reimbursement Policy of PJSC LUKOIL and the Procedure for Remuneration and Reimbursement of Expenses of Members of the Board of Directors and Audit Commission of PJSC LUKOIL • Assessment of professional qualifications and independence of all nominees to the Company's Board of Directors. Recommendations to the Company's shareholders on voting in the election of the Company's Board of Directors • Independence of the members of the Board of Directors (July and October 2017) • Development of an induction program for newly elected members of the Board of Directors • Preliminary results of the Long-Term Incentive Plan for Employees of PJSC LUKOIL and its Subsidiaries for 2013–2017 • Long-Term Incentive Program for Key Employees of LUKOIL Group for 2018–2022 • Human resources management status across LUKOIL Group entities • Amendments to the Social Code of OAO LUKOIL.

Committee membership

Independent Directors	• Roger Munnings (Committee Chairman) • Victor Blazheev
Non-Executive Director	• Richard Matzke

Corporate Secretary

«

As the corporate governance reform is gaining momentum in Russia, our Company closely monitors its pace and scope while consistently enhancing our corporate governance system and the practice of developing and implementing corporate procedures.

»

Natalia Podolskaya

Corporate Secretary of PJSC LUKOIL

Natalia PODOLSKAYA

Corporate Secretary

Born in 1960.
Graduated from the Maurice Thorez Moscow State Institute of Foreign Languages in 1983 and from the Diplomatic Academy under the RF Ministry of Foreign Affairs (majoring in International Economics) in 2003.
Passed a Corporate Secretary Advanced Training Program, in HSE Corporate Governance Center in 2007.
Candidate of Philological Sciences (PhD) from Moscow State Linguistic University since 1998.

- 1983–1998: engaged in translation/interpreting, research, and lecturing.
- 1998–2002: Manager, KPMG.
- 2002–2016: Chief Liaison Officer (Office of the Board of Directors), OAO LUKOIL, PJSC LUKOIL.
- Since 2016: Corporate Secretary of PJSC LUKOIL.

EXPERT ASSESSMENT

In 2017, Corporate Secretary of PJSC LUKOIL Natalia Podolskaya was included in the "25 Best Corporate Governance Directors / Corporate Secretaries" category of the "Director of the Year" National Award.

The role of the Corporate Secretary is designed to support efficient communication between the Company's shareholders, Board of Directors, and executive management. Being part of such communication, the Corporate Secretary acts as the guarantor of the compliance by the Company's management and governance bodies with procedures and principles ensuring 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 of PJSC LUKOIL is appointed by the Company's President based on the resolution of the Board of Directors and acts in line with the Company's Charter and Regulations on the Corporate Secretary. To assist the Corporate Secretary in his/her activities, the office of the Corporate Secretary is set up.

The Corporate Secretary's key functions include:

- ensuring operation of the Board of Directors and its Committees;
- involvement in preparation and holding of the Company's General Shareholders Meetings;
- ensuring the communication between the Company and its shareholders within his/her powers and involvement in preventing corporate conflicts;
- involvement in the Company's relations with regulators, market operators, the registrar, and other professional security traders;
- involvement in the implementation of the Company's Information Disclosure Policy;
- notifying the Board of Directors about detected violations of the law and the Company's internal documents (within the scope of the Corporate Secretary's responsibility);
- contributing to the implementation of the established procedures ensuring the exercise of rights and legitimate interests of shareholders, monitoring their execution;
- involvement in the enhancement of the Company's corporate governance system.

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 for preventing conflicts of interest at the Board level set forth in the Regulations on the Board of Directors.

To support the efficient operation of the Board of Directors and its Committees, the office of the Corporate Secretary uses the following information and technical resources:

- A shared information space for the employees of the Corporate Secretary's office to support the joint preparation of materials for the meetings of the Board of Directors and its Committees, as well as for the General Shareholders Meeting.
- The shared information space was expanded in 2017 to include other Corporate Secretary's functions covering sustainability and shareholder engagement.

PRESIDENT AND MANAGEMENT COMMITTEE

The Company's executive bodies, the President, and the Management Committee play a key role in ensuring the timely and efficient performance of its operating and strategic tasks. According to the Company's Charter, the scope of authority of its executive bodies covers all day-to-day operations, except for matters reserved to the Company's General Shareholders Meeting or 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 meeting of the Company's Board of Directors held on March 6, 2017 (Minutes No. 3) the key provisions of the President's contract were amended.

Vagit Alekperov has been the President of PJSC LUKOIL since 1993.

The President is responsible for operational management of the Company as prescribed by the Charter of PJSC LUKOIL. The President's authority covers:

- representing the Company's interests;
- entering into transactions on behalf of the Company;
- management of the Company's assets to support its day-to-day operations (within the limits set by the Charter);
- signing financial documents;
- approving the staff schedule, signing employment contracts, applying rewards and sanctions;
- approving the Company's organization;
- approving the Company's internal documents regulating its day-to-day operations, save for internal documents to be approved by the Company's Management Committee as prescribed by the Charter;
- issuing binding orders and instructions;
- organizing the activities of the Management Committee;
- other functions established by the Company's Charter.

MANAGEMENT COMMITTEE

The Management Committee is a collective executive body in charge of PJSC LUKOIL's day-to-day operations, as well as the development and implementation of the overall development strategy of the Company's subsidiaries. The President of PJSC LUKOIL is the Chairman of the Management Committee.

The Management Committee is guided by applicable laws, the Charter of PJSC LUKOIL, and the Regulations on the Management Committee of PJSC LUKOIL (the new version approved by the resolution of the Annual General Shareholders Meeting of PJSC LUKOIL dated June 23, 2016).

The authority of the Management Committee covers:

- developing and implementing the Company's current business policy;
- developing, approving, and monitoring the performance of the Company's quarterly, annual and long-term action plans, budget, and investment program;
- making decisions on establishment by the Company of other legal entities, as well as on acquisitions and disposals of equity interests in other entities;
- a number of powers related to development and implementation of the overall strategy of the Company's subsidiaries;
- other powers set out by the Company's Charter.

Following on the President's proposals, the Management Committee is formed by the Board of Directors on an annual basis. Proposals are submitted within one month following the election of the Board of Directors by the Annual General Shareholders Meeting. The Board of Directors may reject certain nominees to the Management Committee but may not approve nominees who have not been proposed by the President.

The number of members on the Management Committee was approved as 14 in July 2017. Meetings of the Management Committee are convened as necessary. All meetings are held only in the form of joint attendance. The President sets an agenda for each meeting, also by considering the proposals made by Management Committee members.

In 2017, the Management Committee held 26 meetings and discussed 112 matters such as:

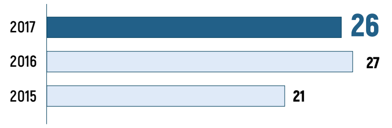
- approval of key budget indicators for LUKOIL Group
- taking resolutions on the operations of LUKOIL Group subsidiaries
- optimizing the production capabilities and the corporate structure of LUKOIL Group
- approval of the Company's local regulations underlying the Company's core businesses, including:
  - Regulations on Internal Control at PJSC LUKOIL
  - Regulations on the legal protection and use of intellectual property within Russian entities of LUKOIL Group
  - local regulations governing property relations across LUKOIL Group
  - local regulations aimed at driving the operational excellence and the deployment of innovative technology.
- HR decisions on key executives of Russian entities of LUKOIL Group controlled by the Company by more than 50%.

Management Committee membership as of December 31, 2017

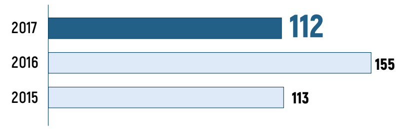
	Length of service on the Management Committee, years[1]	Share in charter capital of PJSC LUKOIL
Vagit Alekperov	24	23.3[2]
Vadim Vorobyov	7	0.01
Ravil Maganov	24	0.38
Ilya Mandrik	Elected to the Management Committee on July 20, 2017	0.01
Ivan Maslyaev	24	0.03
Alexander Matytsyn	20	0.31
Anatoly Moskalenko	14	0.02
Vladimir Nekrasov	18	0.04
Stanislav Nikitin	Elected to the Management Committee on July 20, 2017	0.01
Oleg Pashaev	1	0.005
Denis Rogachev	2	0.002
Gennady Fedotov	7	0.008
Yevgeniy Khavkin	14	0.008
Azat Shamsuarov	4	0.006

The Company is not aware of any loans (credits) received (from a legal entity within the group of entities that include the Company) by members of the Management Committee.

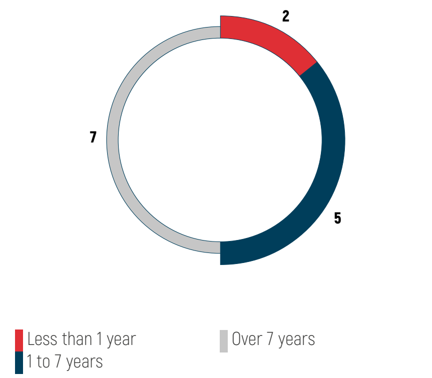
Statistics of Management Committee meetings



Matters discussed



Length of service on the Management Committee as of December 31, 2017



Changes in the membership of the Management Committee

Changes to the membership of the Management Committee of PJSC LUKOIL during 2017 were as follows:

- The powers of two members of the Management Committee, Sergei Kukura and Valery Subbotin, were terminated (resolution of the Board of Directors dated March 6, 2017, Minutes No. 3). The resolution was passed due to the position transfer of Sergei Kukura from First Vice President and his appointment as Advisor to the President of PJSC LUKOIL, as well as the transfer of Valery Subbotin from Senior Vice President for Sales and Supplies to a LUKOIL Group entity.
- Lyubov Khoba also left the Management Committee in 2017 (resolution of the Board of Directors dated May 15, 2017, Minutes No. 7) as she was included in the list of nominees to LUKOIL's Board of Directors, in line with paragraph 2, Article 66 of the Federal Law On Joint-Stock Companies.
- Ilya Mandrik, Vice President for Exploration and Development, and Stanislav Nikitin, Vice President – Treasurer, were elected to the Management Committee (resolution of the Board of Directors dated July 20, 2017, Minutes No. 11).

Changes in the positions held by members of the Management Committee of PJSC LUKOIL during 2017 were as follows:

- On January 31, 2017, Vadim Vorobyov 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 terminated as Senior Vice President for Sales and Supplies;
- On September 1, 2017, Anatoly Moskalenko terminated as Vice President for Human Resources Management and Security and was appointed Vice President for Human Resources Management and Corporate Structure Development.

[1] Full years as of December 31, 2017.
[2] Including direct and indirect ownership.

BIOGRAPHICAL DETAILS OF MEMBERS OF THE MANAGEMENT COMMITTEE AND OF THE PRESIDENT OF PJSC LUKOIL

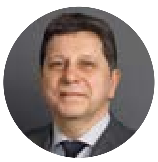
Vagit
ALEKPEROV

- President
- Chairman of the Management Committee and Executive Director

Born in 1950.
Graduated from M. Azizbekov Azerbaijan Oil and Chemistry Institute in 1974. Doctor of Economics. Full member of the Russian Academy of Natural Sciences. Distinguished Energy Industry Specialist, Honored Oil Specialist. Awarded five orders and eight medals, awarded a Certificate of Honor and three Letters of Acknowledgement from the President of the Russian Federation. Two times winner of the Russian Government Prize.

- 1968: started to work at oil fields in Azerbaijan and West Siberia.
- 1987–1990: General Director of Production Association Kogalymneftegaz of Glavtyumenneftegaz of the USSR Ministry of Oil and Gas.
- 1990–1991: Deputy Minister; First Deputy Minister of the USSR Ministry of Oil and Gas.
- 1992–1993: President of the Oil Concern Langepasuraikogalymneft.
- 1993–2000: Chairman of the Board of Directors of OAO LUKOIL.
- Since 1993: President of PJSC LUKOIL.
- Since 2000: Chairman of the Supervisory Board at LUKOIL INTERNATIONAL GmbH.
- Since 2012: Chairman of the Community Council at Our Future Fund for regional social programs.
- Since 2012: Member of the Board 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
- Senior Vice President for Sales and Supplies

Born in 1961.
Graduated from N.I. Lobachevsky Gorky State University in 1983 and N.I. Lobachevsky Nizhny Novgorod State University in 1998. Candidate of Economics (PhD). Honored Oil Specialist. Awarded Medals of the Order "For Merit to the Fatherland", 1st and 2nd class, and the Order of Friendship.

- 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 Petroleum Product Sales Coordination of OAO LUKOIL.
- 2012–2016: Vice President for Petroleum Product Sales Coordination of PJSC LUKOIL.
- 2016–2017: Vice President for Oil Refining, Gas Processing and Petrochemicals of PJSC LUKOIL.

Since 2017: Senior Vice President for Sales and Supplies of PJSC LUKOIL.

Ravil
MAGANOV

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

Born in 1954.
Graduated from the I.M. Gubkin Moscow Institute of the Petrochemical and Gas Industry in 1977. Distinguished Oil and Gas Specialist of the Russian Federation, Honored Oil Specialist, Distinguished Energy Industry Specialist. Awarded four orders and five medals, awarded a Certificate of Honor from the President of the Russian Federation. Has a Letter of Acknowledgement from the Government of the Russian Federation. Three times winner of the Russian Government Prize in Science and Engineering.

- 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 2000: 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).

Ilya
MANDRIK

- Member of the Management Committee since July 20, 2017
- Vice President for Exploration and Development

Born in 1960.
Graduated from Ivano-Frankovsk Oil and Gas Institute in 1982. Graduated from Tyumen Industrial Institute in 1994. Candidate of Geology and Mineralogy (PhD). Doctor of Technical Sciences. Awarded a Medal of the Order "For Merit to the Fatherland," 2nd class.

- 1982–1997: worked at oil fields in West Siberia.
- 1998–2007: Head of the Division, Deputy Head of the Main Division of Geology and Field Development of OAO LUKOIL.
- 2007–2012: Vice President, Head of the Main Exploration Division of OAO LUKOIL.
- 2012–2017: Vice President for Exploration.

Since 2017: Vice President for Exploration and Development of PJSC LUKOIL.

Ivan
MASLYAEV

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

Born in 1958.
Graduated from Lomonosov Moscow State University in 1980. Candidate of Law (PhD). Distinguished Lawyer of the Russian Federation. Honored Oil Specialist. Distinguished employee of the Company. Awarded four medals.
- 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 Committee
- First Vice President (Economics and Finance)

Born in 1961.
Graduated from Lomonosov Moscow State University in 1984. Candidate of Economics (PhD). Master of Business Administration (Bristol University, 1997). Distinguished Economist of the Russian Federation. Awarded two medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class, and the Order of Honor.
- 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 for Finance of OAO LUKOIL.
- 2013–2017: Senior Vice President for Finance of PJSC LUKOIL.

Since 2017: First Vice President of PJSC LUKOIL.

Anatoly
MOSKALENKO

- Member of the Management Committee
- Vice President for Human Resources Management and Corporate Structure Development

Born in 1959.
Graduated from the Supreme Soviet of the RSFSR Moscow Higher Combined Arms Academy in 1980, Military Diplomatic Academy in 1987, Frunze Military Academy in 1991, and the Russian Presidential Academy of Public Administration in 2005. Candidate of Economics (PhD). Awarded six orders and twenty medals. Russian Government Prize Winner.
- 1976–2001: service in the Armed Forces of Russia.
- 2001–2003: Head of HR, Head of the HR Management Department of OAO LUKOIL.
- 2003–2012: Head of the Main Division of Human Resources of OAO LUKOIL.
- 2012–2016: Vice President, Human Resources Management and Corporate Structure Development of PJSC LUKOIL.
- 2016–2017: Vice President for Human Resources Management and Security of PJSC LUKOIL.

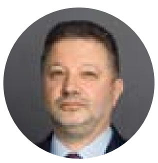
Since 2017: Vice President for Human Resources Management and Corporate Structure Development of PJSC LUKOIL.

Vladimir
NEKRASOV

- Member of the Management Committee
- First Vice President (Refining 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. Awarded two orders and six medals. Awarded a Certificate of Honor from the President of the Russian Federation. Russian Government Prize Winner.
- 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.



Stanislav
NIKITIN

- Member of the Management Committee since July 20, 2017
- Vice President – Treasurer

Born in 1959.
Graduated from the USSR Extramural Institute of Finance and Economics in 1984. Awarded a Medal of the Order "For Merit to the Fatherland," 2nd class.
- 1977–1979: service in the Armed Forces of Russia.
- 1979–1998: employed by various banks of the USSR and Russia.
- 1998–2012: Head of Division, Deputy Head of the Main Division of Treasury and Corporate Financing – Head of Treasury Department of OAO LUKOIL.
- 2012–2013: Director for Treasury Operations of OAO LUKOIL.

Since 2013: Vice President – Treasurer of PJSC LUKOIL.

Oleg
PASHAEV

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

Born in 1967.
Graduated from M.V. Frunze Higher Naval College in 1989. Awarded a Medal of the Order "For Merit to the Fatherland," 2nd class, and the Order of Honor.

- 1984–1993: service in the Armed Forces of Russia.
- 1993–1997: worked for Northern Shipping Company.
- 1998–2002: General Director of OOO Quorum-SK.
- 2002–2004: General Director of OOO LUKOIL Severnefteprodukt.
- 2004: First Deputy General Director for Aircraft Refueling of OOO LUKOIL Tsentrnefteprodukt.
- 2004–2016: General Director of OOO LUKOIL AERO.
- 2016: Vice President for Petroleum Product Sales Coordination of PJSC LUKOIL.

Since December 2016: Vice President for Oil Product Sales of PJSC LUKOIL.

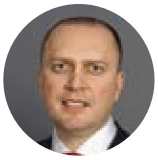
Denis
ROGACHEV

- 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.

- 2000–2003: employed by the Main Division of Geology and Exploration of OAO LUKOIL, OOO LUKOIL-West Siberia.
- 2003–2009: employed by Schlumberger Logelco and Baker Hughes B.V.
- 2009–2012: Deputy Head, First Deputy Head of the Administrative Office of the Board of Directors of OAO LUKOIL, Executive Assistant to the President of OAO LUKOIL.
- 2012–2013: General Director of OOO Trading House LUKOIL

Since 2013: Vice President for Procurement of PJSC LUKOIL.



Gennady
FEDOTOV

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

Born in 1970.
Graduated from the Moscow Institute of Physics and Technology in 1993. Awarded a Medal of the Order "For Merit to the Fatherland", 2nd class, and the Order of Friendship.

- 1994–2002: employed by Halliburton and Shell.
- 2002–2007: Head of Division, Deputy Head, Head of the Main Division of Corporate Budget Planning and Investments of OAO LUKOIL.
- 2007–2012: Vice President, Head of the Main Division of Economics and Planning.

Since 2012: Vice President for Economics and Planning of PJSC LUKOIL.

Evgeny
KHAVKIN

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

Born in 1964.
Graduated from the Moscow Institute of Economics, Management and Law in 2003. Candidate of Economics (PhD). Graduated from Moscow State Law University in 2014. Awarded two medals and awarded a Certificate of Gratitude from the President of the Russian Federation.

- Since 1988: employed at entities in West Siberia.
- 1997–2003: Deputy Head, First Deputy Head of the Administrative Office of the Board of Directors of OAO LUKOIL.
- 2003–2012: Secretary of the Board of Directors, Head of the Administrative Office of the Board of Directors of OAO LUKOIL.
- 2012–2015: Vice President, Chief of Staff of OAO LUKOIL.

Since 2015: Vice President, Chief of Staff of PJSC LUKOIL.

Azat
SHAMSUAROV

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

Born in 1963.
Graduated from Ufa Oil Institute in 1986. Candidate of Technical Sciences (PhD). Honored Oil Specialist. Awarded a Medal of the Order "For Merit to the Fatherland", 2nd class. Russian Government Prize Winner.

- 1997–2000: Chief Engineer of Oil and Gas Production Board (OGPB) of Pokachevneft, Deputy General Director for Production of TPU Langepasneftegaz, Head of OGPB Pokachevneft, General Director of TPU Uraineftegaz.
- 2000–2001: President of Orenburg Oil Joint Stock Company (ONAKO).
- 2001–2008: Vice President, Senior Vice President of LUKOIL Overseas Holding Ltd.
- 2008–2012: Vice President of OAO LUKOIL, General Director of OOO LUKOIL-West Siberia.
- 2012–2013: Vice President of OAO LUKOIL for Oil and Gas Production.

Since 2013: Senior Vice President of PJSC LUKOIL for Oil and Gas Production.

REMUNERATION SYSTEM OF MEMBERS OF THE COMPANY'S GOVERNANCE BODIES

When shaping the remuneration system and determining the particular remuneration for members of PJSC LUKOIL governance bodies, the actual amounts payable are expected to be sufficient to engage, motivate, and retain persons having skills and qualifications required by the Company.

REMUNERATION SYSTEM OF MEMBERS OF THE BOARD OF DIRECTORS

The guidelines on remuneration and compensation of members of the Board of Directors, including their structure and terms of payment, are formalized in the Director Compensation and Expense Reimbursement Policy of PJSC LUKOIL (hereafter, the Remuneration Policy) approved by the Board of Directors of PJSC LUKOIL on November 22, 2016, Minutes No. 24), as amended by the Board of Directors on December 14, 2017 (Minutes No. 21).

The Remuneration Policy has been developed based on the Corporate Governance Code principles and recommendations and reflects the practices of remuneration and compensation accrual currently in place at the Company.

The Company seeks to ensure that Director remunerations 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 attending meetings of the Board of Directors.

The Company believes that its preferred form of monetary remuneration payable to members of the Board of Directors is fixed annual remuneration not linked to any operational, financial, or other performance of the Company. In addition, the Company pays additional remuneration for the higher responsibility levels and additional time spent on Directors' involvement in Committee activities, discharging the functions of the Chairman of the Board of Directors and Committee chairmen. Directors also have remuneration for each conference and other meetings attended by written proxy of the Chairman of the Board of Directors.

The Director remuneration does not include short- and long-term incentive payments or additional benefits, including any insurance except for the liability insurance of members of the Board of Directors, pension and other social benefits.

The Company does not provide for any extra payments or compensations in the event of early termination of Directors' tenure.

Remunerations are determined by the General Shareholders Meeting and reflect proposals of the Board of Directors which are based on recommendations of the HR and Compensation Committee.

The Annual General Shareholders Meeting held on June 21, 2017 resolved to pay the following amounts of remuneration components to elected members of the Board of Directors (for 2017–2018):

- remuneration to the member of the Board of Directors – RUB 6,500,000;
- remuneration to the Board's Chairman – RUB 5,000,000;
- remuneration to the chairman of a Board Committee – RUB 1,000,000;
- remuneration to the member of a Board Committee – RUB 1,000,000;
- remuneration for in-person attendance at an either Board or Committee meeting requiring a transcontinental flight – RUB 350,000;
- remuneration for conferences and other events attended by written proxy of the Chairman of the Board of Directors – RUB 150,000 per each event.

The Company also compensates the costs incurred by members of the Board of Directors to perform their duties, such as:

- the cost of traveling to and from the Board's meeting venue and the cost of attending the venue;
- the cost of joining the Board meeting by phone or video conference call, or the cost of sending a written opinion or voting in absentia;
- the cost of discharging the Director's functions between Board meetings;
- the cost of engaging advisors and experts and obtaining their opinions on matters pertaining to the activities of the Board of Directors, with the total not exceeding the budget allocated by the Company;

the costs incurred by persons accompanying the member of the Board of Directors who is discharging his/her functions (interpreter, advisor, personal assistant) or by representatives of such member on matters pertaining to the activities of the Board of Directors, in the amount of actual and documented expenses of no more than one person accompanying or representing the Director per trip.

Members of the Board of Directors who are concurrently employed by the Company also receive other payments from the Company (salary, bonuses, additional social benefits) and, if they are members of the Management Committee, remuneration for performing the duties of Management Committee members.

262
RUB million

Total payments to the members of the Board of Directors in 2017

Payments to the Board of Directors, RUB thousand

	2015	2016	2017
Total	**203,741**	**192,421**	**262,091**
Remuneration	98,340	71,920	87,067
Compensation of costs	25,477	28,099	29,146
Payments to Directors who are employed by the Company but are not members of the Management Committee, including	79,924	92,402	145,878
salary	25,683	28,523	48,059
bonus	43,568	53,935	87,832
other types of remuneration	10,673	9,944	9,987

For Directors who concurrently sit on the Management Committee this table includes only remuneration related to performing their duties of Directors; remuneration for performing the duties of Management Committee members and other payments are included in the Payments to the Management Committee table.

TOP MANAGEMENT REMUNERATION SYSTEM[1]

The Top Management Remuneration System was developed to ensure the delivery of business targets, promote strategic businesses, support a uniform, systemic, and consistent approach to financial incentives for key executives. The balance of interests of the Company's management and shareholders is key to the Top Management Remuneration System which is in place at the Company.

The Top Management Remuneration System is included in the Regulations on PJSC LUKOIL's 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 in 2013-2017 (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 the duties of other temporarily absent key executives. The salaries are in line with the market, which ensures the retention of key executives.

The variable component consists of annual bonuses and long-term incentive payments. This may also include one-off and target bonus payments and other payments.

Annual bonuses are paid as end-of-year bonuses and are intended to incentivize top managers to meet year-on-year targets. The motivational value of such payments is particularly high given the highly volatile external environment. To determine annual bonuses, the performance against the pre-set Key Performance Indicators is analyzed and approved (for details on bonuses, see the Performance Assessment System section). There are two types of KPIs: Group-wide (team performance) and individual (key executive's performance against personal targets and objectives).

The balance of the Group-wide and individual components is determined for each function the executive is responsible for. The weight of the Group-wide and individual components and target annual bonuses are set out in the Regulations on PJSC LUKOIL's Management Remuneration and Incentive System approved by the Resolution of the Board of Directors of PJSC LUKOIL.

Long-Term bonuses are designed to motivate the achievement of 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. Long-Term bonuses in 2017 were regulated by the Regulations on Long-Term Incentives for Employees of PJSC LUKOIL and its Subsidiaries in 2013–2017 which stays in effect until the Company and its employees fully meet their respective obligations, some of which will roll over to 2018.

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 executives.

More information on bonuses in the chapter "Performance assessment system"

In 2017, the Company had in place its Long-Term Incentive Program, effective for 2013–2017. As of the year-end, more than 700 people were involved in the Program with 19 million assigned shares. According to the terms of the Program, at least 50% of the received bonuses are to be spent on buying PJSC LUKOIL shares in the open market.

Key Performance Indicators used for annual bonus payments to key executives

Item Group	Item	Group weight
Group-wide	• LUKOIL Group's profit for the year • Hydrocarbon production volume • LUKOIL Group's free cash flow • Ensuring HSE compliance across LUKOIL Group entities	From 50 to 100%
Individual	Personalized for each executive in accordance with targets and objectives of their business line.	Under 50%

[1] Top manager (executive employee) – President, First Executive Vice President, First Vice Presidents, Senior Vice Presidents, Vice Presidents of the Company.

MANAGEMENT COMMITTEE REMUNERATION SYSTEM

Each of the Management Committee members received remuneration for performing the duties of a Management Committee member in 2017, equal to the monthly official salary in their main position. The remuneration is provided for by contracts made with the Management Committee members and is paid against achievement of Group-wide KPIs over the reporting period. On top of that, the Management Committee members received:

- base 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.

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 twelve months.

The contract of PJSC LUKOIL's President has the term of five years and may be terminated early subject to giving not less than one month's written notice of termination. In the event of early termination of the employment contract, the President is entitled to a severance pay in the total amount of the basic salary for 24 months.

1,739 **+6.3%** vs. 2016

RUB million

Total payments to the members of the Management Committee in 2017

Payments[1] to the members of the Management Committee of PJSC LUKOIL, RUB thousand

	2015	2016	2017
Total payments to the members of the Management Committee	**1,422,939**	**1,636,289**	**1,738,788**
Salary	487,733	528,028	524,056
Bonuses (annual and long-term bonuses)	761,050	907,871	957,268
Remuneration to Management Committee members	39,953	46,236	54,307
Other types of remuneration	134,203	154,154	203,157

[1] Including the remuneration to the President of PJSC LUKOIL.

PERFORMANCE ASSESSMENT SYSTEM

Starting from 2003, the Company has in place a corporate performance assessment system based on Key Performance Indicators (KPIs).

KPIs are a limited set of indicators that characterize an organization's key success industry-specific factors and determine the level of strategic goals achievement.

The corporate performance assessment system is governed by the following local regulations of LUKOIL:

- 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 guide to their calculation. This set is approved by the Management Committee of PJSC LUKOIL and reviewed once every two years.

The procedure for using KPIs in individual corporate processes is governed by relevant local regulations:

- LUKOIL Group's Growth Strategy Development Regulations
- LUKOIL Group's Corporate Planning Regulations
- LUKOIL Group's Corporate Management Reporting Regulations.

By introducing KPIs in its corporate governance system, the Company can:

- formalize goals and objectives as a specific set of indicators at different planning horizons (from developing the Strategy to current planning)
- assess the overall performance of LUKOIL Group as well as individual performance of its business segments, business sectors, and assets
- motivate managers and employees to achieve targets and objectives by incorporating KPIs into their incentive system

For more details on using KPIs, see the "Top Management Remuneration System" section

KPIs are adjusted and updated as necessary, taking into account the revised strategic goals and objectives of the Company, changes in its asset portfolio, and external environment. LUKOIL Group's Set of KPIs approved in October 2017 has about 60 unique indicators. The total number of KPIs for LUKOIL Group across business segments, business sectors, and entities is over 400.

In 2017, LUKOIL adjusted its performance assessment system to include free cash flow into the Set of KPIs for the Group's key production entities. Similar adjustments will be applied to the incentive system since 2018 to enhance control over the Group's cash flows.

The E&P segment KPIs now also include compliance with limits and schedules for priority projects.

KPIs IN PLANNING

To ensure connection between the goals and objectives at different timelines a designated set of indicators within the KPI system is applied at all planning stages. As the planning horizon becomes shorter, the set of applicable KPIs expands.

In budget planning, KPIs are used as target guides both at the stage of target development for the top-down planning and at the stage of final formalization of targets and objectives in the form of benchmark indicators against which subsequent performance assessment is carried out.

PERFORMANCE MANAGEMENT THROUGH KPIs

KPIs are crucial for managing both the overall performance of LUKOIL Group and the individual performance of 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 helps fairly evaluate the Company's executives on the performance of the LUKOIL Group entities.

RISK MANAGEMENT AND INTERNAL CONTROL

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (RMICS)

PJSC LUKOIL's Risk Management and Internal Control System (RMICS) is an integral part of its corporate governance. It has been developed in compliance with recommendations of the Corporate Governance Code and generally accepted risk management and internal control rules and practices. The RMICS is organized and operates to assure that the following targets and objectives are achieved despite uncertainties and negative factors:

- the Company's strategic and operational goals;
- asset integrity;
- compliance of all types of reports with established requirements;
- compliance with the applicable laws and regulations of LUKOIL Group entities.

Risk management and internal control processes are interrelated ongoing processes followed by executive bodies and employees while performing their functions. They are integrated into the operations of LUKOIL Group entities, i.e. they are implemented along with all other business processes and projects, rather than separately. The Company puts a strong focus on promoting interaction between process members.

LUKOIL has implemented an approach to organizing the RMICS as a three-level system to protect the Company's interests.

LUKOIL believes that 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.

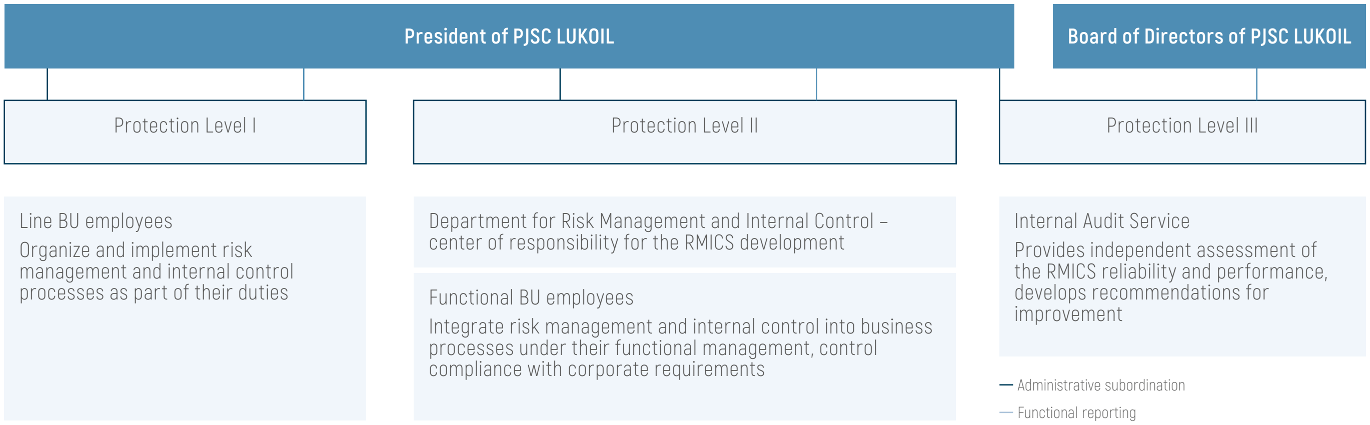
Key principles of, and approaches to, the RMICS organization in LUKOIL Group entities are described in the Risk Management and Internal Control Policy of PJSC LUKOIL (approved by the Board of Directors on October 28, 2016, Minutes No. 23) which complies with the generally accepted rules and details key targets and objectives of RMICS members.

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

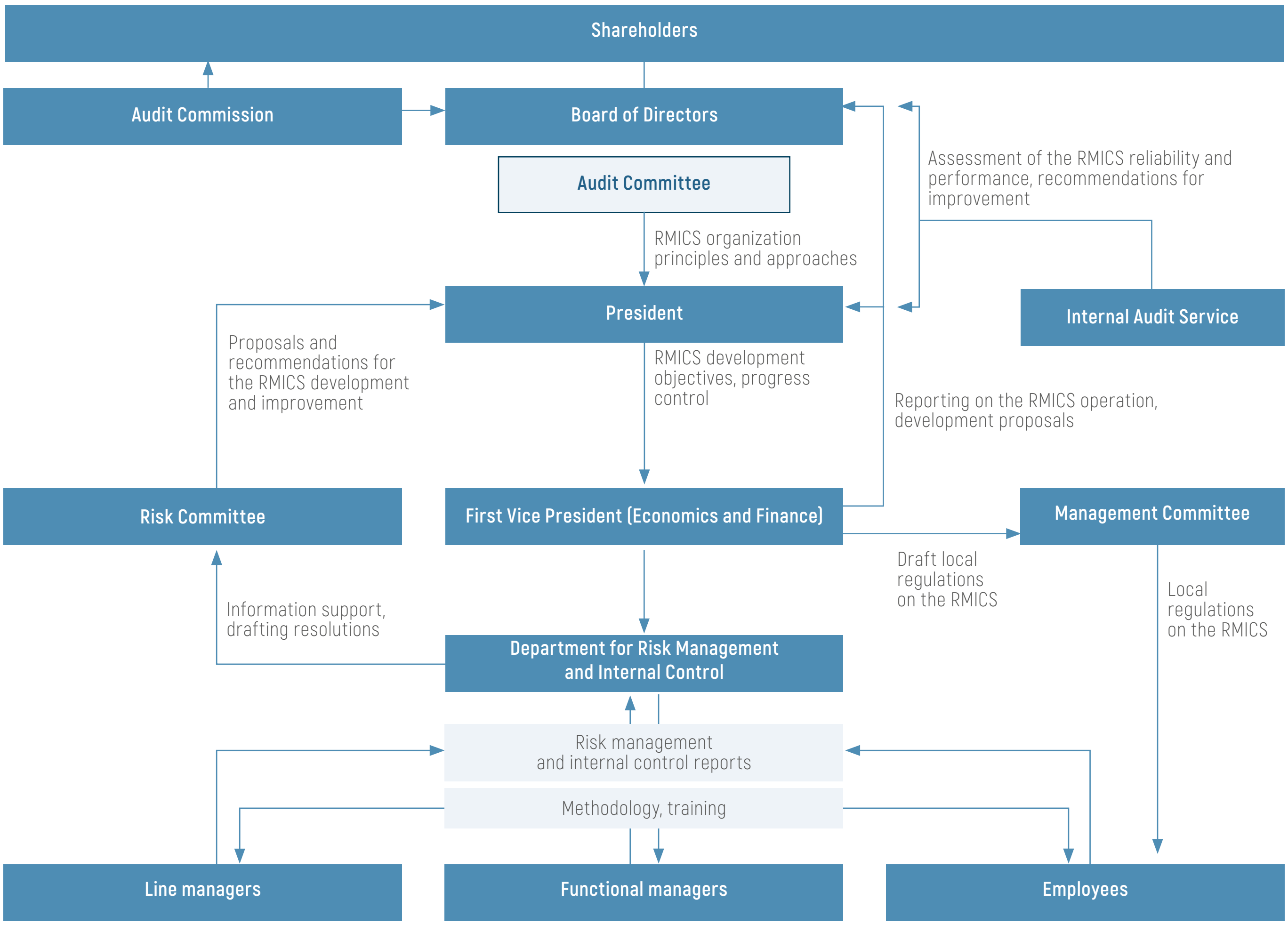
- Integration with the corporate governance system
- Focus on risk
- Business continuity
- Full coverage of the Company's business
- Adaptivity through self-improvement and development
- Uniform methodology

- 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

LUKOIL's interests protection system



RMICS at PJSC LUKOIL



Functional map of RMICS members

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

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

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

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

RISK MANAGEMENT

The Company is committed to developing its risk management system and is currently improving its corporate enterprise risk management (ERM) system to match the international best practices. Risk management development and improvement focus on:

- reviews, customization, and implementation of new risk management approaches proposed by the Committee of Sponsoring Organizations of the Treadway Commission in its concept "Enterprise Risk Management – Integrating with Strategy and Performance" (COSO, 2017)[1]
- integration of the risk management process into major management decision-making such as taking on major investment projects and proceeding to the active investment phase based on the results of the quantitative risk analysis
- development of guidelines for the Risk Management business process, including the application of probabilistic modeling and its use guidance in major management decision-making within the Company's management practice, and development of specific risk management guides
- optimizations in information sharing, response to external and internal environment changes, and monitoring risk management activities.

The Company consistently improves its risk management guidelines, which establish uniform requirements to the end-to-end risk management process across LUKOIL Group entities and determine management standards for individual most critical risk categories.

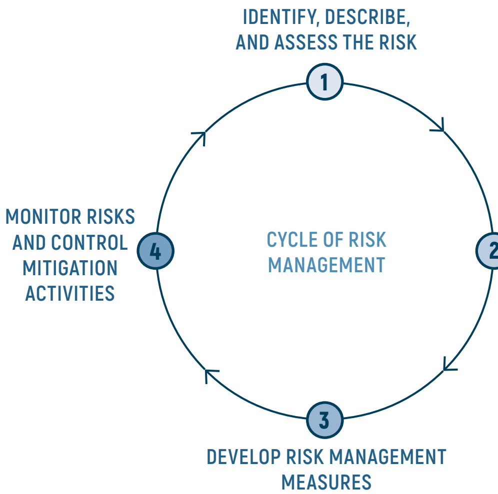
The Board of Directors and the Management Committee place a special focus on risk management to provide reasonable assurance of achieving objectives despite uncertainties and negative impacts. PJSC LUKOIL continuously identifies, describes, assesses, and monitors risks and develops measures to mitigate their adverse effect on the Company's business. At the same time, the Company's risk management forms an essential part of its business 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 impacting LUKOIL Group entity businesses, which are consistently assessed in terms of quantity, determined acceptable levels for each material risk, and developed measures to mitigate or prevent their adverse effect. The Company monitors the progress and effectiveness of its risk mitigation measures.

Taking into account the probabilistic and external nature of LUKOIL's risks, the Company cannot fully guarantee that its risk management measures will reduce their adverse effect 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 should they occur, will strive to mitigate their implications while keeping the possible damage to a minimum.

[1] Enterprise Risk Management – Integrating with Strategy and Performance.



DETERMINE THE RISK RESPONSE STRATEGY

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; therefore, it would be reasonable to discontinue the activities exposed to risk	The risk has no unacceptable implications, while efforts and costs to mitigate the risk exceed potential losses; therefore, it would be reasonable to cancel risk mitigation measures	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, including through development and implementation of internal controls
Measures to discontinue the activities exposed to risk	Risk mitigation measures are not necessary	Measures reducing the probability and/or magnitude of potential risk implications

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

- the automation of gathering, reviewing, reconciling, and storing risk data, thereby enhancing responsiveness and improving management
- the standardization of risk data presentation
- the build-up of a knowledge base
- the automation of preparation of consolidated risk reports for the Company's governance bodies.

For more details on risks, see Appendix 2"Risks"

Risk Committee

The Company established its Risk Committee in 2011 to address the matters of improving the risk management system and effectiveness of the risk management process. It is a collective risk management body under the Company's President. The goal, functions, rights, responsibilities, and procedures of the Risk Committee are determined by the Regulations on the Risk Committee. The membership structure of the Risk Committee is approved by the Company's President and includes Vice Presidents in charge of business segments. The Committee's functions include:

- coordinating the Company's risk management activities
- appointing owners of the Company's material cross-functional risks
- developing proposals and recommendations on the implementation of the Risk Management and Internal Control Policy.

INTERNAL CONTROL

To implement the Risk Management and Internal Control Policy of PJSC LUKOIL, the Company's Management Committee approved the Regulations on Internal Control at PJSC LUKOIL in October 2017 and made a series of organizational decisions to effect the Regulations on Internal Control to LUKOIL Group entities' day-to-day operations.

The Regulations on Internal Control describe the mandatory Group-wide standards of, and requirements to, organization, operation, and performance assessment of the internal controls, as well as internal control units and their tasks.

As part of the implementation of the above Management Committee decisions aimed at the optimized use of existing resources and minimization of avoidable losses through improving the performance of the internal controls, the following actions were taken as of the end of 2017:

- In line with the Regulations on Internal Control, the Company's subsidiaries developed and approved their specific internal control regulations and organized centers of responsibility for coordinating the development and enhancement of the internal controls.
- Educational aids on internal control organization and operation were developed and introduced for all LUKOIL Group entity employees involved in the implementation of the Regulations on Internal Control.
- LUKOIL developed 2018 action plans aligning the regulations governing all of the Company's operations with standards and requirements detailed in the Regulations on Internal Control in order to:
  - reassess the risks for processes regulated by relevant documents
  - assess the adequacy and reliability of the internal controls applicable for each material risk (within the existing roles and responsibilities)
  - develop and formalize, if necessary, missing internal controls in regulations and/or improve the existing controls to align them with the requirements to the design of controls established in the Regulations on Internal Control
  - set up an up-do-date framework for monitoring the performance of the internal controls
  - introduce a system for planning the development and enhancement of the internal controls within LUKOIL Group entities.

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. LUKOIL applies the following key procedures and methods to organize its internal controls.

Distribution of roles and responsibilities. LUKOIL Group has clear distribution of responsibilities at each stage of preparing its financial statements (both at the standalone subsidiary and consolidated levels). Entities may prepare their RAS statements independently or procure respective services from the Company's Regional Accounting Centers. IFRS statements of the Company's subsidiaries may be prepared independently, by the Accounting Service of PJSC LUKOIL, or by European Settlement Centers. The Company's President and Vice President, Chief Accountant, are responsible for preparing its consolidated financial statements[1].

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 reporting 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 the 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.

[1] The Chief Accountant since March 1, 2018.

The Group's unified accounting policy. For the purposes of preparing the consolidated financial statements under IFRS, the Company has in place the IFRS accounting policy approved by the order of PJSC LUKOIL, 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 for similar transactions and the comparability of results of LUKOIL Group entities.

Centralized decision-making. The Group makes centralized decisions on the following accounting and reporting matters:

- 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-organized trainings and consulting workshops, and independently.

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 2017, the Audit Commission confirmed the reliability of data in the Company's 2016 accounting (financial) statements and Annual Report, and the data in the Report on PJSC LUKOIL's Related / Interested Party Transactions in 2016. The Company had no unscheduled audits. The Audit Commission held five meetings in the reporting year.

In 2017, the Annual General Shareholders Meeting determined the remuneration for newly elected Audit Commission members in the amount of RUB 3,500,000 for each member.

Audit Commission membership in 2017	Position
Pavel Suloev Chairman of the Audit Commission of PJSC LUKOIL	Internal Control and Audit Director of CJSC Management Center Managing Company
Ivan Vrublevsky	Managing Director of LUKOIL Accounting and Finance Europe s.r.o.
Alexander Surkov	General Director at OOO LUKOIL–Volgograd Regional Accounting Center

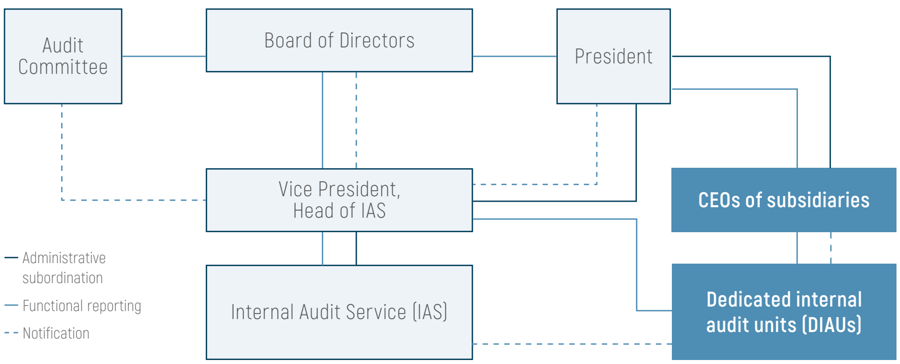
INTERNAL AUDIT

The purpose of LUKOIL Group's internal audit is to protect the Company's shareholder rights and interests, assist in achieving strategic goals and objectives through applying a holistic consistent approach to assessment and improvement of the corporate governance, risk management, and internal control processes.

The Internal Audit Service of PJSC LUKOIL complies with all applicable International Standards for the Professional Practice of Internal Auditing and the Code of Ethics for internal auditors adopted by the International Institute of Internal Auditors (the USA), and is guided by the local regulations on internal audit approved at PJSC LUKOIL.

The Company applies the generally accepted conceptual model of internal audit which complies with the International Standards for the Professional Practice of Internal Auditing and separates internal audit functions from internal controls and risk management. A special mode of functional and administrative reporting and accountability is established for internal audit to ensure the auditors' unbiased approach and the independence of audit units. Such form of accountability allows to provide the Company's governance bodies with reliable and up-to-date information on the effectiveness of the internal controls, corporate governance, and risk management systems.

Corporate internal audit system in 2017



2017 Results

As of the end 2017, internal audit units operated in 22 entities (including PJSC LUKOIL), with 10 of them providing additional internal audit services to 17 entities of LUKOIL Group. By the end of 2017, the actual headcount was 233 employees (93 employees at the Internal Audit Service (IAS) and 140 employees at dedicated internal audit units (DIAUs)).

In 2017, the Internal Audit Service and dedicated internal audit units at subsidiaries achieved the following key results.

- **Controls & Audits at LUKOIL Group entities.** In 2017, the Internal Audit Service conducted 18 audits, 2 of which were unscheduled, and the auditors of dedicated internal audit units conducted 161 audits, 3 of which were unscheduled.
  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.
- **Improvement of the guidelines supporting internal audit across LUKOIL Group. In 2017, the Company developed:**
  - a Temporary Procedure for Audit Assessment of the Risk Management Performance at LUKOIL Group (approved by Order of PJSC LUKOIL No. 164 dated October 17, 2017)
  - a Temporary Procedure for Audit Assessment of the Corporate Governance Performance at PJSC LUKOIL (approved by Order of PJSC LUKOIL No. 222 dated December 29, 2017).

As a result of risk management, internal control and corporate governance processes audit evaluation for the year 2017 conducted at the beginning of 2018, the Internal Audit Service gave justified positive conclusion on the efficiency of the processes.

Furthermore, upon development and approval of these guidelines, and adoption of the amended International Standards for the Professional Practice of Internal Auditing, Use Guidelines, and additional guides[1], the resolution of the Board of Directors of PJSC LUKOIL dated December 27, 2017 (Minutes No. 22) approved amendments to the following local regulations on the internal audit at LUKOIL Group:

- the Regulations on Internal Audit at PJSC LUKOIL
- the Rules for Internal Audit of Public Joint-Stock Company "Oil company 'LUKOIL'"
- the Regulations on Organizing and Conducting Audits at PJSC LUKOIL.

[1] Developed by the Board of Directors Standards Committee of the International Institute of Internal Auditors (the USA) – The Institute of Internal Auditors, Inc., USA.

Plans to further improve internal audit

In furtherance of 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 President of PJSC LUKOIL approved the 2017 Action Plan to Improve the Quality of Internal Audit at PJSC LUKOIL in January 2017. All actions planned for 2017 were completed in full and on time. These actions were aimed at:

- maintaining and improving the Group-wide framework of continuing professional development for internal auditors;
- enhancing the effective communication and advisory support across the Company's business units and LUKOIL Group's entities;
- ensuring a reasonable balance of transparency and confidentiality, subordination and reporting levels within the internal audit function at PJSC LUKOIL;
- improving the comprehensive internal audit assessment system at PJSC LUKOIL.

The key 2018 and mid-term objectives of the Internal Audit Service are as follows:

- consistently implement the Program to Improve the Quality of Internal Audit at PJSC LUKOIL for 2017–2021;
- implement the approved annual audit and advisory plans;
- perform regular monitoring of LUKOIL Group entities' execution of the resolutions of the Company's governance bodies and internal audit recommendations based on audit results;
- provide the Company's governance bodies with updated, accurate, and high quality audit data, including the evaluations of controls, risk management, and corporate governance;
- test the temporary procedures and controls and audits;
- enhance the performance of dedicated internal audit units at subsidiaries, including through the advisory assistance and guidelines provided by the Internal Audit Service;
- 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

LUKOIL selects its independent auditor based on proposals made by the Audit Committee of the Board of Directors and approves the auditor at the General Shareholders Meeting on an annual basis, in line with Russian laws.

The auditor's independence is determined by the International Standards on Auditing and the national auditing rules (standards) approved by resolutions of the Russian Government.

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 2017, 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 does not exceed 30%.

Controls & Audits

	Audits by the Internal Audit Service			Audits by Dedicated Internal Audit Units		
		including			including	
Year	Total	scheduled	unscheduled	Total	scheduled	unscheduled
2017	**18**	**16**	**2**	**164**	**161**	**3**
2016	18	15	3	183	177	6
2015	14	11	3	197	188	9

SUSTAINABILITY MANAGEMENT SYSTEM

The Company's long-term development model aims to meet the energy needs of society in an economically, environmentally, and socially acceptable way. Environmental, industrial, social, and personal safety has always been a top priority for the Company. Since its incorporation, the Company has conducted its business in a sustainable way, seeking to strike a balance between social and economic development and environmental sustainability. The Strategic Development Program of LUKOIL Group for 2018–2027 adopted by the Board of Directors in 2017 determines sustainability as one of strategic targets.

The Company's sustainability management system has been certified to ISO 14001:2004 Environmental Management System – Requirements and Use Guidance, and OHSAS 18001:2007 Occupational Health and Safety Management Systems – Requirements.

The achievement of sustainability objectives is controlled strategically (by the Board of Directors, the Strategy and Investment Committee of the Board of Directors, the Management Committee, the Health, Safety, and Environment Committee of PJSC LUKOIL) and operationally (by heads of functions and business units at the Head Office; executives of LUKOIL Group entities are responsible for application of sustainable development tools at their relevant entities). Sustainable development objectives are included in the employee motivation system and are applicable to employees at all levels across the Head Office of the Company, and to executives and managers at LUKOIL Group entities.

The Social Code of PJSC LUKOIL was updated in 2017 to include social responsibility provisions formalized by UN and International Labor Organization conventions.

The corporate sustainability management system comprises the following:

Members	Role
Board of Directors	• Defines general principles and approaches • Determines the Company's business priorities • Aligns and approves long- and mid-term strategic development plans and programs • Monitors the implementation of strategic sustainability tasks, plans, and development programs.
Strategy and Investment Committee of the Board of Directors	• Develops recommendations on setting up strategic objectives • Develops recommendations on determining business priorities • Analyzes the existing corporate development concepts, programs, and plans, as well as the competitive environment.
HR and Compensation Committee of the Board of Directors	• Develops core talent-related initiatives • Monitors the introduction and implementation of the Company's remuneration policy and various motivation programs, including long-term incentive plans for employees of the Company and its subsidiaries • Plans staff appointments, provides recommendations on nominees to the positions of the Corporate Secretary, Management Committee members, and the President of the Company.
Management Committee	• Elaborates and approves the Company's quarterly, annual, and long-term action plans • Develops and approves budgets and investment programs • Implements business plans operating control • Develops and implements the overall strategy of the Company's subsidiaries
Health, Safety, and Environment Committee of PJSC LUKOIL	• Develops the HSE Policy, objectives, targets, and key performance indicators of LUKOIL Group entities • Analyzes the effect of HSE initiatives • Develops proposals to improve the HSE Management System of LUKOIL Group, including the efficient allocation of resources to comply with the HSE requirements • Reviews measures for management of material HSE risks and environmental sustainability, including HSE initiatives.

In 2017, LUKOIL made a resolution to prepare its sustainability reports on an annual basis as of 2017.

BUSINESS ETHICS

PREVENTING CONFLICTS OF INTEREST INVOLVING BOARD MEMBERS

The Company puts a strong focus on prevention and mitigation of potential conflicts of interest involving its Board members. To prevent potential conflicts of interest, the Company introduced certain limitations and requirements to members of the Board of Directors.

In accordance with the Regulations on the Board of Directors of PJSC LUKOIL, Directors 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 this 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, Directors 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 in which the Company has an equity interest), and of being elected (appointed) to such governance bodies.

The Corporate Secretary monitors the compliance with the procedure for preventing conflicts of interest involving Board members.

PREVENTING ABUSE AND FRAUD BY THE COMPANY EMPLOYEES

Pursuant to the Corporate Security Policy of LUKOIL Group (approved by the resolution of the Management Committee of PJSC LUKOIL dated May 30, 2016 (Minutes No. 13), abuse of official position, fraud, and a conflict of interest are recognized as internal threats to the security of the Company and are defined as intentional or unintentional actions by employees causing financial, economic, material, reputational, or other damage to LUKOIL Group entities.

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 cooperation 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 at Group entities.

Employees are required to assess their official activities to identify any conflicts of their private interests with the Group's interests and prevent and avoid such situations. Potential conflicts of interest may be identified through personal relations, affiliation, social communications, property and financial relations. Employees and their managers shall report any existing conflict of interest situation immediately, as soon as the employee or his/her manager becomes aware of such conflict of interest (is reasonably certain about the conflict). Consideration of a conflict of interest situation is 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 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 Commission has nine persons, seven of which are also members of the Management Committee. The Commission registered six conflict of interest reports in 2017, none of which concerned human rights. In each case, measures were adopted to prevent further development of negative situations.

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 and also has in place 24/7 communication channels for accepting such reports.

For more details on the Business Ethics Commission see "Reference Information"

LUKOIL has in place a set of internal documents regulating its anti-corruption efforts:

- Code of Business Conduct and Ethics of OAO LUKOIL
- Corporate Security Policy of LUKOIL Group
- Risk Management and Internal Control Policy of PJSC LUKOIL
- LUKOIL Group Antimonopoly Policy
- Regulations on Internal Control at PJSC LUKOIL
- Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations
- Corporate Culture Rules at LUKOIL Group Entities
- Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Entities
- Contracting Rules of Public Joint-Stock Company "Oil company 'LUKOIL'"
- Regulations on Confidentiality at PJSC LUKOIL
- Requirements to Computer and Information Security at LUKOIL Group Entities

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.

Requirements of the Company's internal documents to business ethics and anti-corruption procedures translate into internal documents of LUKOIL Group entities.

As part of the induction process, new hires have to read the local anti-corruption regulations.

As a global company, LUKOIL is committed to ethical business practices and compliance with anti-corruption laws applicable in countries of operation of LUKOIL Group entities. The Company has zero tolerance for any form or manifestation of corruption in its operating activities, with the management acting as a role model to employees in combating corruption.

INSIDER INFORMATION CONTROL

As an issuer whose securities are traded on regulated markets both in Russia and in the UK, PJSC LUKOIL pays special attention to measures aimed at preventing the misuse of insider information.

The 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
- UK FCA Disclosure Guidance and Transparency Rules
- EU Market Abuse Regulation No. 596/2014 adopted by the European Parliament and the EU Council on April 16, 2014, which took effect in July 2016.

LUKOIL has in place the Insider Information Regulations of Public Joint-Stock Company "Oil company 'LUKOIL'"[1] and a number of local regulations on:

- circulating insider information within the Company;
- accessing insider information;
- disclosing insider information;
- 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 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 on performing transactions with the Company's securities during close periods. Pursuant to the

[1] Approved by the Board of Directors on June 27, 2015 (Minutes No. 14).

international best practices, limitations on securities transactions during close periods are also set for insiders who are not members of the Company's governance bodies.

The Company is constantly raising awareness about 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. LUKOIL's governance bodies are informed through special intranet information channels.

The Board of Directors controls the 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 for securities transactions performed by persons having access to insider information.

The Company monitors the processes of, and the procedures for, insider information control to prevent, detect, and stop its misuse and/or market manipulation. Monitoring measures carried out in 2017 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 2017, see Appendix 4"Information on Transactions with the Company's Ordinary Shares/DRs Performed by Members of the Board of Directors and Management Committee of PJSC LUKOIL in 2017"

INFORMATION SECURITY

PJSC LUKOIL considers its information security role in protecting the Company information, ensuring the accuracy, completeness, and reliability of external data, safeguarding the data provided by government authorities, personal data, and the customer and partner data.

LUKOIL introduced its Regulations on Handling Information Security Incidents at LUKOIL Group Entities in 2016 (approved by Order of PJSC LUKOIL No. 146 dated August 15, 2016).

To improve its IT function LUKOIL set up its IT Coordination Council, a collective advisory body headed by the President of PJSC LUKOIL and comprising, inter alia, Management Committee members. The Council coordinates and controls the progress of the IT Functional Development Program, and approves the IT Operation Policy, including information security requirements.

Company employees have a personal responsibility for taking security measures and are trained in information security on a regular basis.

The Company seeks to select and take security measures in line with the requirements and goals of our business and strike a good balance between transparency and openness, on the one hand, and maintaining confidentiality, on the other.

SUBSIDIARY MANAGEMENT SYSTEM

STRATEGIC SUBSIDIARY MANAGEMENT

The Board of Directors determines the priority areas of LUKOIL's operations. Accordingly, the Board approves key targets of the LUKOIL Group Budget, Investment Program, and Performance Benchmarks of LUKOIL Group, its business segments and business sectors. Thus, the Board of Directors determines focus 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 stakes 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 by the subsoil user, except for termination of subsoil use rights for 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.

The Company's governance bodies at all levels are involved in governing subsidiaries of PJSC LUKOIL within their respective authority.

For a more detailed list of key subsidiaries, see "Reference information" section on page 139

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 making decisions in line with the Procedure for Decision-Making on Participation in Other Entities.

LUKOIL Group has established its Restructuring Commission to assist in shaping the Group's organization to optimize the environment for pursuing its strategic goals. The Commission reports on the restructuring progress to the Management Committee on an annual basis.

The LUKOIL Group Restructuring Commission previews proposed acquisitions of stakes in other entities before escalating them to the Management Committee. The Management Committee makes decisions on the Company acquiring stakes in other entities within the scope of authority determined by the Company's Charter. In addition, the Management Committee approves measures for further restructuring of LUKOIL Group entities and other entities in which they directly hold an interest. In 2017, this decision was made on May 30, 2017 (Minutes No. 12).

APPROVAL OF SUBSIDIARIES' MATERIAL TRANSACTIONS[1]

For the purpose of enhancing control over material transactions made by its subsidiaries, the Company employs the Procedure for Approving Material Transactions Performed by Subsidiaries. Such transactions are made by subsidiaries only after their consideration and approval by the Management Committee in accordance with the Procedure. The Procedure does not apply to intra-group transactions.

At the same time, the Management Committee of PSJC LUKOIL approves material transactions made as part of approved investment projects according to the procedure established by the Company's local regulations governing the Group's investment activities.

DEVELOPMENT OF THE SUBSIDIARY MANAGEMENT SYSTEM

To improve LUKOIL's regulations, the Management Committee of PJSC LUKOIL approved the following local regulations in 2017, which govern property relations across LUKOIL Group:

- Regulations on Property Management at LUKOIL Group Entities
- Regulations on Disposal of Shares, Equity Stakes in Entities Owned by LUKOIL Group Entities outside LUKOIL Group.

LUKOIL has also amended its Marketing Policy for Calculating Interest Rates on Loans of LUKOIL Group Entities by adjusting the calculation of interest rates on intra-group loans to harmonize the Policy with existing regulations.

To improve the patenting and licensing and optimize the use of intellectual property within Russian entities of LUKOIL Group, the Company approved the Regulations on the Legal Protection and Use of Intellectual Property within Russian Entities of LUKOIL Group.

The LUKOIL Group Antimonopoly Policy (the Antimonopoly Policy), approved by the Management Committee in 2016, was introduced across LUKOIL Group entities during 2017. LUKOIL's Antimonopoly Policy is a set of internal legal, organizational, and management measures ensuring compliance with the antitrust laws across all business segments in order to help establish a healthy competitive environment at the markets where the Company operates, providing for timely identification and prevention of regulatory risks, developing high Company standards and the culture of compliance with antitrust standards (antimonopoly compliance).

The Policy outlines key operational principles for LUKOIL Group entities and their employees, aimed at preventing actions (omission) that may violate the antitrust laws, regulates the conduct of LUKOIL Group entity employees as part of their duties, and provides for the implementation and development of measures to prevent such violations, including through raising awareness and training.

[1] Material transactions of subsidiaries include transactions of the Company's subsidiaries where they acquire, or (may) 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 over \$20 million, except for short-term (less than one year) loans and credit facilities obtained in the ordinary course of business on an arm's length basis.

SHARE CAPITAL

The Company has a charter capital of 850,563,255 ordinary shares with a nominal value of RUB 0.025 each. As of December 31, 2017, DRs were issued to represent 52.4% of the Company ordinary shares.

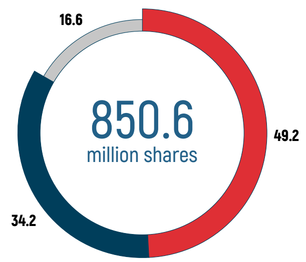
LUKOIL ranks among the Top 10 companies with the highest free-float among the issuers listed on the Moscow Exchange.

In 2017, LUKOIL changed its depositary for the Company's Rule 144A and Level I American Depositary Receipt (ADR) programs, having replaced The Bank of New York Mellon for Citibank, N.A. This replacement will support further development and improvement of the programs to the benefit of PJSC LUKOIL's ADR holders. PJSC Sberbank will provide custody of the local underlying shares.

49%

Free float shares as of December 31, 2017

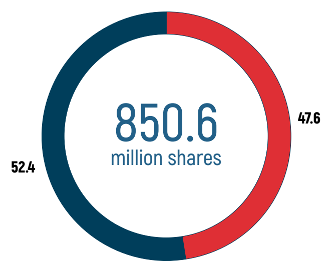
PJSC LUKOIL equity capital breakdown as of December 31, 2017, %



Free float
Management[1]
Shares held by controlled entities

[1] Shares of Directors, including Vagit Alekperov – 23.13%, Leonid Fedun – 9.91%, and shares of Management Committee members, Including direct and indirect ownership. Except for the persons listed above, the Company management is not aware of any shareholders (holders of shares) holding more than 5% in the Company's charter capital.

Shares and depositary receipts of PJSC LUKOIL as of December 31, 2017, %



Shares
Depositary receipts

Major shareholders of PJSC LUKOIL as of December 31, 2017[2]

	% of shares as of December 31, 2016	% of shares as of December 31, 2017
National Settlement Depository (nominal shareholder)[3]	92,15	92,61
SDK Garant (nominal shareholder)	2,52	2,52

[2] Holding more than 1% of the charter capital, as per the shareholder register.
[3] Non-Banking Credit Organization Joint-Stock Company National Settlement Depository. Status of the central depositary granted by Decree of the Federal Financial Markets Service of Russia No. 12-2761/PZ-I dated November 6, 2012.

Major institutional investors in shares and DRs as of December 31, 2017

Name	Country	Share in the charter capital, %
VANGUARD GROUP	USA	2.3
BLACKROCK	USA	1.6
SCHRODERS	UK	1.2
LAZARD	USA	0.7
JPMORGAN CHASE & CO	USA	0.6
STATE OF CALIFORNIA	USA	0.5
LSV ASSET MANAGEMENT	USA	0.5
DIMENSIONAL FUND ADVISORS	USA	0.5
FMR	USA	0.4
BNP PARIBAS	France	0.4

Source: Bloomberg. Investors are domiciled by their head offices.

SECURITIES

Ordinary shares and depositary receipts tickers of PJSC LUKOIL

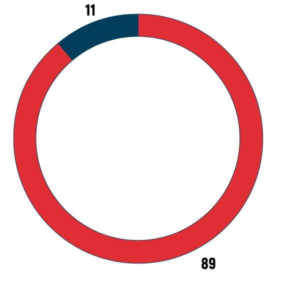
Ticker	Exchange	Type	Listing
LKOH	**Moscow Exchange**	**Ordinary shares**	**1st level**
The ordinary shares are admitted to the Moscow Exchange, included in the A1 quotation list, and are one of the most liquid instruments in the Russian equity market.			
LKOD	**London Stock Exchange**	**Depositary receipts**	**Standard**
The depositary receipts (DRs) of PJSC LUKOIL are listed on the London Stock Exchange where the largest part of the Company's securities is 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, PJSC LUKOIL's depositary receipts trade on the Munich, and Stuttgart Stock Exchanges.

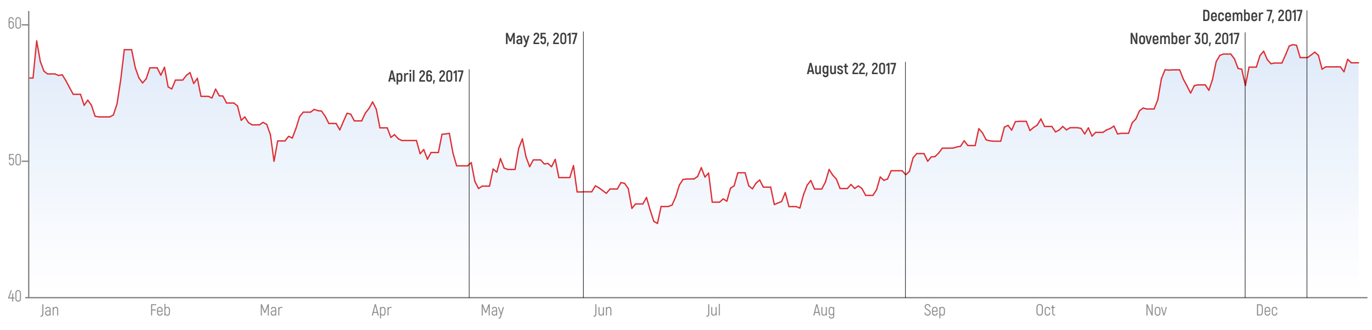
Indices which include the stock of PJSC LUKOIL

Index	The Company's weight as of December 31, 2017, %
FTSE Russia IOB	18.7
MOEX Russia Index	13.5
MSCI Russia	13.8
MSCI Emerging Markets Eastern Europe	9.0
MSCI Emerging Markets EMEA	3.3
Bloomberg World Oil & Gas	1.6

Recommendations of analysts of investment banks and financial companies[1] for LUKOIL shares, as of December 31, 2017, %



PJSC LUKOIL DR price on the LSE in 2017, US dollars



- **April 26, 2017:** The Board of Directors recommended the total 2016 dividend of RUB 195 per share (+10% year-on-year).
- **May 25, 2017:** LUKOIL completed the sale of its diamond business.
- **August 22, 2017:** LUKOIL launched key production facilities within its Southwest Gissar project in Uzbekistan.
- **November 30, 2017:** LUKOIL took the final investment decision on the delayed coker at its Nizhny Novgorod Refinery.
- **December 7, 2017:** LUKOIL started drilling the first production well at Phase 2 of the V. Filanovsky field.

[1] Including: Bank of America Merrill Lynch, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Morgan Stanley, Raiffeisen Bank, Renaissance Capital, UBS, WOOD & Company, ATON, BCS, Gazprombank, VTB Capital, Otkritie, Sberbank CIB, Uralsib.

Stock Price Performance. In 2017, the US dollar-denominated RTS Index was flat, whereas the Russian ruble-denominated MOEX Russia Index was down by 6%. The Russian market was among outsiders despite the global growth of the equity markets, stronger investor appetite for emerging markets, and sustainable growth of oil prices in the second half of the year. LUKOIL shares were down on the Moscow Exchange by 3% tear-on-year to RUB 3,335 per share at the end of 2017, ahead of the MOEX Oil & Gas Index which had slipped by 9%. The Company's depositary receipts on the London Stock Exchange went up by 2% to $57.2 per DR. As of the year-end, almost all analysts of investment banks and financial companies recommended to buy LUKOIL shares.

Bonds. The Company pursues a flexible debt portfolio management policy and borrows in the Russian and international capital markets.

All three leading international rating agencies have assigned investment-grade ratings to LUKOIL:

	Rating	Outlook	Review Date
Fitch	BBB+	Stable	November 2, 2017
Standard & Poors	BBB	Stable	September 19, 2017
Moody's	Baa3	Positive	January 29, 2018

Outstanding Eurobonds as of December 31, 2017

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

The bonds were issued by LUKOIL International Finance B.V., a 100% subsidiary of PJSC LUKOIL registered in the Netherlands.

DIVIDENDS

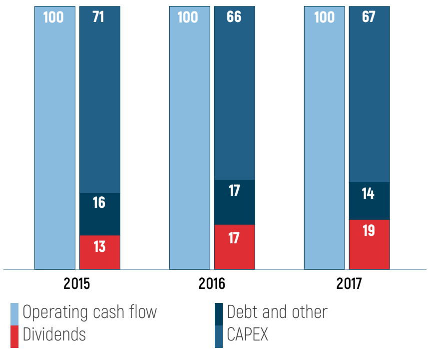
LUKOIL's Dividend Policy is based on balancing the interests of the Company and its shareholders. Key principles underlying PJSC LUKOIL's Dividend Policy are as follows:

- Priority of dividends in profit distributions;
- Commitment to provide the dividend payout ratio of not less than 25% of the consolidated IFRS profit which can be adjusted for non-recurring losses and gains.
- Intention to provide the annual growth of the ruble-denominated dividend per share at least in line with the ruble inflation in the reporting year.

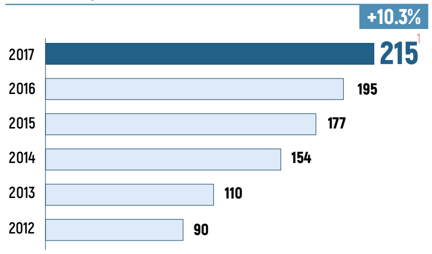
To maintain steady dividend payouts, the Company strives to pay out dividends to its shareholders at least twice a year.

Based on 2017 full-year results, the Board of Directors recommended to the General Shareholders Meeting to increase the dividend per share by 10.3% to RUB 215 (taking into account the interim dividend).

Uses of Cash, %



Dividend per share, RUB



The report on dividends accrued and paid

Period	2015			2016			2017		
	9M FY2015	FY2015	TOTAL:	9M FY2016	FY2016	TOTAL:	9M FY2017	FY2017	TOTAL:
Accrued dividend per share, RUB	65	112	**177**	75	120	**195**	85	130[1]	**215**[1]
Accrued dividend, RUB million	55,287	95,263	**150,550**	63,792	102,068	**165,860**	72,298		
The issuer's governance body deciding on dividend payouts	Extraordinary General Shareholders Meeting	Annual General Shareholders Meeting		Extraordinary General Shareholders Meeting	Annual General Shareholders Meeting		Extraordinary General Shareholders Meeting		
Date of the meeting of the issuer's governance body deciding on the dividend payout	December 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	June 21, 2017, Minutes No. 1 dated June 23, 2017		December 4, 2017, Minutes No.2 dated December 6, 2017		
Declared dividend payout period	up to January 14, 2016 / up to February 4, 2016[2]	up to July 25, 2016 / up to August 15, 2016[2]		up to January 12, 2017 / up to February 2, 2017[2]	up to July 21, 2017 / up to August 11, 2017[2]		up to January 12, 2018 / up to February 2, 2018[2]		
Ratio of unpaid to accrued dividends, %[3]	0.078712	0.095373	**0.089255**	0.089101	0.096702	**0.093778**	0.102508		

[1] Total dividend amount recommended by the Board of Directors for the 2017 results.
[2] 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.
[3] No dividend payouts were made to the shareholders who had failed to provide their payout details as per Article 42 of Federal Law No. 208-FZ On Joint-Stock Companies dated December 26, 1995.

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 effects regular and timely publications of press releases and disclosures of material facts on major developments within the Group.

The Company strives to continuously increase its informational openness and transparency through publishing a wide range of information products beyond applicable statutory requirements. For example, in addition to the mandatory annual publication of its Annual Report, the Company publishes the Analyst Databook containing detailed digital data on its operational and financial performance. On a quarterly basis, in addition to statutory financial statements prepared under Russian and international standards, the Company publishes financial presentations and aggregated financial and operating performance results in Excel format.

The resolution to prepare LUKOIL's sustainability reports on an annual basis starting from 2017 was an important initiative towards higher transparency on sustainability. LUKOIL also received the ISS rating in both the Environmental and Social categories for the first time in its history, having scored the lowest risk levels of 1–2 out of 10 points. The Company was also reviewed under the Corporate Human Rights Benchmark, an international benchmark of corporate human rights performance, landing the second place among Russian companies and the first place in the Russian energy sector.

LUKOIL also participates in the annual Carbons Disclosure Project (CDP), receiving a D rating in 2017 – the average industry score.

In 2017, LUKOIL Group launched its new web complex uniting around 100 multi-lingual pages on the same platform. The new official website version helps find extensive information covering all segments of the Company's business, its key projects and highlights, products and marketing network, as well as stakeholder relations.

To enhance its openness, the Company presents its financial statements during quarterly conference calls, conducts other presentations, organizes site visits, senior management speeches at conferences, face-to-face meetings and communications. The Company regularly responds to inquires made by stakeholders, including the media, institutional investors, environmental organizations, and shareholders. In 2017, it was 15 years since LUKOIL's DRs and shares had been granted a full secondary listing on the London Stock Exchange.

EXPERT ASSESSMENT

High disclosure quality and adherence to the international best practices helped LUKOIL win the 20th Annual Report Competition hosted by the Moscow Exchange and RCB Media Group. Its 2015–2016 Sustainability Report was awarded in the Best Report on Corporate Social Responsibility and Sustainable Development category. According to the results of the annual report competition organized by Expert RA rating agency, LUKOIL's Annual Report won the Best Disclosure of Corporate Governance Information in an Annual Report category.

2018 Financial Calendar

Strategy Day	
Presentation of the Company's strategy in London	March 23, 2018
Financial Results Announcement:	
FY2017	March 21, 2018
Q1 2018	May 28, 2018
Q2 2018	August, 2018
Q3 2018	November, 2018
2017 Dividends	
Recommendation by the Board of Directors	April 24, 2018
Dividend record date	July 11, 2018
9M FY2018 Interim Dividends	
Recommendation by the Board of Directors	October, 2018
Dividend record date	December, 2018
General Shareholders Meeting	
Annual General Shareholders Meeting	June 21, 2018
Extraordinary General Shareholders Meeting	December, 2018
Annual Publications	
Annual report	May 18, 2018
Analyst Databook	May 18, 2018

REFERENCE INFORMATION

ABOUT THE COMPANY

Public Joint Stock Company "Oil company "LUKOIL" (hereinafter referred to as the "Company") was established in accordance with Decree No. 1403 of the President of the Russian Federation On Specific Features of the Privatization and Transformation into Joint Stock Companies of State Enterprises and Industrial and Research-Industrial Associations in the Oil and Oil-Refining Industries and Oil Product Supply, dated November 17, 1992 and Directive No. 299 of the Council of Ministers – Government of the Russian Federation On the Establishment of Open Joint Stock Company "Oil company "LUKoil," dated April 5, 1993, for the purpose of industrial, economic 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.

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Fax: +7 495 627 4564
E-mail: shareholder@lukoil.com
Shareholder's Personal Account: https://lk.reggarant.ru/lkaluk/Account/Login

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E-mail: ethics@lukoil.com

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E-mail: fkc@lukoil.com

Registrar Company
LLC Registrator "Garant"
6, Krasnopresnenskaya Imbankment, Moscow, 123100, Russia
Tel.: +7 495 221 3112, +7 800 500 2947
Fax: +7 495 646 9236
E-mail: mail@reggarant.ru

Depositary
Citibank, N.A.
Russian office: 6, Gasheka Street, Moscow, 125047, Russia
UK office GB E14 5LB, London, 25 Canada Square
US offices: 10013, New York, NY, 388 Greenwich Street; NJ 07310, Jersey City, NJ, 480 Washington Boulevard, 30th Floor
Tel: +7 495 642 7644
E-mail: michael.klochkov@citi.com, drdividends@citi.com

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

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.

ABOUT THE REPORT

PJSC LUKOIL Annual Report presents key information on LUKOIL Group's overall performance in 2017 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.

THE COMPANY'S OTHER REPORTS

- Analyst Databook (operational and financial statistics, xls version)
- Sustainability Report (information on the Company's environmental efforts and social responsibility)

Reports are available on the Company's website at **www.lukoil.ru under the Investors section.**

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. 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 2017 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 2017 (58.4 rubles/US dollar) 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 oil companies include Royal Dutch Shell, Total, 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", "LUKOIL Group", "the Group", "LUKOIL", "the Company", "we", and "our" throughout this document are all equivalent for the purposes of this Report and refer to LUKOIL Group of companies, PJSC LUKOIL and/or its subsidiaries, depending upon the context in which the terms are used.

AI – Russian gasoline grades indicating the research octane number (RON)
APG – associated petroleum gas
BoD – Board of Directors
boe – barrel of oil equivalent
BPS – booster pump station
CCGT – combined-cycle gas turbine
CDP – Carbon Disclosure Project
CDU TEK – The Central Dispatching Unit of the Fuel and Energy Complex of Russia
CHPP – combined heat and power plant
CIS – The Commonwealth of Independent States
CPC – The Caspian Pipeline Consortium
CPP – central processing platform
DIAU – dedicated internal audit unit
DRs – depositary receipts
EBITDA – Earnings before Interest, Taxation, Depreciation & Amortization
EGM – Extraordinary General Shareholders Meeting
EOR – enhanced oil recovery
ERM – enterprise risk management
ESPO – the Eastern Siberia–Pacific Ocean pipeline
FRS – The US Federal Reserve System
GDP – Gross Domestic Product
GPC – gas processing complex
GPP – gas processing plant
GPU – gas processing unit
GTPP – gas turbine power plant
GTU – gas treatment unit
HOF – head onshore facilities
HPP – hydroelectric power plant
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
IRFP – ice-resistant fixed platform
JSC – Joint Stock Company
JV – joint venture
KPI – key performance indicator
LQP – living quarters platform
M&A - Mergers and Acquisitions
MCS – main compressor station
MET – mineral extraction tax
MICEX – Moscow Exchange
MSHF – multi-stage hydrofracturing
NGL – natural gas liquids
NPS – Net Promoter Score
OAO (OJSC) – Open Joint Stock Company
OGPB – Oil and Gas Production Board
OOO (LLC) – Limited Liability Company
OPEC – Organization of Petroleum Exporting Countries
PAO (PJSC) – Public Joint Stock Company
PSA – Production Sharing Agreement
R&D – Research and Development
RAS – Russian Accounting Standards
RF – The Russian Federation
RITEK – Russian Innovation Fuel and Energy Company
RMICS – Risk Management and Internal Control System
RSPP – The Russian Union of Industrialists and Entrepreneurs
RTS – Russia Trading System (Index)
RUB – Russian rubles
SAGD – Steam-Assisted Gravity Drainage
SEC – US Securities and Exchange Commission
Standard rate – a tax rate without preferential tax treatment
toe – tonne of oil equivalent
TSR – total shareholder return
UGSS – Unified Gas Supply System
UN – The United Nations
UNDP – United Nations Development Program
USD, $ – US dollars
VGO – vacuum gas oil
WWF – World Wide Fund for Nature

LUKOIL GROUP ENTITIES AND THEIR NAMES USED IN THE REPORT

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 OOO LUKOIL-West Siberia
Varandei terminal	LLC Varandei terminal
ISAB Refinery	ISAB S.r.l.
Zeeland Refinery	Zeeland Refinery N.V.
Usinsky GPP	Usinsky GPP LLC LUKOIL-Komi
Korobkovsky GPP	LLC LUKOIL-KGPZ
Karpatneftekhim	LLC KARPATNEFTEHIM (Ukraine)
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

KEY SUBSIDIARIES AND OTHER ENTITIES WITHIN THE GROUP AS OF DECEMBER 31, 2017

Exploration and Production

Russia

West Siberia
- OOO LUKOIL-West Siberia
- JSC RITEK (TPE RITEK-Beloyarskneft)
- LLC LUKOIL-AIK
- LLC TURSUNT
- LLC ChumpassNefteDobycha

Timan-Pechora
- LLC LUKOIL-Komi
- LLC Bashneft-Polus (25.1%)

Urals
- LC LUKOIL-PERM
- LLC UralOil
- LLC PermTOTIneft (50%)

Volga
- LLC LUKOIL-Nizhnevolzhskneft
- JSC RITEK (TPE Volgogradneftegaz, TPE RITEK-Samara-Nafta)
- LLC JV Wolgodeminoil (50%)

Other
- LLC LUKOIL-KMN
- JSC RITEK (TPE TatRITEKneft)
- JSC Oil Company Priazovneft (49%)

Kazakhstan
- LUKOIL Overseas Karachaganak B.V.
- LUKARCO B.V.
- JSC TURGAI PETROLEUM (50%)
- LLP Tengizchevroil (5%)

Uzbekistan
- LUKOIL Overseas Uzbekistan Ltd.
- SOYUZNEFTEGAZ VOSTOK LIMITED

Iraq
- LUKOIL Overseas Iraq Exploration B.V.
- LUKOIL MID-EAST LIMITED

Egypt
- LUKOIL OVERSEAS EGYPT LIMITED

Azerbaijan
- LUKOIL Overseas Shah Deniz Ltd.

Norway
- LUKOIL Overseas North Shelf AS

Nigeria
- LUKOIL Overseas Nigeria Limited

Romania
- LUKOIL Overseas Atash B.V.

Ghana
- LUKOIL OVERSEAS GHANA TANO LIMITED

Cameroon
- LUKOIL Overseas Etinde Cameroon Sarl

Mexico
- LUKOIL UPSTREAM MEXICO, S. de R.L. de C.V.

Refining, Marketing and Distribution

OIL AND GAS PROCESSING

Russia
- LLC LUKOIL-Volgogradneftepererabotka
- LLC LUKOIL-Nizhegorodnefteorgsintez
- LLC LUKOIL-Permnefteorgsintez
- LLC LUKOIL-UNP
- LLC LUKOIL-KGPZ

Italy
- ISAB S.r.l.

Bulgaria
- LUKOIL Neftohim Burgas AD (99.83%)

Netherlands
- Zeeland Refinery N.V. (45%)

Romania
- PETROTEL-LUKOIL S.A. (99.72%)

PETROCHEMICALS

Russia
- LLC Saratovorgsintez
- LLC Stavrolen

BUNKERING

Russia
- LLC LUKOIL-BUNKER
- OOO LUKOIL MarinBunker

Bulgaria
- LUKOIL-Bulgaria Bunker EOOD

AIRCRAFT REFUELING

Russia
- LLC LUKOIL-AERO
- OOO LUKOIL-Varandei-AVIA

Bulgaria
- LUKOIL Aviation Bulgaria EOOD

LUBRICANTS

Russia
- OOO LLK-International
- LLC INTESMO (75%)
- LUKOIL LUBRICANTS EAST EUROPE S.R.L.
- LUKOIL Lubricants Europe GmbH

Turkey
- LUKOIL Lubricants Middle East
- Madeni Yag Sanayi ve Ticaret Limited Sirketi

POWER GENERATION

Russia
- LLC LUKOIL-Astrakhanenergo
- LLC LUKOIL-Volgogradenergo
- LLC LUKOIL-Kubanenergo
- LLC LUKOIL-Rostovenergo
- LLC LUKOIL-Stavropolenergo
- LLC LUKOIL-Ecoenergo
- OOO Volgodonskaya Teplovaya Generatsia
- LLC Kamyshin CHPP
- LLC Astrakhan Heat Supply Networks
- LLC Volgodonsk Heat Supply Networks
- LLC Volzhsk Heat Supply Networks
- LLC Rostov Heat Supply Networks
- OJSC KTE
- LLC LUKOIL-ENERGOSETI
- OOO Teplovaya Generatsia G. Volzhskogo
- LLC LUKOIL-CUR
- LLC LUKOIL-ENERGOSERVIS
- LLC LUKOIL-Energoengineering

Romania
- LAND POWER S.A.
- S.C. LUKOIL ENERGY & GAS ROMANIA S.R.L.

TRANSPORTATION

Russia
- OOO LUKOIL-Trans
- LLC Varandei Terminal
- LLC LUKOIL-KNT
- JSC RPK-Vysotsk LUKOIL-II
- AO LUKOIL-Chernomore

Latvia
- VARS
- LUKOIL Lubricants Middle East
- Madeni Yag Sanayi ve Ticaret Limited Sirketi

DISTRIBUTION

Russia
- LLC LUKOIL-Volganefteprodukt
- LLC LUKOIL-Nizhnevolzhsknefteprodukt
- LLC LUKOIL-Permnefteprodukt
- LLC LUKOIL-Severo-Zapadnefteprodukt
- LLC LUKOIL-Uralnefteprodukt
- LUKOIL-Centrnefteprodukt
- LLC LUKOIL-Chernozemenefteprodukt
- LLC LUKOIL-Yugnefteprodukt
- OOO LICARD
- OOO LUKOIL-Reservnefteprodukt

Azerbaijan
- CJSC LUKOIL-Azerbaijan

Belarus
- IOOO LUKOIL-Belarus

Belgium, Luxembourg
- LUKOIL Belgium N.V.

Bulgaria
- LUKOIL BULGARIA EOOD

Georgia
- LLC LUKOIL-GEORGIA

Italy
- LUKOIL Italia S.r.l.

Macedonia
- LUKOIL MAKEDONIJA DOOEL Skopje

Moldova
- LUKOIL-Moldova S.R.L.

Netherlands
- LUKOIL Netherlands B.V.

Romania
- LUKOIL ROMANIA S.R.L.

Serbia
- LUKOIL SRBIJA AD Beograd (99.42%)

USA
- LUKOIL NORTH AMERICA LLC

Turkey
- LUKOIL Eurasia Petrol Anonim Sirketi

Finland
- Oy TeboilAb

Croatia
- LUKOIL Croatia Ltd.

Montenegro
- LUKOIL MONTENEGRO DOO, Podgorica

TRADING

Switzerland
- LITASCO SA

The complete list of organizations is available on the Company's website at **www.lukoil.ru** in the **Company – Business Operation** section

The Annual Report of PJSC LUKOIL is preliminarily approved by the Board of Directors of PJSC LUKOIL (Minutes No. 1 dated May 15, 2018).

The Audit Commission of PJSC LUKOIL has confirmed the reliability of data contained in this Annual Report.

Vagit Alekperov

President and Chairman of the Management Committee of PJSC LUKOIL

LUKOIL

APPENDICES

PJSC LUKOIL ANNUAL REPORT 2017

CONTENTS

APPENDIX 1.

CORPORATE GOVERNANCE CODE COMPLIANCE REPORT

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

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

The Code is the key document regulating national corporate governance standards and is available on the Bank of Russia's website at http://www.cbr.ru/sbrfr/files/legislation/letters/2014/Inf_apr_1014.pdf.

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

In particular, the internal audit was reorganized to create the Internal Audit Service, the head of which is independent of the Company's executive bodies and reports directly to the Board of Directors. A standalone function in charge of internal controls and risk management was also established. As recommended by the Code, the Company has in place the Corporate Secretary, who is independent of the Company's executive bodies and is provided with the full power and accessibility to resources required to perform assigned duties. In the reporting year, the Corporate Secretary presented its first 2016–2017 Performance Report to the Board of Directors. As of the date of publication, the Board of Directors can safely confirm that the Company has complied with all core principles of the Code (i.e. the principles specified in the Code under two-digit numbers).

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

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

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

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

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

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

In the reporting year, the corporate governance was mostly improved for usability.

For example, at the Extraordinary General Meeting held in 2017, the Company's shareholders were offered the option of electronic voting.

In accordance with the Regulations on Internal Audit at PJSC "LUKOIL", procedures for controls & audits were tested and improved in the reporting year.

Since corporate reporting is an important tool of sharing information with shareholders and other stakeholders, the Company sought to present complete and comprehensive information about its operations. As a result of these efforts, PJSC "LUKOIL" Annual Report 2016, as well as LUKOIL Group Sustainability Report 2015–2016 were awarded at the 20th Annual Report Competition organized by the Moscow Exchange and RCB Media Group, with PJSC "LUKOIL" Annual Report 2016 named the winner in one of the categories.

In the reporting year, the Company made some adjustments to its internal corporate governance regulations to incorporate changes in corporate legislation and the accumulated expertise. Specifically, a new version of the Regulations on Provision of Information to Shareholders of Public Joint-Stock Company "Oil Company 'LUKOIL'", as well as the Regulations on Internal Control at PJSC "LUKOIL" were approved.

The compliance assessment against the recommendations of the Corporate Governance Code is presented below using the table template included in the Bank of Russia's Letter No. IN-06-52/8 dated 17 February 2016, and follows the filling out guidelines described in the letter.

The Board of Directors certifies that all data in this Report contains full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2017.

	Corporate governance principles	Compliance criteria	Compliance status	Reasons for non-compliance
1.1	The company shall ensure fair and equitable treatment of all shareholders in exercising their rights to participate in the governance of the company.			
1.1.1	The company shall ensure the most favorable conditions for its shareholders to participate in the general meeting, develop an informed position on items on the agenda of the general meeting, coordinate their actions, and voice their opinions on items considered.	1. The company's internal document approved by the general meeting of shareholders governing the procedures to hold general meetings of shareholders is publicly available. 2. The company provides accessible means of communication with the company, such as a hotline, e-mail or online forum, to enable shareholders to express their opinion and send questions on the agenda in preparation for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period.	☑ Full ☐ Partial ☐ None	
1.1.2	The procedure for giving notice of, and providing relevant materials for, the general meeting shall enable shareholders to properly prepare for attending the general meeting.	1. The notice of an upcoming general shareholders meeting is posted (published) online at least 30 days prior to the date of the general meeting. 2. The notice of an upcoming meeting indicates the location of the meeting and the documents required for admission. 3. Shareholders were given access to the information on who proposed the agenda items and who nominated candidates to the company's board of directors and the audit commission.	☐ Full ☑ Partial ☐ None	Criterion 3 is partially complied with. In 2017, the Company's shareholders were not given access to the information on who proposed the agenda items and who proposed nominees to the Board of Directors and the Audit Commission. However, part of this information was shared in the reports of the Corporate Secretary at the 2017 Annual General Shareholders Meeting of PJSC "LUKOIL" on the agenda items related to electing the Company's Board of Directors and Audit Commission. In the future, the Company will seek to meet these recommendations when preparing for its General Shareholders Meetings.

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

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

1.2.4	The company shall strive to exclude any ways for its shareholders to receive profit (income) from the company other than dividends and liquidation value.	1. To exclude any ways for its shareholders to receive profit (income) from the company other than dividends and liquidation value, the company's internal documents provide for controls to ensure timely identification and procedure for approval of transactions with affiliates (associates) of the company's substantial shareholders (persons entitled to use the votes attached to voting shares) in cases when the law does not formally recognize these transactions as related-party transactions.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially complied with. The Company's internal documents detail procedures for approval or subsequent approval of transactions recognized as related-party transactions only for relationships covered by the Federal Law On Joint-Stock Companies. The Company's internal documents, however, set additional transaction controls. The Company has in place the Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations approved by the Company's Management Committee, which establish a uniform procedure for avoiding conflicts of interest, and if such a situation arises – for measures to avoid its adverse impact on the process and business performance of LUKOIL Group entities. Moreover, according to the Contracting Rules of the Company 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.
1.3	Corporate governance system and practices ensure equal treatment for all shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equal treatment by the company.			
1.3.1	The company has created conditions for fair treatment of each shareholder by the governing bodies and the company's controlling entities, including conditions ruling out abuse of minority shareholders by major shareholders.	1. In the reporting period, the procedures for managing potential conflicts of interest among major shareholders were efficient, and the board of directors paid due attention to conflicts among shareholders, if such conflicts occurred.	☑ Full ☐ Partial ☐ None	

1.3.2	The company shall not perform actions which lead or may lead to artificial redistribution of corporate control.	1. Quasi-treasury shares do not exist or did not participate in voting in the reporting period.	☐ Full ☐ Partial ☑ None	Criterion 1 is not complied with. The Company believes that excluding quasi-treasury shares from voting may now entail the risk of not reaching a quorum at the General Shareholders Meeting, which 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 Shareholders Meeting, which would lead to additional expenses for the Company and eventually affect shareholders' income. However, in January 2018, the Company announced its plans to cancel the major part of its quasi-treasury shares and use the remaining quasi-treasury shares in its new long-term incentive program for its key employees.
1.4	Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as are enabled to freely dispose of their shares without any hindrance.			
1.4.1	Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as are enabled to freely dispose of their shares without any hindrance.	1. The quality and reliability of the securities register maintained by the company's registrar meet the requirements of the company and its shareholders.	☑ Full ☐ Partial ☐ None	
2.1	The board of directors shall carry out the strategic management of the company, establish the basic principles of, and approaches to, setting up a risk management and internal control system in the company, control the activities of the company's executive bodies, and perform other key functions..			
2.1.1	The board of directors shall be responsible for passing resolutions related to appointment and removal of executive bodies, including due to their inadequate performance. The board of directors shall also ensure that the company's executive bodies act in accordance with the approved growth strategy and along the company's core lines of business.	1. The board of directors has the authority stipulated in the charter to appoint and remove members of executive bodies and to set out the terms and conditions of their contracts. 2. The board of directors reviewed the report(s) by the sole executive body or members of the collective executive body on the implementation of the company's strategy.	☑ Full ☐ Partial ☐ None	

2.1.2	The board of directors shall define the main long-term targets of the company's operations, assess and approve its key performance indicators and key business goals, as well as the strategy and business plans for the company's core lines of business.	1. In the reporting period, the board of directors reviewed at its meetings matters related to the progress in the implementation of the strategy and its updates, approval of the company's financial and business plan (budget), and consideration of the implementation criteria and performance (including interim criteria and performance) of the company's strategy and business plans.	☑ Full ☐ Partial ☐ None
2.1.3	The board of directors shall determine the principles of and approaches to organizing a risk management and internal control system in the company.	1. The board of directors has determined the principles of and approaches to organizing a risk management and internal control system in the company. 2. The board of directors assessed the risk management and internal control system in the company during the reporting period.	☑ Full ☐ Partial ☐ None
2.1.4	The board of directors shall define the company's policy on remuneration due to and/or reimbursement (compensation) of costs incurred by members of the board of directors, executive bodies and other key executives of the company.	1. The company has developed and put in place the policy on remuneration and/or reimbursement (compensation) of costs of the members of the board of directors, executive bodies and other key executives, approved by the board of directors. 2. In the reporting period, the board of directors reviewed at its meetings matters related to the said policy (policies).	☑ Full ☐ Partial ☐ None
2.1.5	The board of directors shall play a key role in preventing, identifying and settling internal conflicts between the company's bodies, shareholders and employees.	1. The board of directors plays a key role in preventing, identifying and settling internal conflicts. 2. The company has set up a system for identification of transactions involving a conflict of interest, and a set of measures to resolve such conflicts.	☑ Full ☐ Partial ☐ None
2.1.6	The board of directors shall play a key role in ensuring the company's transparency, the timeliness and completeness of its information disclosures, and unhindered access to the company's documents for shareholders.	1. The board of directors has approved the regulations on information policy. 2. The company has designated the persons responsible for the implementation of the information policy.	☑ Full ☐ Partial ☐ None
2.1.7	The board of directors shall control the company's corporate governance practices and play a key role in its significant corporate events.	1. In the reporting period, the board of directors considered the matter of the company's corporate governance practices.	☑ Full ☐ Partial ☐ None

2.2	The board of directors shall be accountable to the company's shareholders.		
2.2.1	Performance of the board of directors shall be disclosed and made available to the shareholders.	1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings. 2. The annual report contains key results of assessment of the BoD's work in the reporting period.	☑ Full ☐ Partial ☐ None
2.2.2	The chairman of the board of directors shall be available to communicate with the company's shareholders.	1. The company has in place a transparent procedure enabling shareholders to forward questions to the chairman of the board of directors and express their respective position.	☑ Full ☐ Partial ☐ None
2.3	The board of directors shall manage the company in an efficient and competent manner and make fair and independent judgements and decisions in line with the best interests of the company and its shareholders.		
2.3.1	Only persons with impeccable business and personal reputation, possessing the knowledge and expertise required to make decisions falling within the authority of the board of directors and to perform its functions efficiently, shall be elected to the board of directors.	1. The procedure for assessing the board of directors' performance established in the company includes, inter alia, assessment of professional qualifications of the board members. 2. In the reporting period, the board of directors (or its nomination committee) assessed nominees to the board of directors in terms of having the required experience, knowledge, business reputation, absence of a conflict of interest, etc.	☑ Full ☐ Partial ☐ None
2.3.2	The company's board of directors shall be elected as per a transparent procedure enabling shareholders to receive information about candidates which is sufficient to get an idea of their personal and professional qualities.	1. Whenever the agenda of the general shareholders meeting included election of the board of directors, the company provided to shareholders the biographical details of all nominees to the board of directors, the results of their assessment carried out by the board of directors (or its nomination committee), and the information on whether the nominee meets the independence criteria set forth in Recommendations 102–107 of the Code, as well as the nominees' written consent to be elected to the board of directors.	☑ Full ☐ Partial ☐ None
2.3.3	The board of directors shall be balanced, including in terms of qualifications of its members, their experience, knowledge and business qualities, and it shall have the trust of shareholders.	1. As part of assessment of the board of directors carried out in the reporting period, the board of directors analyzed its needs in terms of professional qualifications, experience and business skills.	☑ Full ☐ Partial ☐ None

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

2.4.3	At least one-third of the total elected number of members of the board of directors shall be constituted by independent directors.	1. At least one-third of the total number of members of the board of directors shall be constituted by independent directors.	☑ Full ☐ Partial ☐ None	
2.4.4	Independent directors shall play a key role in preventing internal conflicts in the company and in the performance by the latter of material corporate actions.	1. Independent directors (who do not have a conflict of interest) carry out a preliminary assessment of material corporate actions implying a possible conflict of interest, and the results of such assessment are presented to the board of directors.	☐ Full ☑ Partial ☐ None	Criterion 1 not fully complied with. The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions. In the context of the currently ongoing reforms of corporate legislation and the absence of a uniform approach to defining "material corporate actions", the Company intends to amend its internal documents alongside with amendments to the applicable laws. As part of initiatives described in the Central Bank's report On Proposed Corporate Governance Improvements at Public Joint-Stock Companies dated December 2015, as well as the Action Plan (Roadmap) on Improving Corporate Governance approved by Decree of the Government of the Russian Federation No. 2622-r dated 25 November 2017), the legislative reforms will continue, inter alia, to improve regulation of acquisition of large shareholdings in public joint-stock companies. 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.
2.5	The chairman of the board of directors shall facilitate the best performance of assigned duties by the board of directors.			
2.5.1	The board of directors shall be chaired by an independent director, or a senior independent director shall be chosen from among the elected independent directors to coordinate the activities of independent directors and enable the interaction with the chairman of the board of directors	1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors. 2. The role, rights and duties of the chairman of the board of directors (and, if applicable, of the senior independent director) are duly set out in the company's internal documents.	☐ Full ☑ Partial ☐ None	Criterion 1 is not complied with. In the reporting year, the Chairman of the Board of Directors was a non-executive director, whereas independent directors did not appoint a senior independent director. The Chairman of the Board of Directors was elected unanimously by all Directors, recognizing his authority, substantial contribution to the Company's development, professional skills, and industry expertise. The Company admits that all Directors have equal rights and that independent directors have not appointed a senior independent director.

2.5.2	The chairman of the board of directors shall maintain a constructive environment at meetings, enable free discussions of agenda items, and supervise the execution of resolutions passed by the board of directors.	1. The performance of the chairman of the board of directors was assessed as part of the procedure for assessing the efficiency of the board of directors in the reporting period.	☑ Full ☐ Partial ☐ None	
2.5.3	The chairman of the board of directors shall take all steps necessary for the timely provision to members of the board of directors of information required to pass resolutions on agenda items.	1. The company's internal documents set out the duty of the chairman of the board of directors to take all steps necessary for the timely provision to members of the board of directors of materials regarding items on the agenda of the board meeting.	☑ Full ☐ Partial ☐ None	
2.6	Members of the board of directors shall act reasonably and in good faith in the best interests of the company and its shareholders, relying on sufficient information, exercising due care and prudence.			
2.6.1	Members of the board of directors shall make decisions based on all information available, without conflict of interest, subject to equal treatment of the company's shareholders, and assuming normal business risks.	1. The company's internal documents provide that a member of the board of directors shall notify the board of directors if he/she has a conflict of interest in respect of any issue on the agenda of the board meeting or the board's committee meeting, prior to the discussion of the relevant agenda item. 2. The company's internal documents provide that a member of the board of directors shall abstain from voting on any item in connection with which he/she has a conflict of interest. 3. The company has in place a procedure enabling the board of directors to get professional advice on matters within its remit at the expense of the company.	☐ Full ☑ Partial ☐ None	Criterion 3 is partially complied with. According to the Director Compensation and Expense Reimbursement Policy of PJSC "LUKOIL", expenses are reimbursed to Directors, including the costs incurred to engage advisors and experts and to receive relevant opinions on matters pertaining to activities of the Board of Directors, with the total not exceeding the budget allocated by the Company. The procedure for reimbursing to Directors their actual expenses related to engaging advisors and experts and receiving relevant opinions on matters pertaining to the activities of the Board of Directors, is set out in the Procedure for Remuneration and Reimbursement of Expenses of Members of the Board of Directors and Audit Commission of PJSC "LUKOIL". Regulations on committees of the Board of Directors also entitle committees to accept professional services from third-party organizations within the committee's budget.
2.6.2	The rights and obligations of members of the board of directors shall be clearly defined and set out in the company's internal documents.	1. The company has adopted and published an internal document clearly defining the rights and obligations of members of the board of directors.	☑ Full ☐ Partial ☐ None	

2.6.3	Members of the board of directors shall have sufficient time to perform their duties.	1. Individual attendance at board and committee meetings, as well as time devoted to preparation for attending meetings, was recorded as part of the procedure for assessing the board of directors in the reporting period. 2. In accordance with the company's internal documents, members of the board of directors shall inform the board of their intentions to joint management bodies of other organizations (except for entities controlled by, or affiliated to, the company), or of the relevant appointment made.	☑ Full ☐ Partial ☐ None
2.6.4	All directors have equal access to the company's documents and information. Newly elected directors are furnished with sufficient information about the company and performance of the board of directors as soon as possible.	1. In accordance with the company's internal documents, members of the board of directors are entitled to have access to documents and make queries regarding the company and entities under its control, and the company's executive bodies must provide relevant information and documents. 2. The company has in place a formalized induction program for newly elected members of the board of directors.	☑ Full ☐ Partial ☐ None
2.7	Meetings of the board of directors, preparation for such meetings and participation of the members of the board of directors shall ensure efficient performance by the board of directors.		
2.7.1	Meetings of the board of directors shall be held as needed, taking into account the scale of operations and goals of the company at a particular time.	1. The board of directors held at least six meetings in the reporting year.	☑ Full ☐ Partial ☐ None
2.7.2	Internal regulations of the company shall provide a procedure for the preparation and holding of the board meetings, enabling members of the board of directors to prepare for such meetings in a proper manner.	1. The company has an approved internal document that describes the procedure for arranging and holding meetings of the board of directors and sets out, in particular, that the notice of the meeting shall be given, as a rule, at least five days prior to such meeting.	☑ Full ☐ Partial ☐ None

2.7.3	The format of the meeting of the board of directors shall be determined taking into account the importance of items on the agenda. The most important matters shall be dealt with at meetings of the board of directors held in person.	1. The company's charter or internal document provides for the most important matters (as per the list set out in Recommendation 168 of the Code) to be passed at in-person meetings of the board of directors.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially complied with. The Regulations on the Board of Directors of PJSC "LUKOIL" list items to be discussed only at in-person meetings of the Board of Directors. This list largely matches the list set out in Recommendation 168 of the Code; however, it reflects the existing practices of the Company's corporate governance and the distribution of roles among its governance bodies. For instance, in order to improve decision-making, all matters of coordinating subsidiaries are reserved to the Management Committee. On the other hand, the level of decision-making on applying for delisting has been raised much higher than required by the Code – the Charter of PJSC "LUKOIL" refers this matter to the General Shareholders Meeting (to be convened as resolved by the meeting of the Board of Directors held in person).
2.7.4	Resolutions on most important matters relating to the company's operations shall be passed at a meeting of the board of directors by a qualified majority or by a majority of all elected board members.	1. The company's charter provides for resolutions on the most important matters set out in Recommendation 170 of the Code to be passed at a meeting of the board of directors by a qualified majority of at least three quarters or by a majority of all elected board members.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially complied with. The Company's Charter provides for resolutions on certain material matters within the scope of authority of the Board of Directors (such as an increase in the charter capital, or public offering by the Company of its bonds or other issue-grade securities) to be passed unanimously by all Directors. 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. The most essential matters brought up for approval of the Board of Directors are subject to preliminary discussion by relevant committees of the Board of Directors, which ensures a unanimous approach to the final decision in most cases.

2.8	The board of directors shall set up committees for preliminary consideration of the most important issues related to the business of the company.			
2.8.1	To preview matters related to controlling the Company's financial and business activities, it is recommended to set up an audit committee comprised of independent directors.	1. The board of directors has set up an audit committee comprised solely of independent directors. 2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code. 3. At least one member of the audit committee represented by an independent director has experience and knowledge of preparing, analyzing, assessing and auditing accounting (financial) statements. 4. Meetings of the audit committee were held at least once a quarter during the reporting period.	☑ Full ☐ Partial ☐ None	
2.8.2	To preview matters related to adopting an efficient and transparent remuneration scheme, a remuneration committee shall be set up, comprised of independent directors and headed by an independent director who is not the chairman of the board of directors.	1. The board of directors has set up a remuneration committee comprised solely of independent directors. 2. The remuneration committee is headed by an independent director who is not the chairman of the board of directors. 3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code	☐ Full ☑ Partial ☐ None	Criterion 1 is partially complied with. The Company combines the functions of the remuneration committee and the nomination committee within the HR and Compensation Committee of the Board of Directors. As at the end of the reporting year, the HR and Compensation Committee of the Board of Directors had two 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. 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. The Company also believes that membership of independent directors in several committees at a time results in higher pressure on independent directors and might prevent such independent directors from concentrating on matters considered by the relevant committee. It also limits using the potential of non-executive directors. When establishing committees, the Board of Directors also takes into account

				(along with the independence criterion) the personal professional expertise and track record of the director and their preference for a certain committee, which would enhance their performance in the work of the committee. Criterion 3 is partially complied with. The functions and tasks of the HR and Compensation Committee, provided for by the Regulations on the HR and Compensation Committee of the Board of Directors of PJSC "LUKOIL", include the tasks listed in Recommendation 180 of the Code, save for the task specified in paragraph 5 of Recommendation 180 – selection of an independent advisor on remuneration of members of executive bodies and other key executives. This is due to the fact that until now the Company has never engaged an independent advisor for such purposes and does not intend to do so in the short term. The Company believes that such engagement will involve additional 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.
2.8.3	To preview matters related to talent management (succession planning), professional composition and efficiency of the board of directors, a nomination (appointments and HR) committee shall be set up, predominantly comprised of independent directors.	1. The board of directors has set up a nomination committee (or its tasks listed in Recommendation 186 of the Code are fulfilled by another committee) predominantly comprised of independent directors 2. The company's internal documents set out the tasks of the nomination committee (or the tasks of the committee with combined functions), including those listed in Recommendation 186 of the Code.	☐ Full ☑ Partial ☐ None	Criterion 2 is partially complied with. The Company combines the functions of the remuneration committee and the nomination committee within the HR and Compensation Committee of the Board of Directors. The 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 (with minor text revisions) 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). The Company believes that time commitments of its 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). The Committees' tasks have also lately been enhanced to incorporate requirements of the Code. Therefore, it is difficult for the Company to reliably assess time commitment to estimate general hours for all Directors in the long term.
2.8.4	Taking into account the company's scope of business and level of risks, the company's board of directors made sure that the composition of its committees is fully in line with company's business goals. Additional committees were either set up or not deemed necessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	1. In the reporting period, the board of directors considered whether the composition of its committees was in line with the board's tasks and the company's business goals. Additional committees were either set up or not deemed necessary.	☑ Full ☐ Partial ☐ None	
2.8.5	Committees shall be composed so as to enable comprehensive discussions of matters under preview, taking into account the diversity of opinions.	1. Committees of the board of directors are headed by independent directors. 2. The company's internal documents (policies) include provisions stipulating that persons who are not members of the audit committee, the nomination committee and the remuneration committee may attend committee meetings only by invitation of the chairman of the respective committee.	☑ Full ☐ Partial ☐ None	
2.8.6	Committee chairmen shall inform the board of directors and its chairman on the work of their committees on a regular basis.	1. During the reporting period, committee chairmen reported to the board of directors on the work of committees on a regular basis.	☑ Full ☐ Partial ☐ None	

2.9	The board of directors shall ensure performance assessment of the board of directors, its committees and members of the board of directors.			
2.9.1	The board of directors' performance assessment shall be aimed at determining the efficiency of the board of directors, its committees and members, consistency of their work with the company's development requirements, as well as bolstering the work of the board of directors and identifying areas for improvement.	1. Self-assessment or external assessment of the board of directors' performance carried out in the reporting period included performance assessment of committees, individual members of the board of directors and the board of directors in general. 2. Results of self-assessment or external assessment of the board of directors' performance carried out in the reporting period were reviewed at the in-person meeting of the board.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially complied with. The self-assessment of the Board of Directors' performance carried out in the reporting period included the assessment of performance of committees and the Board of Directors in general, but did not include the assessment of individual Directors (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 for their individual assessment.
2.9.2	Performance of the board of directors, its committees, and members shall be assessed regularly at least once a year. An external advisor shall be engaged at least once in three years to conduct an independent assessment of the board of directors' performance.	1. The company engaged an external advisor to conduct an independent assessment of the board of directors' performance at least once over the last three reporting periods.	☐ Full ☐ Partial ☑ None	Criterion 1 is not complied with. For the last three years, the Company did not engage an external entity to conduct an independent assessment of the Board of Directors' performance since such procedure would require additional time commitments of Directors, provision 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. However, the Company may engage such independent advisor in the future should any substantial shareholders express their interest.
3.1	The company's corporate secretary shall ensure efficient ongoing interaction with shareholders, coordinate the company's efforts to protect shareholder rights and interests and support the activities of the board of directors.			
3.1.1	The corporate secretary shall have the knowledge, experience and qualifications sufficient to perform his/her duties, as well as an impeccable reputation and the trust of shareholders.	1. The company has adopted and published an internal document – regulations on the corporate secretary. 2. The biographical data of the corporate secretary are published on the corporate website and in the company's annual report with the same level of detail as for members of the board of directors and the company's executives.	☑ Full ☐ Partial ☐ None	

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

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

4.2.3	The company shall not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.	1. The company shall not provide for any extra payments or compensations in the event of early termination of office of members of the board of directors resulting from the change of control or any other reasons whatsoever.	☑ Full ☐ Partial ☐ None	
4.3	The company shall consider its performance and the personal contribution of each executive to the achievement of such performance, when determining the amount of a fee payable to members of the executive bodies and other key executive officers of the company.			
4.3.1	Remuneration due to members of executive bodies and other key executives of the company shall be determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution	1. In the reporting period, annual performance results approved by the board of directors were used to determine the amount of the variable part of remuneration due to members of executive bodies and other key executives of the company. 2. During the latest assessment of the system of remuneration of members of executive bodies and other key executives of the company, the board of directors (remuneration committee) made sure that the company applies efficient ratio of the fixed and variable parts of remuneration. 3. The company has in place a procedure that guarantees return to the company of bonus payments illegally received by members of executive bodies and other key executives of the company.	☐ Full ☑ Partial ☐ None	Criterion 3 is not complied with. The Company does not have in place a procedure that guarantees return to the Company of bonus payments illegally received by members of executive bodies and other key executives of the Company since the Company has a clear framework of bonus payments to members of executive bodies and other executives. Should any such situations arise, the Company will solve these issues in compliance with the applicable laws.
4.3.2	The company shall put in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (options and other derivative instruments where the company's shares are the underlying asset).	1. The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company's shares (financial instruments based on the company's shares). 2. The long-term incentive program for members of executive bodies and other key executives of the company implies that the right to dispose of shares and other financial instruments used in this program shall take effect at least three years after such shares or other financial instruments are granted. The right to dispose of such shares or other financial instruments is linked to the company's performance targets.	☐ Full ☑ Partial ☐ None	Criterion 2 is not complied with. The terms of the Long-Term Incentive Program for Employees of PJSC "LUKOIL" and its Subsidiaries for 2013–2017 do not provide for the right to dispose of shares used in the program taking effect at least three years after such shares are granted. The Company believes, however, that the term of the above program sufficiently supports the interest of the program 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.

4.3.3	The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, shall not exceed the double amount of the fixed part of their annual remuneration.	1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of the powers of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration.	☑ Full ☐ Partial ☐ None	
5.1	The company shall put in place an effective risk management and internal control system providing reasonable assurance in the achievement of the company's goals.			
5.1.1	The company's board of directors shall determine the principles of and approaches to organizing a risk management and internal control system at the company.	1. Functions of different management bodies and units of the company in the risk management system and internal control are clearly defined in the company's internal documents / relevant policy approved by the board of directors.	☑ Full ☐ Partial ☐ None	
5.1.2	The company's executive bodies shall ensure establishment and continuous operation of an efficient risk management and internal control system in the company.	1. The company's executive bodies ensured the distribution of functions and powers related to risk management and internal control between the heads (managers) of units and departments accountable to them.	☑ Full ☐ Partial ☐ None	
5.1.3	The company's risk management and internal control system ensures an objective, fair and clear representation of the current state of the company and its future prospects, the integrity and transparency of the company's reporting, as well as reasonable and acceptable risk exposure.	1. The company has in place the anti-corruption policy. 2. The company has arranged for accessible means of notifying the board of directors or the board's audit committee about violations of the law, the company's internal procedures and code of ethics.	☐ Full ☑ Partial ☐ None	Criterion 1 is not complied with. 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, inter alia, standards and rules for anti-corruption relations with business partners, government authorities, and public organizations and standards preventing conflicts of interest. The Company also has in place the Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations approved by the Company's Management Committee. 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.

5.1.4	The company's board of directors shall take necessary measures to make sure that the company's risk management and internal control system is consistent with the principles of, and approaches to, its setting up determined by the board of directors, and that the system is functioning efficiently.	1. In the reporting period, the board of directors or the board's audit committee assessed the efficiency of the company's risk management and internal control system. The information on the key results of this assessment is included in the company's annual report.	☑ Full ☐ Partial ☐ None
5.2	The company shall perform internal audit for the regular independent assessment of the reliability and effectiveness of the risk management and internal control systems and corporate governance.		
5.2.1	The company shall set up a separate business unit or engage an independent external organization to carry out internal audits. The functional and administrative subordination of the internal audit unit shall be separated. The internal audit unit shall functionally report to the board of directors.	1. To perform internal audits, the company has set up a separate internal audit unit functionally reporting to the board of directors or the audit committee, or engaged an independent external organization under the same principle of subordination.	☑ Full ☐ Partial ☐ None
5.2.2	The internal audit division shall assess the performance of the internal control, risk management, and corporate governance systems. The company shall apply generally accepted standards of internal audit.	1. In the reporting period, the performance of the internal control and risk management system was assessed as part of the internal audit procedure. 2. The company applies generally accepted approaches to internal audit and risk management.	☑ Full ☐ Partial ☐ None
6.1	The company and its business shall be transparent for shareholders, investors, and other related parties.		
6.1.1	The company shall develop and adopt an information policy ensuring an efficient exchange of information between the company, its shareholders, investors, and other related parties.	1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations. 2. The board of directors (or one of its committees) considered the matters related to the company's compliance with its information policy at least once in the reporting period.	☑ Full ☐ Partial ☐ None

6.1.2	The company shall disclose information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of this Code.	1. The company discloses information on its corporate governance system and general principles of corporate governance applied in the company, in particular, on the corporate website. 2. The company discloses information on the composition of executive bodies and the board of directors, independence of the board members and their membership in the board's committees (as defined in the Code). 3. If the company has a controlling person, the company publishes a memorandum of the controlling person setting out the latter's plans for the company's corporate governance.	☑ Full ☐ Partial ☐ None
6.2	The company shall make timely disclosures of complete, updated and reliable information to allow shareholders and investors to make informed decisions.		
6.2.1	The company shall disclose information based on the principles of regularity, consistency and promptness, as well as availability, reliability, completeness and comparability of disclosed data.	1. The company' information policy defines the approaches to, and criteria of, identification of information that can have a material impact on the company's evaluation and the price of its securities, as well as procedures ensuring timely disclosure of such information. 2. If the company's securities are traded on foreign regulated markets, the company shall ensure concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting period. 3. If foreign shareholders hold a significant amount of the company's shares, during the reporting year, information was disclosed not only in the Russian language, but also in one of the most widespread foreign languages.	☑ Full ☐ Partial ☐ None

6.2.2	The company shall strive to avoid a formalistic approach to information disclosure, and to disclose critical information about its operations even if such disclosure is not required by law.	1. In the reporting period, the company disclosed annual and 6M financial statements prepared under the IFRS. The company's annual report for the reporting period contains annual financial statements prepared under the IFRS, along with the auditor's report. 2. The company discloses complete information on its capital structure, as stated in Recommendation 290 of the Code, in its annual report and on the official website of the company.	☑ Full ☐ Partial ☐ None	
6.2.3	The annual report, as one of the most important tools of information exchange with shareholders and other stakeholders, shall contain information enabling assessment of the company's performance in the reporting year.	1. The company's annual report contains information on the key aspects of the company's operations and its financial results. 2. The company's annual report contains information on the environmental and social aspects of the company's operations.	☑ Full ☐ Partial ☐ None	
6.3	The company shall provide information and documents as per the requests of shareholders in compliance with principles of fairness and ease of access.			
6.3.1	The company shall provide information and documents as per the requests of shareholders in compliance with principles of fairness and ease of access.	1. The company's information policy establishes the procedure for providing shareholders with easy access to information, including information on legal entities controlled by the company, as requested by shareholders.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially complied with. The Company's information policy establishes the procedure for providing shareholders with easy access to the Company's information and documents, where shareholders are entitled to receive such information. The procedures for providing the Company' shareholders with information and documents are detailed in the Regulations on Provision of Information to Shareholders of Public Joint-Stock Company "Oil Company 'LUKOIL'". When providing information requested by shareholders, the Company is guided by Article 91 of the Federal Law On Joint-Stock Companies that provides for no obligation of the Company to share information on legal entities controlled by it with its shareholders. The Company discloses brief information on legal entities controlled by it in the List of Affiliates and more detailed information on controlled legal entities material to the Company in quarterly issuer reports. In addition, the majority of PJSC "LUKOIL"'s subsidiaries, including those material to the Company, have their own websites which describe their operations. These websites can also be accessed via the PJSC "LUKOIL"'s official website.

6.3.2	When providing information to shareholders, the company shall ensure reasonable balance between the interests of particular shareholders and its own interests consisting in preserving the confidentiality of important commercial information which may materially affect its competitiveness.	1. In the reporting period, the company did not refuse shareholders' requests for information, or such refusals were justified. 2. In cases defined by the information policy, shareholders are warned of the confidential nature of the information and undertake to maintain its confidentiality.	☑ Full ☐ Partial ☐ None	
7.1	Actions that significantly impact or may significantly impact the share capital structure or financial condition of the company and, respectively, shareholders position (material corporate actions) shall be fairly executed providing observance of rights and interests of shareholders and other stakeholders.			
7.1.1	Material corporate actions shall include restructuring of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of significant transactions, increase or 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 charter of the company shall provide a list of transactions, or other actions classified as material corporate actions pertaining to the competence of the board of directors of the company.	1. The company's charter provides for a list of transactions or other actions classified as material corporate actions, and criteria for their identification. Resolutions on material corporate actions are referred to the jurisdiction of the board of directors. When execution of such corporate actions is expressly referred by law to the jurisdiction of the general shareholders meeting, the board of directors presents relevant recommendations to shareholders. 2. Under the charter, material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (in case of takeover), entering in significant transactions, increase or decrease of the company's charter capital, listing or delisting of the company's shares.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially complied with. Criterion 2 is not complied with. The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions (see also the note to paragraph 2.4.4). The decision-making procedure (procedure for referring such decisions to the competence of the Board of Directors or the General Shareholders Meeting under the Company's Charter or relevant laws) recommended by the Code is met with respect to most corporate actions that are deemed by the Code to be material corporate actions. Following the established practices, when addressing the matter of preparing for and holding the General Shareholders Meeting of the Company, the Board of Directors approves recommendations for shareholders for voting on all agenda items, including those which may be regarded as material corporate actions. There are inconsistencies with the Code's recommendations with respect to transactions that the Code recommends considering as material and that are specified in Recommendation 307 of the Code. 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. Decisions to acquire subsoil licenses which may involve capex 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. The Company also notes that the term "controlled legal entity material to the company" used in Recommendation 307 of the Code is used in the applicable Russian laws only for disclosure purposes. Therefore, until this term is consolidated in the corporate law, the Company's Charter cannot refer this matter to the jurisdiction of the Board of Directors.
7.1.2	The board of directors shall play a key role in making decisions or working out recommendations regarding material corporate actions, relying on the opinions of the company's independent directors.	1. The company has in place a procedure enabling independent directors to express their opinions on material corporate actions prior to approval thereof.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially complied with. The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions (see also the note to paragraph 2.4.4). In accordance with procedures provided for by the Regulations on the Board of Directors of PJSC "LUKOIL", all members of the Board of Directors may participate in debates, put forward proposals, make comments, and speak on the substance of the matter under discussion.
7.1.3	When taking material corporate actions affecting the rights and lawful interests of shareholders, equal terms and conditions shall be ensured for all shareholders of the company, and, in case of insufficient statutory mechanisms for protecting shareholder rights, additional measures shall be taken to protect the rights and lawful interests of the company's shareholders. In doing so, the company shall be guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements.	1. Taking into account the specifics of the company's operations, the company's charter establishes lower minimum criteria for the company's transactions to be deemed material corporate actions than those provided by law. 2. In the reporting period, all material corporate actions were subject to the approval procedure prior to execution.	☐ Full ☑ Partial ☐ None	Criterion 1 is partially complied with. The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions (see also the note to paragraph 2.4.4). Under the Company's Charter, the authority of the Board of Directors covers approval of a transaction or several associated transactions related to acquisition, disposal or potential disposal of property worth from 10% to 25% of the book value of the Company's assets, which exceeds the statutory requirements.

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

		of Directors of PJSC "LUKOIL" instruct Directors to: • notify the Board of Directors of any conflict of interest they may have in respect of any item on the agenda of the Board meeting or the Board's Committee meeting, prior to the discussion of the relevant agenda item; • abstain from voting on any item in connection with which they have a conflict of interest. The above instructions for Directors enable the Board of Directors to make unbiased decisions, and help restrict decision-making for Directors whose stance may be affected by circumstances not formalized in the applicable laws.

APPENDIX 2. RISKS

<table>
<tr><th colspan="2">Macroeconomic risks</th></tr>
<tr><th>Risk description</th><th>Risk management</th></tr>
<tr><td>The Company's financial performance could be adversely affected by macroeconomic changes due to global energy price volatility, FX fluctuations, and inflation.

During Q4, oil prices continued to follow an upward trend, reflecting increased geopolitical risks and changes in supplies. Full compliance with the late 2016 production cut deal between OPEC and non-OPEC producers pushed down global oil inventories. Prices were buoyed by a mutual agreement to extend the deal until the end of 2018, while demand for oil from the world's largest economies grew steadily. All these factors pushed oil prices to approximately $70 per barrel.

The global economy continued to grow throughout Q4, and both the USA and the EU are expected to show strong annual economic growth. The US Senate's passing of President Donald Trump's tax bill has given rise to positive outlooks on US economic growth in the short term. Major emerging markets such as India and China are continuing to show relatively strong economic growth, thereby adding to the global economic backdrop against which oil demand is being pushed upward, although global regulators imposing excessively tight monetary policies and the consequent sharp growth in interest rates remains a principal risk to the global financial system.

US shale oil accounted for a major part of oil supply growth in Q4 due to the OPEC+ deal. Following the hurricane season, the US oil production levels fully recovered, hitting an all-time high of 9.8 million barrels per day, and the growing oil prices have caused analysts to upgrade their short-term forecasts on US oil production. However, the strong growth could be disrupted by the conservative investment policies of shale companies and higher costs of oilfield services. Oil prices are expected to rise in the mid-term due to the delayed effect of oil and gas companies cutting their investments in major long-term projects, production declines at mature wells, and growing global consumption of liquid hydrocarbons. Growth in global oil demand will primarily be supported by continued motorization and industrial development in emerging markets.

The Russian economy has started to recover from a recession, supported by growing oil prices and lower rates of interest and inflation. In 2017, inflation dropped to 2.5% –– a record low in recent Russian history. According to the Federal State Statistics Service (Rosstat), the country's GDP increased by 1.8% year-over-year in Q3 2017. The oil price growth in Q4 did not lead to a sharp appreciation of the Russian ruble against the US dollar, providing support to Russian exporters. The US Administration imposing tighter sectoral sanctions in early 2018 may pose a material risk to the Russian economy. However, the health of the Russian economy is more likely to be affected by oil price dynamics than by international sanctions. The country's economy is expected to grow in 2018 if oil prices remain above $50 per barrel.</td><td>The Company uses a scenario approach to macroeconomic forecasting. A base scenario is chosen to describe the most likely course of macroeconomic developments as according to the Company's management, who also develop best-case and stress scenarios to assess potential consequences of the macroeconomic changes for the Company.

The Company makes every effort to minimize the projected adverse impacts of the macroeconomic risks in question. The stress scenario aids in identifying the assets and investment projects most susceptible to negative macroeconomic changes. Based on its analysis, the Company makes management decisions aimed at optimizing its asset portfolio.</td></tr>
</table>

Country risks	
Risk description	**Risk management**
LUKOIL Group operates in a number of countries with high political and economic risks which, should they materialize, could have a material adverse effect on its operations in certain regions and even cause their discontinuation. In particular, the Group is pursuing a number of projects in such high-risk countries as Iraq, Egypt, Uzbekistan, and West African countries. The Company seeks to further diversify its operations alongside the ones it conducts in unstable regions by managing projects in Europe and the USA, where country risks are considered minimal. Most of the Group's production and refining assets are located within Russia, where the political environment is characterized by sufficient levels of stability and high public confidence in the policies pursued by the President and the Government. The key factors that may have an adverse effect on PJSC "LUKOIL"'s business are as follows: • regime change causing political disruption in countries where the Company's investment projects are located • escalation of armed conflicts in regions where the Group operates • macroeconomic instability in regions where the Group operates • expropriation of the Group's assets • inefficiencies in the judicial system, and flawed legal framework regulating economic relations.	The Company places higher requirements on the returns profile of its projects being implemented in regions with high country risks. Additionally, in case of adverse changes in the political or social and economic environment in a region of the Group's operation, PJSC "LUKOIL" implements a number of anti-crisis measures, including production cost reduction, investment program optimization aimed at adapting to the new environment, reducing its stake in a project, and engaging partners to share project risks.
Industry risks	
Risks related to well construction and development of fields with hard-to-recover hydrocarbon reserves	
Risk description	**Risk management**
The ban on imports of equipment and materials currently used in well construction affects the Company. Prohibitions are a risk factor for the Company and its contractors, who purchase a majority of their well construction equipment and materials from Western partners.	The bulk of reagents currently sourced in small batches from the EU and USA to prepare and condition drilling muds and grouting mixtures can be substituted with products from China, Thailand, Russia, and Belarus. Chemical products which are sourced from the EU and USA are low-tonnage purchases. According to LUKOIL's well construction service partners, the Company currently has a one-year supply of spare parts, equipment, and materials for use in its projects. Due to the sanctions placed on the Russian Federation, there is a risk of limitations arising in hard-to-recover-hydrocarbon fields, which are developed using the multi-stage hydraulic fracturing (MSHF) technique. The MSHF equipment in use for the Company's projects is unparalleled by any Russian or Chinese enterprises.
Risks of tariff and vendor price hikes	
Risk description	**Risk management**
The Company's tariff risks are linked to JSCo RZD, PJSC Gazprom and other monopolies operating in countries where the Group's activities are located. Their prices are revised upwards on a regular basis. Logistics costs driven upward by higher output directly impact the profit of PJSC "LUKOIL". The Company is also exposed to the risk of higher prices for other services, such as vehicle transportation, customs brokerage, and warehousing.	Measures to minimize risks of higher tariffs charged by JSCo RZD and similar monopolies operating across the Company's geography include: • diversifying transportation channels • cooperating with other consumers to prevent accelerated tariff growth • using tender procedures to enter into long-term contracts with vendors.

Risk of limited access to petroleum product transhipment infrastructure	
Risk description	**Risk management**
This risk depends on the following factors: • failure of a natural monopoly in the petroleum product pipeline transportation market to ensure the safety of goods in transport • increased supply volumes from third-party companies and changes in product quality limiting the throughput capacity of transhipment infrastructures, creating a bottleneck effect • political environment.	The Company places a strong focus on mitigating these risks by: • diversifying modes of transport and export destinations for petroleum product supplies • consistent engagement with natural monopolies in the pipeline transportation market to increase the volume of supplies transported via PJSC Transneft's system in correlation with the Company's rising oil production and/or the growing volume of oil refined at the Group's oil refineries • developing own logistics infrastructure to support oil and petroleum product shipments.

Financial risks	
Price risks	
Risk description	**Risk management**
Fluctuations in prices of oil and petroleum products may have a significant impact on the price of securities and financial performance of the Company, who has limited influence over the prices of its products, as they largely depend on regulatory actions and the market environment. In the short term, oil prices are expected to remain highly volatile due to uncertainty over global economy growth, changes in oil supplies and imbalances in global oil supply and demand, as well as the current high geopolitical tensions.	LUKOIL is a vertically integrated company (VIC) that combines assets in oil production, refining, and distribution. The VIC structure serves as a natural hedging mechanism, where different risk factors offset each other. Additionally, the Company implements a range of measures to mitigate price risks: • The Company's strategic development programs factor in several price scenarios, while its investment project portfolio is managed depending on each project's price sensitivity. • The implementation of a commodity supply management system has enabled prompt responses to market changes, and arbitrage shipments. • In its trading activities, LUKOIL uses hedging transactions which significantly reduce the negative impacts of price fluctuations in the oil and petroleum product markets on the Group's operations.

Liquidity risks	
Risk description	**Risk management**
High volatility in oil prices, foreign currency exchange rates to the US dollar, refining margins, petrochemical and power generation margins, and sales margins, as well as growth of tariffs and suppliers' prices, and possible international economic sanctions over Russia's policies could cause imbalances in the figures included in LUKOIL Group's plans, budgets, and investment programs, thus leading to the shortage of liquidity and financing sources.	The risk of an imbalance in figures laid out in the Company's plans, budgets, and investment programs is managed by assessing their sensitivity to changes in macroeconomic indicators. The Company also develops proposals for plan adjustments, possible expense sequestration in transitioning to the stress scenario, shifts in payment and project implementation dates, inclusion of optional projects within the plan to go underway upon the macroeconomic situation improving, as well as proposals to ensure timely financing of business activities. Close attention is paid to cost minimization by means of tender procedures. LUKOIL Group has a centralized and efficient Group-wide liquidity management in place, which uses the rolling liquidity forecast as its main tool. The liquidity management system comprises continuous monitoring of liquidity ratios, automatic cash concentration and disbursement, and corporate dealing. Despite a challenging market environment for Russian borrowers, the Company maintains the required level of approved credit facilities to ensure sufficient liquidity in meeting rating agency requirements. PJSC "LUKOIL" currently has investment-grade ratings from two major international rating agencies – S&P (BBB) and Fitch (BBB+). Both ratings were upgraded in fall of 2017, and their exceeding Russia's sovereign credit rating is a strong indication of the Company's high financial stability. The Company regularly monitors its financials to ensure that they meet the requirements of rating agencies.

FX risks	
Risk description	**Risk management**
Changes in the ruble to US dollar exchange rate affect the financials of the Company, whose assets are mostly concentrated within the Russian Federation. The bulk of the Company's proceeds is derived from oil and petroleum product sales in US dollars, while the majority of operating and capital expenses are denominated in rubles. The Company sells foreign currency to finance ruble-denominated expenses, and an additional amount of the Company's foreign currency proceeds must be sold when the ruble appreciates in value, thereby having an adverse effect on the Company's net profit in rubles. The Company's currency mix of proceeds and costs acts as a natural hedge. Declines in oil prices are usually followed by ruble depreciation, allowing the Company to partially offset the negative impact on the Company's financials.	The Company takes full advantage of its geographic diversification in mitigating the adverse impact of changes in currency exchange rates, and applies hedging instruments to its revenues denominated in other currencies.

Counterparty default and non-payment risks	
Risk description	**Risk management**
Counterparty default and non-payment risks refer to delayed payments for products supplied by the Company. Delayed payments and/or underpayments for exports may require the Company to raise additional funding in order to meet its financial obligations.	Counterparty default and non-payment risks refer to delayed payments for products supplied by the Company. Delayed payments and/or underpayments for exports may require the Company to raise additional funding in order to meet its financial obligations.

Legal risks	
Tax and customs regulation risks	
Risk description	**Risk management**
Changes in tax and customs regulations 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 and its entities 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. In the wake of significant RUB/USD rate fluctuations in recent months and a continued weakening trend in the ruble, PJSC "LUKOIL" could be charged additional customs duties when filing periodic temporary declarations for its oil and petroleum exports which exceed the pre-established amounts (excluding pipeline supplies). In addition, the Government of the Russian Federation reviews export customs duties for oil and petroleum products on a monthly basis in accordance with the Russian Law on Customs Tariff. Calculations of customs duties are based on oil prices in global petroleum feedstock markets. Falling oil prices are therefore followed by reduced duty rates, which take effect as of the following calendar month. High ruble exchange-rate volatility continues to bear significant risks and uncertainties in the amount of export duties to be paid in rubles.	In managing the tax and customs regulation risks, the Company keeps track of changes in tax and customs regulations, participates in discussing legislative initiatives, makes timely assessments of prospective changes in tax and customs laws for their potential impacts on LUKOIL Group's performance, and takes steps to minimize or offset negative consequences of tax and customs regulation changes by submitting customs declarations wherever possible amid periods of ruble appreciation against the US dollar.
Risks related to amended legislation on joint-stock companies and securities market	
Risk description	**Risk management**
Changes in the Company's corporate governance, as well as a potential adverse impact on its decision-making processes and performance may be caused by amendments to the Russian Federation's laws and regulations that are aimed at improving corporate governance, as well as those concerning the competence of joint-stock companies. The anticipated regulatory changes are linked to the expected adoption of amendments to the Federal Law On Joint-Stock Companies and transitioning to the practical application of the clauses contained in the Corporate Governance Code (Letter of the Bank of Russia No. 06-52/2463 dated 10 April 2014) with account for recommendations on preparing Corporate Governance Code Compliance Report (Letter of the Bank of Russia No. IN-06-52/8 dated 17 February 2016).	The Company monitors legislative changes and takes steps to obtain information about them at their preliminary discussion stage. The Company aims to ensure its representatives participate during the preliminary discussions so that risks and uncertainties that may arise from new legislative initiatives are clarified and representation of the Company's views in relation to the proposed changes is provided. Efforts are currently underway to assure that the Company's representatives are involved in activities aimed at developing effective means of applying new laws.

Securities trading risks	
Risk description	**Risk management**
The Company's securities are traded on regulated markets both within Russia and abroad. Changes to 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 in information disclosure and shareholder relations. Failure to comply with issuer requirements or meet obligations in a timely manner could cause the Company's securities being transferred to lower listing segments or to be delisted, potentially having an adverse effect on their liquidity and value.	The Company keeps track of changes in listing rules and other stock exchange and regulatory body requirements for issuers of traded securities. 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. The Company performs mandatory disclosures to maintain its securities on the list, following procedures and timelines established by regulatory and stock exchange requirements. Disclosures are made electronically by submitting information through the websites and emails of information disclosure agencies authorized by the regulators. Issues affecting the Company's engagement with information disclosure agencies, such as information system and technical failures, as well as cyberattacks, may cause a disruption in the Company's ability to disclose required information on time, which could be seen as a breach of obligations and lead to the securities market regulator imposing a fine on the Company and/or its management. The Company mitigates engagement risks by signing agreements with several information disclosure agencies and providing information disclosures ahead of established timelines, so that the agencies have ample time to correct potential technical problems. If necessary, authorized employees of the Company make contact with representatives from information disclosure agencies.

Geological risks	
Risk of non-discovery of reserves or unmet projections	
Risk description	**Risk management**
The non-discovery of commercially productive oil and gas reserves or reserves that do not meet the levels projected during prospecting drilling or new project implementation poses a risk to the Company, which may incur additional costs or discontinue operations at some of its license blocks.	PJSC "LUKOIL" manages this risk at a sufficient level which allows a timely response through conducting additional exploration activities, seismic data processing, and improving the techniques used for 3D seismic data acquisition.

Subsoil use and licensing risks	
Risk description	**Risk management**
Oil producers face certain risks associated with the Russian legislation on subsoil use, exploration, and mining. The key risks include: • early termination of subsoil use rights due to a breach of license agreements • no equal access to offshore resources • an absence of legislative guarantees for granting subsoil use rights to users with foreign capital or a company that has discovered a subsoil deposit of federal significance or a field within subsoil areas of federal significance, such as the Russian continental shelf, Russian inland and territorial sea waters, as well as the Russian sector of the Caspian Sea bed • non-acceptance of tender or auction application documents formally filed by LUKOIL Group's entities • administrative fines due to a breach of licence agreements.	To minimize the adverse impacts of subsoil use and licensing risks, the Company: • monitors changes in legislation on subsoil use and licensing while making proposals to update the existing legal framework • drafts a list of open acreage areas that are of interest to the Company to ensure timely decision-making on LUKOIL Group's participation in tenders and auctions. Feasibility studies for new prospect development projects are prepared for base case common scenario conditions • has permanent work groups in place that are responsible for preparing tender and auction applications and license renewal documents across the Group's entities • runs annual professional development training courses for licensing and subsoil use experts, and participates in seminars attended by government officials • employs a dedicated information system to monitor subsoil use • liaises with regulatory authorities to mitigate the risk of early termination of subsoil use rights.

Risk of terrorist acts and unlawful acts of third parties	
Risk description	**Risk management**
The Company operates in regions with a growing number of terrorist groups and escalating terrorist activity, exposing its assets to possible terrorist and other criminal acts. Developments in the military and political situation in the Middle East and the ongoing military conflicts in Syria and Iraq pose additional risks to the Company's assets. The Company is also exposed to the risk of unlawful competitive practices, including unfair competition risks, financial or other abuse by LUKOIL Group employees, and embezzlement or theft of moneys or tangible assets.	To manage these risks, the Company: • 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 • identifies employees who intentionally damage the Company's interests in favour of its competitors or other third parties (including criminal groups or individuals) • plans and hosts events aimed at strengthening information security • implementation of a Road Map to achieve the target state for LUKOIL Group's information security framework • acquires licenses from the Federal Security Service to use data encryption tools.

Environmental and industrial safety risks	
Risk description	**Risk management**
Equipment failures may pose a risk to the Company's hazardous production facilities, which may cause process disruptions, hazardous releases, environmental damage, fires, and accidents, including those occurring in the development of offshore oil and gas fields. Hazard risks may result in unscheduled idle time at the Company's production facilities and a subsequent reduction in operating income.	The Company has an effective industrial safety system in place to minimize environmental and industrial safety risks, which includes: • use of corporate standards, including for environmental safety • industrial control over the operation of hazardous production facilities • training of specialized staff • diagnostics (non-destructive testing) and monitoring of equipment performance • workplace certifications • repair and timely replacement of equipment • development of Plans to Localize and Mitigate the Consequences of Accidents at Hazardous Production Facilities (PLMA) and Spill Prevention, Control, and Countermeasure (SPCC) Plans; maintaining a pool of emergency personnel and resources; and training personnel who operate hazardous production facilities (HPF), as well as emergency response teams to apply PLMA and SPCC Plans • other measures aimed at reducing accident rates at the Group's facilities. The Company's Environmental Protection, Occupational Health and Safety Management System is certified to ISO 14001 and OHSAS 18001 and ensures timely detection of non-compliance in workplace practices or equipment operation. The System also provides for the development and implementation of target corporate programs and plans to ensure industrial and fire safety, PLMA and SPCC Plans, and provision of emergency response training to operating personnel and emergency response teams.
Risk of investment program non-delivery	
Risk description	**Risk management**
When implementing its investment projects, the Company faces risks of cost overruns and delays in commissioning of production facilities. Project delays and delays related to preparing design documentation and cost estimates, obtaining permits, entering into contracts, failing to meet deadlines and changing field development roadmaps based on new geological data may hinder the Company's ability to implement its investment program, potentially leading to a deterioration in operating and investment project performance in future years and excessive fund raising.	PJSC "LUKOIL" pays considerable attention to managing this risk by monitoring its active projects on a quarterly basis to assess whether investment program adjustments may be needed. New construction projects not supported by design documentation and cost estimates are excluded from the capex plan for the next year.
Risk of shortages in qualified personnel	
Risk description	**Risk management**
Inadequate skills or qualifications of newly-hired personnel may have an adverse effect on the Company's financial performance.	To mitigate this risk, the Company focuses on comprehensive development of its talent pool and maintaining and growing its succession pool, which consists of the most experienced and talented employees in the field, as well as attracting young talent and university graduates.

Climate change risk	
Risk description	**Risk management**
The Company stands with the global community in efforts to prevent climate change and makes step-by-step preparations to mitigate the impact of its production facilities on climate. Climate change prevention measures are incorporated into the corporate policy as a crucial element of sustainable development.	LUKOIL is guided by the highest environmental protection standards and recognizes its responsibility to society for the sustainable use of natural resources. Environmental preservation is one of the Company's top priorities when developing its projects. The Company has voluntarily developed its framework for greenhouse gas emission management since 2005; the following factors contribute to the relevance of these efforts for the Company: • The Company's core production operations cause significant greenhouse gas emissions. • Legal, organizational, and technical frameworks have been established across the globe and in Russia to enable environmental and economic mechanisms regulating greenhouse gas emissions. In improving its management of greenhouse gas emissions, the Company systematically performs works on GHG accounting and reduction. Significant results were achieved as a result of APG flaring volumes reduction. PJSC LUKOIL recognizes the importance of preventing global climate change, and has deep concern for the environment. The Company's Environmental Protection, Occupational Health and Safety Management System is certified to ISO 14001 and OHSAS 18001 and ensures timely detection of non-compliance in workplace practices or operation of equipment, as well as the development and implementation of target corporate programs and plans for industrial, fire and ecological safety maintenance, and provision of emergency response training to operating personnel and emergency response teams.

APPENDIX 3.

MAJOR AND RELATED / INTERESTED PARTY TRANSACTIONS

LIST OF TRANSACTIONS MADE BY PJSC "LUKOIL" IN 2017 AND RECOGNISED AS MAJOR TRANSACTIONS IN ACCORDANCE WITH THE FEDERAL LAW ON JOINT STOCK COMPANIES

In 2017 PJSC "LUKOIL" did not perform any transactions that are recognised as major transactions in accordance with the Federal Law On Joint Stock Companies.

LIST OF INTERESTED PARTY TRANSACTIONS ENTERED INTO BY PJSC «LUKOIL» IN 2017, WHERE DECISIONS ON CONSENT TO PERFORM THE TRANSACTIONS WERE TAKEN BY THE ANNUAL GENERAL SHAREHOLDERS MEETING OF PJSC "LUKOIL"

1. Transaction No.	1
2. Price	Not more than USD 450,000 – Insurance premium for coverage A, B and C.
3. Names of parties	OAO Kapital Insurance (Insurer) PJSC "LUKOIL" (Policyholder)
4. Names of beneficiaries	Under Cover A – the sole executive body, members of management bodies, employees of PJSC "LUKOIL" and/or subsidiaries of PJSC "LUKOIL", and/or other organisations with the participation of PJSC "LUKOIL" and/or its subsidiary based on whose proposals the sole executive body and/or members of management bodies of such organisations were elected (hereinafter, the Insured Person). Under Cover B – PJSC "LUKOIL", subsidiaries of PJSC "LUKOIL", other organisations with the participation of PJSC "LUKOIL" and/or its subsidiary based on whose proposals the sole executive body and/or members of management bodies of such organisations were elected (hereinafter, the Company for the purposes of Cover B). Under Cover C – PJSC "LUKOIL", subsidiaries of PJSC "LUKOIL" (hereinafter the "Company"). The above parties are collectively named the Insured Parties.
5. Name of the transaction	Contract (Policy) on insuring the liability of directors, officers and companies (hereinafter the "Policy").
6. Subject of the transaction	The Insurer undertakes, for the payment stipulated in the Policy (Insurance Premium), to pay the insurance coverage (indemnification) under the Policy to (as the case may be) respective Insured and/or any other person entitled to such indemnification should any insured event specified in the Policy occur, within the insurance premium (liability limit) determined by the Policy. <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. For the purposes of Cover A the Insurer shall pay to or on behalf of any Insured Person any Loss related to any Claim first made against any Insured Person during the Policy Period or the Discovery Period (if applicable) and reported to the Insurer in writing pursuant to the terms of the Policy, except when and to the extent that the Company has indemnified such Loss. <u>An insured event for the purposes of Cover B</u> shall be deemed to be the incurrence of any expenses by any Company for the purposes of Cover B in connection with the indemnification for any Loss by such Company for the purposes of Cover B to any Insured Person and/or other person or entity in the

	interests of any Insured Person in connection with any Claim made against any Insured Person and/or the liability of any Insured Person for any Loss incurred by third parties. For the purposes of Cover B the Policy also covers such expenses incurred by any Company subsequent to the Period of Insurance but relating to any Claim made during the Period of Insurance and/or in connection with the liability of any Insured Person for any Loss incurred by third parties in relation to which a Claim was made during the Period of Insurance. For the purposes of Cover B the Insurer shall pay to or on behalf of any Company for the purposes of Cover B any Loss related to any Claim first made against any Insured Person during the Policy Period or the Discovery Period (if applicable) and reported to the Insurer in writing pursuant to the terms of the Policy, but only to the extent that such Company has indemnified such Loss for the purposes of Cover B. An insured event for the purposes of Cover C in respect of cover for the liability of any Company for any Loss incurred by any third parties shall be deemed to be the onset of all of the following circumstances: (a) the liability of any Company arising at any time prior to or during the Policy Period pursuant to applicable law as a consequence of the incurrence by any third parties of any Loss in connection with any Wrongful Act of the Company, and (b) any Securities Claim made against such Company during the Period of Insurance in connection with the Loss of any third parties. An insured event shall be deemed to have occurred upon the Securities Claim being made subject to subsequent confirmation by the Insurer that the insured event has occurred or to a ruling that such insured event has occurred by a court, arbitral court, arbitral tribunal or other similar competent body/institution. The Policy also covers any Loss incurred by any Company and/or which any Company will incur subsequent to the Period of Insurance relating to liability for Loss incurred by any third parties (including, without limitation, in the event of any ruling by a court or arbitral court, arbitral tribunal or similar competent body/institution subsequent to the Period of Insurance), but in connection with any Securities Claim made during the Period of Insurance. For the purposes of Cover C the Insurer shall pay to any Company or on behalf of any Company any Loss related to any Securities Claim first made against any Company during the Policy Period or the Discovery Period (if applicable) and reported to the Insurer in writing pursuant to the terms of the Policy. Insurance cover C is without any prejudice to Insurance cover A in respect of any Securities Claims.
7. Interested party, grounds for being recognised as such	The President, members of the Board of Directors and the Management Committee of PJSC "LUKOIL" are simultaneously beneficiaries under the transaction.
8. Other material terms of the transaction	The policy is effective from 19 July 2017 through 18 July 2018. 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.
1. Transaction No.	2
2. Price	EUR 6,200,000,000
3. Names of parties	PJSC "LUKOIL" (the Sole Member) LUKOIL INTERNATIONAL GmbH (the Company)
4. Names of beneficiaries	-
5. Name of the transaction	PJSC "LUKOIL" to make an additional monetary contribution to the charter capital of LUKOIL INTERNATIONAL GmbH
6. Subject of the transaction	The Sole Member is to make an additional monetary contribution in the amount of EUR 6,200,000,000 (six billion two hundred million) to increase the charter capital of the Company by EUR 150,000 (one hundred fifty thousand), which would increase the par value of the Sole Member's interest by EUR 150,000 (one hundred fifty thousand). After the additional contribution of the Sole Member, the par value of the Sole Member's interest in the charter capital of LUKOIL INTERNATIONAL GmbH the Company will be equal to EUR 300,000 (three hundred thousand). The cost of the above increase of the charter capital of LUKOIL INTERNATIONAL GmbH the Company for the Sole Member will be EUR 6,200,000,000 (six billion two hundred million).

7. Interested parties, grounds for being recognised as such, interested parties' equity share in the charter (joint stock) capital (percentage of the shares that belonged to the interested parties) of PJSC "LUKOIL" and the legal entity, a party to the transaction as of the transaction date	Vagit Usufovich Alekperov, President, Chairman of the Management Committee and a member of the Board of Directors of PJSC "LUKOIL", is simultaneously Chairman of the Suprevisory Board of LUKOIL INTERNATIONAL GmbH, interested party's equity share in the charter capital of PJSC "LUKOIL" – 2.464 %, interested party's equity share in the charter capital of LUKOIL INTERNATIONAL GmbH – 0%. Ravil Ulfatovich Maganov, a member of the Management Committee and a member of the Board of Directors of PJSC "LUKOIL", is simultaneously Vice-Chairman of the Suprevisory Board of LUKOIL INTERNATIONAL GmbH, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.3793 %, interested party's equity share in the charter capital of LUKOIL INTERNATIONAL GmbH – 0%. Vladimir Ivanovich Nekrasov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Suprevisory Board of LUKOIL INTERNATIONAL GmbH, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.04 %, interested party's equity share in the charter capital of LUKOIL INTERNATIONAL GmbH – 0%. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL", is simultaneously a member of the Suprevisory Board of LUKOIL INTERNATIONAL GmbH and the spouse of Alexander Kuzmich Matytsyn, Managing Director of LUKOIL INTERNATIONAL GmbH, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.356 %, interested party's equity share in the charter capital of LUKOIL INTERNATIONAL GmbH – 0%. Aleksandr Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Managing Director of LUKOIL INTERNATIONAL GmbH, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.310 %, interested party's equity share in the charter capital of LUKOIL INTERNATIONAL GmbH – 0%.
8. Other material terms of the transaction	-

LIST OF INTERESTED PARTY TRANSACTIONS ENTERED INTO BY PJSC «LUKOIL» IN 2017, WHERE DECISIONS ON CONSENT TO PERFORM THE TRANSACTIONS WERE TAKEN BY THE BOARD OF DIRECTORS OF PJSC "LUKOIL"

1. Transaction No.	1
2.1. Price (amount in Euro)	Guarantee of PJSC "LUKOIL" shall be granted for a credit limit in the amount not exceeding EUR 160,000,000
2.2. Price (amount in roubles)	Guarantee of PJSC "LUKOIL" shall be granted for a credit limit in the amount not exceeding RUB 9,704,000,000
3. Names of parties	PJSC "LUKOIL" (Surety) UniCredit BulBank AD (Bank)
4. Names of beneficiaries	LUKOIL Neftokhim Burgas AD (Borrower)
5. Name of the transaction	Addendum No.6 to Surety Agreement No. 1/1210803 of 26.10.2012 (Agreement)
6. Subject of the transaction	According to the Agreement and Addenda No.1-5 thereto the Surety irrevocably undertakes to pay to the Bank jointly and severally with the Borrower at the Bank's first demand any amount not exceeding EUR 160,000,000 (the Credit Limit) due for payment to the Bank by the Borrower under the Conditional Bank Loan Agreement for Undertaking Credit Commitments in the Form of Bank Guarantees and Documentary Letters of Credit No.200 dated October 22th, 2012 with subsequent Annexes signed between the Bank and the Borrower (Loan Agreement) in case the Borrower fails to pay any amount of his indebtedness. According to Addendum No.6 to the Agreement: 1) The Surety expresses its unconditional and irrevocable consent with the changed terms and conditions on the following: - The granted conditional bank loan has a credit limit in the amount of EUR 160,000,000. The Borrower has the option to order the issuance of bank guarantees/ counter guarantees/ standby letters of credit/ opening of letters of credit/ undertaking of customs suretyships (hereinafter, the conditional obligations) in euro (EUR), as well as in leva (BGN) and / or US dollars (USD). The total utilized amount of the Loan may not exceed EUR 160,000,000 in no time point during the term of the Agreement; - The Term for issuance of conditional obligations within the available credit limit shall be 31.01.2018 inclusive; – The Maximum term of validity of the commitment of the Bank-issuer to make payments under the conditional obligations shall be until 16.02.2020, while the term indicated in the guarantee (counter guarantee) and/or opened letter of credit for the receipt of a claim/ valid documents for payment cannot be later than 31.01.2020; - Maximum term of validity of the commitment of the Bank-issuer to make payments under bank guarantees/ customs suretyships, issued under the terms and conditions of the Law on excises and tax warehouses shall be not later than 16.02.2020, while the term for the receipt of a claim for payment shall be not later than 31.01.2020, and the guarantees have a term of validity not later than 31.07.2019: - Final term of the Loan Agreement: 16.02.2020; - Fee for issuance of bank guarantee/ counter guarantee/ standby letter of credit/ undertaking of customs suretyship: 0.25% on annual basis; fee for issuing of a letter of credit: 0.25% on annual basis, but not less than EUR 50. 2) The Surety agrees jointly with the Borrower to be liable for the Borrower's due performance of its obligations under the Loan Agreement with the above amended conditions of the Loan Agreement, including the extension of the final term of the Loan Agreement till 16.02.2020. 3) The Surety Agreement term is set out till 16.02.2021 inclusive.
7. Interested party, grounds for being recognised as such	Vadim Nikolaevich Vorobyov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of LUKOIL Neftokhim Burgas AD.
8. Other material terms of the transaction	All other terms of the Agreement not covered by Addendum No.6 remain unchanged.
1. Transaction No.	2
2.1. Price (amount in US dollars)	Not more than USD 40,000,000
2.2. Price (amount in roubles)	Not more than RUB 2,278,000,000
3. Names of parties	PJSC "LUKOIL" (Guarantor) SOCIÉTÉ GÉNÉRALE EXPRESSBANK AD (Lender)
4. Names of beneficiaries	LUKOIL Neftochim Burgas AD (Borrower)
5. Name of the transaction	Deed of Guarantee (Deed)

6. Subject of the transaction	The Guarantor irrevocably and unconditionally guarantees to the Lender the due and punctual performance by the Borrower of all of the Borrower's obligations to the Lender under the Facility Agreement for issuance of Bank guarantees and Letters of credit (Facility Agreement) up to the total amount of USD 40,000,000 by issuance/opening by the Lender at the Borrower's request of Bank guarantees and Letters of credit in US dollars, Euro and BGN plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable (or stated to be payable) to the Lender under or in connection with the Facility Agreement.
7. An interested party, grounds for the appearance of an interested party	Vadim Nikolaevich Vorobyov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of LUKOIL Neftokhim Burgas AD
8. Other material terms of the transaction	The Deed shall terminate on the day on which all of the Borrower's and the Guarantor's payment obligations under the Facility Agreement and the Deed to which they are respectively a party have been unconditionally and irrevocably paid and discharged in full. The Deed is governed by English law.
1. Transaction No.	3
2.1. Price (amount in US dollars)	USD 40,000,000; fee of not more than USD 732,000. VAT exempt
2.2. Price (amount in roubles)	RUB 2,278,000,000; fee of not more than RUB 41,687,400. VAT exempt
3. Names of parties	PJSC "LUKOIL" (Guarantor) LUKOIL Neftochim Burgas AD (Borrower)
4. Names of beneficiaries	-
5. Name of the transaction	Contract of Indemnity (hereinafter, the "Contract")
6. Subject of the transaction	The Parties have entered into the Contract in connection with the Deed of Guarantee (hereinafter, the Deed) to be signed by the Guarantor and SOCIÉTÉ GÉNÉRALE EXPRESSBANK AD (the Bank) to ensure the Debtor's obligations before the Bank under the Facility agreement for issuance of Bank guarantees and Letters of credit up to the total amount of USD 40,000,000 (Facility Agreement) entered into on the date of the Deed (or a date close thereto) are fulfilled. Under the Deed the Guarantor shall pay the Bank the principal amount of debt plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable (or stated to be payable) to the Bank under or in connection with the Facility Agreement. The Parties have agreed that the amount paid by the Guarantor to the Bank in fulfillment of obligations under the Deed shall be deemed the amount payable by the Debtor to the Guarantor plus the interest for using the money on the terms and conditions, by the deadlines and in accordance with the procedure determined by the Contract.
7. Interested party, grounds for being recognised as such	Vadim Nikolaevich Vorobyov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of LUKOIL Neftokhim Burgas AD
8. Other material terms of the transaction	The Debtor undertakes to pay the Guarantor the Guarantor's fee for providing the Deed. The cost of the Guarantee services provided to the Debtor equals 0.61% per annum of the amount of the Debtor's debt to the Bank under the Facility Agreement covered by the Guarantee calculated for each day of the reporting period. The said rate shall not change throughout the entire term of validity of the Contract unless stated otherwise by the Parties in writing. The actual number of days in a year (365/366) shall be used for calculating the amount of payment due for the Guarantee services to cover the Debtor's obligations. The Debtor shall pay the Guarantor interest of LIBOR 3M+3% per annum on the amount wire-transferred by the Guarantor to the Bank in fulfilment of obligations under the Deed. LIBOR 3M shall mean (for any payment) the London Inter-Bank offered USD deposit rates with a three-months maturity two business days before the Guarantee obligations are executed by the Guarantor. The Contract shall enter into force from the date of signing and shall remain in effect until the Parties perform their obligations in full.
1. Transaction No.	4
2.1. Price (amount in US dollars)	USD 45,662,100.46
2.2. Price (amount in roubles)	RUB 2,600,000,000
3. Names of parties	PJSC "LUKOIL" (Seller) IOOO LUKOIL Belorussia (Buyer)
4. Names of beneficiaries	-
5. Name of the transaction	Supply Contract (hereinafter the "Contract")

6. Subject of the transaction	The Contract stipulates that the Seller supplies the Buyer, on DAP NP Gomel terms, with the following products: diesel fuel of up to 100,000 metric tonnes of the following producers: OOO LUKOIL-Permnefteorgsintez and OOO LUKOIL-Nizhegorodnefteorgsintez. Delivery schedule: from the date the Contract is signed through 31 May 2018 in line with the supply volumes approved by the Parties on a monthly basis. The total Contract value in Russian roubles calculated at the averaged price of the product supplied equals RUB 2,600,000,000.
7. Interested party, grounds for being recognised as such	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of IOOO LUKOIL Belorussia.
8. Other material terms of the transaction	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. Title to the products and all risks of accidental loss or damage shall be transferred to the Buyer upon signing the Petroleum Products Acceptance Act (the date of the Petroleum Products Acceptance Act). The term of the Contract: from the date of signing the Contract till the Parties have discharged their obligations under the Contract in full.
1. Transaction No.	5
2.1. Price (amount in Turkish Lira)	Credit line of TRY 170,000,000, plus interest of no more than TRY 4,250,000
2.2. Price (amount in roubles)	Credit line of RUB 2,809,913,000, plus interest of no more than RUB 70,247,825
3. Names of parties	PJSC "LUKOIL"(Guarantor) Citibank Anonim Şirketi (Bank)
4. Names of beneficiaries	LUKOIL EURASIA PETROL ANONIM ŞIRKETI (Principal)
5. Name of the transaction	Second Amendment Agreement (hereinafter Amendment Agreement) to Corporate Guarantee for Specific Liabilities No. 1510488 dated 12 October 2015 (Guarantee)
6. Subject of the transaction	In accordance with the Guarantee and the First Amendment Agreement the Guarantor guarantees to the Bank the due and punctual performance of all the Principal's Obligations under the Credit Agreement signed between the Principal and the Bank (Credit Agreement) with the credit line terminating on the earlier of: 13 July 2018 or the date on which all of the Principal's and the Guarantor's payment obligations under the Agreement and the Guarantee respectively have been unconditionally and irrevocably paid and discharged in full, in the amount not exceeding US$ 50,000,000 in Turkish Lira, plus all accrued interest, penalties, fees and documented costs, expenses and other amounts payable (or stated to be payable) to the Bank under with the Credit Agreement. The Guarantor undertakes with the Bank that whenever the Principal does not pay any amount when due under or in connection with the Agreement, the Guarantor shall within five (5) Business Days of demand by the Bank pay that amount. In connection with the Second Amendment Agreement, the Guarantor and the Bank have agreed to make certain amendments to the terms and conditions of the Credit Agreement as set out herein. - The total amount of the credit line shall be changed from the equivalent of US$ 50,000,000 (Fifty million) in Turkish Lira to TRY 170,000,000 (one hundred and seventy million Turkish Lira), without reference to US dollars; - The date of termination of the Guarantee shall be replaced as follows: this Guarantee shall terminate on the earlier of: 12 July 2019 provided that such termination shall not release the Guarantor from its obligations in respect of any demands or claims which the Bank has made either prior to or on that date; or the date on which all of the Principal's and the Guarantor's payment obligations under the Agreement and this Guarantee respectively have been unconditionally and irrevocably paid and discharged in full.
7. Interested party, grounds for being recognised as such	Pashaev Oleg Davidovich, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL EURASIA PETROL ANONIM ŞIRKETI.
8. Other material terms of the transaction	This Guarantee and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.
1. Transaction No.	6
2.1. Price (amount in Turkish Lira)	Credit line of TRY 170,000,000, plus interest of no more than USD 4,250,000; fee of TRY 1,017,484.86
2.2. Price (amount in roubles)	Credit line of RUB 2,809,913,000, plus interest of no more than RUB 70,247,825; fee of RUB 16,817,905.50
3. Names of parties	PJSC "LUKOIL"(Guarantor) LUKOIL EURASIA PETROL ANONIM ŞIRKETI (Borrower)
4. Names of beneficiaries	-
5. Name of the transaction	Supplemental Agreement to Contract of Indemnity No.1510468 of 12.10.2015 (hereinafter the "Contract")

6. Subject of the transaction	The Parties have entered into an agreement in connection with the Corporate Guarantee for Specific Liabilities (Guarantee) between the Guarantor and Citibank Anonim Şirketi (Bank) being entered into in order to guarantee to the Bank the due and punctual performance of all the Borrower's Obligations under the Credit Agreement (Credit line in Turkish Lira) for the aggregate amount of up to USD 50,000,000 (Credit Agreement), plus interest, fines, penalties and other guaranteed payments. The Parties have agreed that the amount paid by the Guarantor to the Bank in performance of obligations under the Guarantee shall be considered the amount due and payable by the Borrower to the Guarantor with interest, on the terms, by the deadlines, and pursuant to the procedure determined by the Contract. In accordance with the Supplemental Agreement to the Contract: - Point 1.1 of the Contract shall be revised to stipulate that the aggregate amount of the Borrower's Obligations under the Credit Agreement shall not exceed TRY 170,000,000, plus interest, fines, penalties and other guaranteed payments; - In connection with extension of the Contract of Indemnity based on the Second Supplemental Agreement thereto, the Borrower undertakes to pay the Guarantor the fee of TRY 1,017,484.86, within 180 calendar days from the moment the Supplemental Agreement is signed. The Fee shall be paid by the Borrower in US dollars recalculated in Turkish Lira using the official exchange rates of the Russian Rouble to the Turkish Lira and the US dollar established by the Central Bank of the Russian Federation as of the date this service is provided.
7. Interested party, grounds for being recognised as such	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL EURASIA PETROL ANONIM ŞIRKETI.
8. Other material terms of the transaction	The Contract enters into force from the date of signing by the Parties.
1. Transaction No.	7
2.1. Price (amount in US dollars)	The amount of the credit line is USD 300,000,000, plus interest of no more than USD 24,360,000.
2.2. Price (amount in roubles)	The amount of the credit line is RUB 18,018,000,000, plus interest of no more than RUB 1,463,061,600.
3. Names of parties	PJSC LUKOIL (Guarantor) ING BANK N.V., DUBLIN BRANCH (Creditor)
4. Names of beneficiaries	LUKINTER FINANCE B.V.
5. Name of the transaction	Supplement Agreement No. 2 (hereinafter, the Supplement Agreement) to Surety Agreement No. 1510442 as of September 9, 2015 (hereinafter, the Surety).
6. Subject of the transaction	According to the Surety and the respective Supplement Agreement No. 1 the Guarantor shall, along with the Borrower, be accountable to the Creditor for full, proper and timely fulfillment of all Borrower's obligations under the Agreement on Granting the Approved Revolving Credit Line in the amount of USD 300,000,000 of September 9, 2015, signed between the Borrower and the Creditor (hereinafter, the Credit Agreement), with the credit line term being equal to 24 months following the Credit Agreement signature date, including the costs, expenses and losses to be reimbursed to the Creditor under the Credit Agreement; should the Borrower fail to settle any amount of the secured obligations to the Creditor within the agreed period, the Guarantor shall transfer the said amount to the Creditor upon demand within five (5) business days following the demand placed by the Creditor to the Guarantor. Under the Supplement Agreement to the Surety, the Credit Agreement shall be redrafted with due consideration of the changes in the credit line term up to 48 months following the Credit Agreement signature date.
7. Interested party, grounds for being recognised as such	Alexander K. Matytsyn, Member of the Management Committee of PJSC LUKOIL and Chairman of the Supervisory Board of LUKINTER FINANCE B.V. Stanislav G. Nikitin, Member of the Management Committee of PJSC LUKOIL and Member of the Supervisory Board of LUKINTER FINANCE B.V. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V.
8. Other material terms of the transaction	All other provisions of the Surety shall remain unaltered and in force. This Supplement Agreement shall come into effect the day it is signed by the Parties.
1. Transaction No.	8
2.1. Price (amount in US dollars)	Loan facility in the amount of USD 300,000,000, interest in the amount of USD 24,360,000 at most and remuneration in the amount of USD 2,640,000 at most beyond that.
2.2. Price (amount in roubles)	Loan facility in the amount of RUB 18,018,000,000, interest in the amount of RUB 1,463,061,600 at most and remuneration in the amount of RUB 158,558,400 at most beyond that.

3. Names of parties	PJSC LUKOIL (Surety) LUKINTER FINANCE B.V. (Borrower)
4. Names of beneficiaries	-
5. Name of the transaction	Supplement Agreement to Reimbursement Agreement No.1510417 of 09 September 2015 (hereinafter the Agreement).
6. Subject of the transaction	The Parties concluded the Agreement and Supplement Agreements Nos.1-2 in relation to the Suretyship Agreement No.1510442 of 09 September 2015 between the Surety and ING BANK N.V., DUBLIN BRANCH (the Bank), done as guarantee of the Borrower's performance of obligations to the Bank under the Loan Agreement on the extension of committed revolving facility in the amount of USD 300,000,000 (hereinafter the Loan Agreement), as well as interests, penalties, fines and other guaranteed payments. The Parties agreed to regard the amount paid by the Surety to the Bank to perform its obligations under the Suretyship Agreement as the amount, subject to return by the Borrower to the Surety with interest paid for its use on the terms, at the time and in the manner as established by the Agreement. According to the Supplement Agreement to the Agreement and in view of the extension of the Suretyship Agreement by virtue of Supplement Agreement No.2 thereto, Item 3.2 of the Agreement shall be amended to read that the service charge for providing surety for the Borrower' liabilities shall be 0.88% per annum of the liabilities to the Bank covered by the surety of the Borrower's obligations to the Bank under the Loan Agreement, calculated for each day of the settlement period. The rate specified above shall remain unchanged throughout the term of the Agreement, unless otherwise duly agreed in writing by the Parties. The actual number of days in a year (365/366) shall be used to calculate the amount of payment for the surety of the Borrower's performance.
7. Interested party, grounds for being recognised as such	Alexander K. Matytsyn, Member of the Management Committee of PJSC LUKOIL and Chairman of the Supervisory Board of LUKINTER FINANCE B.V. Stanislav G. Nikitin, Member of the Management Committee of PJSC LUKOIL and Member of the Supervisory Board of LUKINTER FINANCE B.V. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V.
8. Other material terms of the transaction	Supplement Agreement shall become effective upon execution by the Parties.
1. Transaction No.	9
2.1. Price (amount in US dollars)	The estimated amount of the transaction is up to USD 3,062,155,726.03 (including the principal amount of debt of up to USD 3,000,000,000, plus interest of no more than USD 62,155,726.03.)
2.2. Price (amount in roubles)	The estimated amount of the transaction is up to RUB 180,789,674,064.81, (including the principal amount of debt of up to RUB 177,120,000,000 plus interest of no more than RUB 3,669,674,064.81).
3. Names of parties	PJSC "LUKOIL" (Lender) LUKINTER FINANCE B.V. (Borrower)
4. Names of beneficiaries	-
5. Name of the transaction	Agreement on loan provision and repayment procedure (the "Agreement").
6. Subject of the transaction	The Agreement outlines contractual obligations of the parties concerning the provision and subsequent repayment of funds (loan amount), as well as accrual and payment of interest for the use of the said loan. Depending on their legal status with respect to the loan, the parties shall be referred to as the Borrower and the Lender. In accordance with the Agreement Offer Letter the Lender proposes to the Borrower to conclude a Loan Provision and Repayment Procedure Agreement by providing written consent to (acceptance of) the terms of this Agreement whereby the Lender shall extend a special-purpose revolving loan facility to the Borrower in full or in parts. The total amount of loan debt at any point of time during the period thereof shall not exceed USD 3,000,000,000 (three billion). Once the Borrower accepts this Agreement it shall be entitled to specify another amount of loan debt within the above total amount. In such a case the Agreement shall be deemed to be concluded with respect to the total loan amount the Borrower specified at any point of time during the period thereof.

7. Interested parties, grounds for being recognised as such, interested parties' equity share in the charter (joint stock) capital (percentage of the shares that belonged to the interested parties) of PJSC "LUKOIL" and the legal entity, a party to the transaction as of the transaction date	Aleksandr Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V. interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.310%, interested party's equity share in the charter capital of LUKINTER FINANCE B.V. - 0%. Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Supervisory Board of LUKINTER FINANCE B.V., interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.014%, interested party's equity share in the charter capital of LUKINTER FINANCE B.V. - 0%. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V., interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.356%, interested party's equity share in the charter capital of LUKINTER FINANCE B.V. - 0%.
8. Other material terms of the transaction	The Borrower undertakes to pay the Company an interest determined and calculated in accordance with the Marketing Policy for determining interest rates on loans between OAO "LUKOIL" and the Russian organisations of the LUKOIL Group approved by decision of the Management Committee of OAO "LUKOIL" dated 30 August 2006 (Minutes No. 26), in the version approved by decision of the Management Committee of OAO "LUKOIL" dated 23 January 2012 (Minutes No.2) with subsequent amendments, for on-call loans. The Borrower shall be entitled to early (partial or full) repayment of the principal debt and interest accrued thereon. The loan is being granted to the Borrower for up to 31 December 2017. This Agreement shall be governed by and construed in accordance with the law of the Russian Federation (without regard to conflict of law principles).
1. Transaction No.	10
2.1. Price (amount in US dollars)	Credit line of USD 200,000,000, plus interest of no more than USD 17,142,000.
2.2. Price (amount in roubles)	Credit line of RUB 11,590,000,000, plus interest of no more than RUB 993,378,900.
3. Names of parties	PJSC "LUKOIL" (Guarantor) ABN AMRO BANK N.V. (Lender)
4. Names of beneficiaries	LUKINTER FINANCE B.V. (Borrower)
5. Name of the transaction	Confirmation and Amendment Deed No.2 to Deed of Guarantee No.1510168 dated 01.04.2015 (the Guarantee)
6. Subject of the transaction	Pursuant to Guarantee and Confirmation and Amendment Deed No.1 to the Guarantee, the Guarantor irrevocably and unconditionally guarantees to the Lender the due and punctual performance by the Borrower of all the Borrower's obligations totalling USD 150,000,000 under the Facility Agreement signed between the Borrower and the Lender (Facility Agreement), plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable (or stated to be payable) to the Lender under or in connection with the Facility Agreement. Pursuant to the Confirmation and Amendment Deed No.2 to the Guarantee, the Guarantor confirms and agrees with the following amendments to the Facility Agreement: - The sum total of the credit line shall be increased to USD 200,000,000; - Interest rate: LIBOR + 2.5 percent per annum; - Final Maturity Date: two years after the date Amendment Agreement No.2 to the Facility Agreement is signed.
7. Interested party, grounds for being recognised as such	Aleksandr Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V. Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Supervisory Board of LUKINTER FINANCE B.V. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V.
8. Other material terms of the transaction	Confirmation and Amendment Deed No.2 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.	11
2.1. Price (amount in US dollars)	Credit line of USD 200,000,000, plus interest of no more than USD 17,142,000; the fee of no more than USD 3,520,000
2.2. Price (amount in roubles)	Credit line of RUB 11,590,000,000, plus interest of no more than RUB 993,378,900; the fee of no more than RUB 203,984,000

3. Names of parties	PJSC "LUKOIL" (Guarantor) LUKINTER FINANCE B.V. (Borrower)
4. Names of beneficiaries	-
5. Name of the transaction	Supplemental Agreement to Contract of Indemnification No.1510147 of 01.04.2015 (hereinafter the "Contract").
6. Subject of the transaction	The Parties signed the Contract in connection with the Deed of Guarantee No.1510168 dated 01.04.2015 issued by the Guarantor as a guarantee to ABN AMRO BANK N.V. (the "Bank") for meeting the Borrower's liabilities worth USD 150,000,000 under the Facility Agreement, plus interest, penalties, forfeits, fines and other amounts due and payable (Facility Agreement). The Parties have agreed to deem the amount paid by the Guarantor to the Bank in fulfillment of obligations under the Guarantee the amount payable by the 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. Under the Supplemental Agreement to the Contract: - In connection with the increase of the Guarantor's liabilities to USD 200,000,000 and extension of the validity of the Deed of Guarantee by Confirmation and Amendment Deed No.2 to the Guarantee, Clause 1.1. of the Contract is being revised to stipulate that the Borrower's liabilities to the Bank under the Facility Agreement amount to USD 200,000,000, plus interest, penalties, forfeits, fines and other amounts due and payable; - Clause 3.2 of the Contract is being revised to stipulate that the cost of the Guarantee Service for the Borrower's obligation amounts to 0.88% per annum of the amount of the Borrower's obligations to the Bank under the Facility Agreement covered by the Guarantee and calculated for each day of the reporting period. The said rate shall not change during the validity of the Contract unless duly stipulated by the Parties in writing. In calculating the amount payable for the Guarantee Service provided the actual number of days in a year shall be used (365/366).
7. Interested party, grounds for being recognised as such	Aleksandr Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V. Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Supervisory Board of LUKINTER FINANCE B.V. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing by the Parties.
1. Transaction No.	12
2.1. Price (amount in US dollars)	Approximately not more than USD 1,089,999,484.32, including the interest accrued.
2.2. Price (amount in roubles)	Approximately not more than RUB 62,249,870,549.43, including the interest accrued.
3. Names of parties	RITEK (Lender) PJSC "LUKOIL" (Borrower)
4. Names of beneficiaries	-
5. Name of the transaction	Supplemental Agreement to Loan Agreement No.1610385 of 02.08.2016 (hereinafter the 'Agreement').
6. Subject of the transaction	In accordance with the Agreement, 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. In accordance with the Supplemental Agreement to the Loan Agreement, point 1.1 of the Agreement is set out in a new version stipulating an increase of the loan amount to RUB 61,000,000,000.

7. Other material terms of the transaction	Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.01%, interested party's equity share in the charter capital of RITEK – 0%. Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.006%, interested party's equity share in the charter capital of RITEK – 0%. Ilya Emmanuilovich Mandrik, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.01 %, interested party's equity share in the charter capital of RITEK – 0%.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date it is signed by authorized representatives of the Parties, and applies to the legal relations of the Parties arising from 27.09.2017.
1. Transaction No.	13
2.1. Price (amount in US dollars)	Credit line of USD 30,000,000, with the estimated Bank fee due for the credit line's entire maturity of USD 2,400,000 totaling USD 32,400,000.
2.2. Price (amount in roubles)	Credit line of RUB 1,736,100,000, with the estimated Bank fee due for the credit line's entire maturity of RUB 138,888,000 totaling RUB 1,874,988,000
3. Names of parties	PJSC "LUKOIL" (Guarantor) Citibank, N.A. (Administrative Agent)
4. Names of beneficiaries	LUKOIL NORTH AMERICA LLC (Borrower)
5. Name of the 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.6 to the Credit Agreement, whereby the maturity of the Credit Agreement is being extended to 28.12.2019 and the Guarantee is retained in full.
7. Interested party, grounds for being recognised as such	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL 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.	14
2.1. Price (amount in US dollars)	USD 32,400,000 (Credit line of USD 30,000,000, with the estimated Bank fee due for the credit line's entire maturity of USD 2,400,000); the estimated fee will be USD 264,000.
2.2. Price (amount in roubles)	RUB 1,874,988,000 (Credit line of RUB 1,736,100,000 with the estimated Bank fee due for the credit line's entire maturity of RUB 138,888,000); the estimated fee will be RUB 15,277,680
3. Names of parties	PJSC "LUKOIL" (Guarantor) LUKOIL NORTH AMERICA LLC (Debtor)
4. Names of beneficiaries	-
5. Name of the 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 Guarantee No.1111135 of 29.12.2011 based on the Guarantor's letter, the following amendment 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 0.88% 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).

7. Interested party, grounds for being recognised as such	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of LUKOIL 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.	15
2.1. Price (amount in US dollars)	The approximate interest fee before expiry of the Loan Agreement is USD 25,561,825.73
2.2. Price (amount in roubles)	The approximate interest fee before expiry of the Loan Agreement is RUB 1,540,100,000
3. Names of parties	PJSC "LUKOIL" (Lender) OOO "TsentrCaspneftegaz" (Borrower)
4. Names of beneficiaries	-
5. Name of the transaction	Supplemental Agreement to Loan Agreement No.0810300 of 29.04.2008 (hereinafter the "Agreement").
6. Subject of the transaction	In accordance with the Agreement, the Lender provides the Borrower with a special-purpose loan in an amount of RUB 2,346,217,000, and the Borrower undertakes to repay the funds received and to pay interest thereon by the dates and pursuant to the procedure indicated in the Agreement. In accordance with the Supplemental Agreement to the Loan Agreement: 1. From 01.01.2018, the interest rate under the Agreement and point 2.1 of the Agreement shall be revised whereby the Borrower shall pay the Lender an interest of 8.27 percent per annum on the loan amount received. 2. Point 3.1 of the Agreement shall be revised to extend the Loan through 25.12.2018, with the early repayment option.
7. Interested party, grounds for being recognised as such	Ilya Emmanuilovich Mandrik, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of OOO "TsentrCaspneftegaz". Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Board of Directors of OOO "TsentrCaspneftegaz".
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, except the provision on the new interest rate under the Agreement which applies to the legal relations between the Parties arising from 01.01.2018.
1. Transaction No.	16
2.1. Price (amount in US dollars)	The approximate interest fee before expiry of the Loan Agreement is USD 25,512,033.19
2.2. Price (amount in roubles)	The approximate interest fee before expiry of the Loan Agreement is RUB 1,537,100,000.00
3. Names of parties	PJSC "LUKOIL" (Lender) OOO "TsentrCaspneftegaz" (Borrower)
4. Names of beneficiaries	-
5. Name of the transaction	Supplemental Agreement to Loan Agreement No.0710253 of 09.04.2007 (hereinafter the "Agreement").
6. Subject of the transaction	In accordance with the Agreement, the Lender provides the Borrower with a special-purpose loan in an amount of RUB 1,920,000,000, and the Borrower undertakes to repay the funds received and to pay interest thereon by the dates and pursuant to the procedure indicated in the Agreement. In accordance with the Supplemental Agreement to the Loan Agreement: 1. Point 4.1 of the Agreement shall be revised to extend the Loan through 25.12.2018, with the early repayment option. 2. From 01.01.2018, the interest rate under the Agreement and point 5.1 of the Agreement shall be revised whereby the Borrower shall pay the Lender an interest of 8.27 percent per annum on the loan amount received.
7. Interested party, grounds for being recognised as such	Ilya Emmanuilovich Mandrik, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of OOO "TsentrCaspneftegaz". Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Board of Directors of OOO "TsentrCaspneftegaz".
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, except the provision on the new interest rate under the Agreement which applies to the legal relations between the Parties arising from 01.01.2018.
1. Transaction No.	17
2.1. Price (amount in US dollars)	Credit line of USD 300,000,000, plus interest of no more than USD 21,900,000.
2.2. Price (amount in roubles)	Credit line of RUB 18,075,000,000, plus interest of no more than RUB 1,319,475,000.
3. Names of parties	PJSC "LUKOIL" (Guarantor) ING BANK N.V., DUBLIN BRANCH (Lender)
4. Names of beneficiaries	LUKINTER FINANCE B.V. (Borrower)
5. Name of the transaction	Supplemental Agreement No.3 (hereinafter the Supplemental Agreement) to Suretyship Agreement No.1510442 of 09 September 2015 (hereinafter the Surety).

6. Subject of the transaction	According to the Surety and Supplemental Agreements 1 and 2 thereto the Guarantor shall, along with the Borrower, be accountable to the Lender for full, proper and timely fulfillment of all of the Borrower's obligations under the Agreement on Granting the Approved Revolving Credit Line in the amount of USD 300,000,000 of September 9, 2015, signed between the Borrower and the Lender (hereinafter, the Credit Agreement), with the credit line term being equal to 48 months following the Credit Agreement signature date, including the costs, expenses and losses to be reimbursed to the Lender under the Credit Agreement; should the Borrower fail to settle any amount of the secured obligations to the Lender within the agreed period, the Guarantor shall transfer the said amount to the Lender upon request within five (5) business days following the request issued by the Lender to the Guarantor. Under the Supplement Agreement to the Surety, the Credit Agreement definition shall be revised to change the credit line term to 24 months following the Lender's notice to the Borrower on meeting the conditions precedent.
7. Interested party, grounds for being recognised as such	Aleksandr Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V. Stanislav Georgievich Nikitin, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Supervisory Board of LUKINTER FINANCE B.V. Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V.
8. Other material terms of the transaction	All other terms of the Surety will remain unchanged and will remain in effect. The Supplemental Agreement enters into force from the date of signing by the Parties.
1. Transaction No.	18
2.1. Price (amount in US dollars)	USD 135,012,448.13
2.2. Price (amount in roubles)	RUB 8,134,500,000.00
3. Names of parties	PJSC "LUKOIL" (Seller) IOOO LUKOIL Belorussia (Buyer)
4. Names of beneficiaries	-
5. Name of the transaction	Supplemental Agreement to Supply Contract No.1610757 of 29.12.2016 (hereinafter the "Contract")
6. Subject of the transaction	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 s 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. In accordance with the Supplemental Agreement to the Contract, the term of deliveries under the Contract shall be extended through 31.01.2019.
7. Interested party, grounds for being recognised as such	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of IOOO LUKOIL Belorussia.
8. Other material terms of the transaction	The Supplemental Agreement enters into force from the date of signing by the Parties.
1. Transaction No.	19
2.1. Price (amount in US dollars)	Approximately USD 875,000,000
2.2. Price (amount in roubles)	Approximately RUB 51,511,250,000
3. Names of parties	PJSC "LUKOIL" (Seller) IOOO LUKOIL Belorussia (Buyer)
4. Names of beneficiaries	-
5. Name of the transaction	Crude Delivery Contract (hereinafter the "Contract").
6. Subject of the transaction	The Seller undertakes to deliver and the Buyer undertakes to accept and pay for up to 2,500,000 metric tonnes of crude oil (Goods) on the terms of delivery DDU (Delivered Duty Unpaid) Novopolotsk (OAO Naphtan) and/or Mozyr (OAO Mozyr Refinery), Belarus. The period of delivery by pipeline transport – during January 2018 - December 2018 in accordance with monthly delivery schedules approved by both Parties. The approximate value of the Contract shall be around USD 875,000,000 +/- 5 (five) percent.

7. Interested party, grounds for being recognised as such, interested party's equity share in the charter (joint stock) capital (percentage of the shares that belonged to the interested parties) of PJSC "LUKOIL" and the legal entity, a party to the transaction as of the transaction date	Oleg Davidovich Pashaev, a member of the Management Committee of PJSC "LUKOIL", is simultaneously the Chairman of the Supervisory Board of IOOO LUKOIL Belorussia, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.005%, interested party's equity share in the charter capital of IOOO LUKOIL Belorussia – 0%.
8. Other material terms of the transaction	The price of Goods shall be calculated using the formula stipulated in section 6 of the Contract; payments for the Goods shall be effected via bank transfers in US dollars and/or Russian roubles and/or EURO in strict compliance with the Seller's invoice not later than 45 calendar days from the date a Consignment of Goods is delivered. 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 shall 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 PAO 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 2018, and as regards mutual settlements – until they have been completed in full.

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 2017

BoD / Management Committee member	Type of transaction	Date of transaction	Number of shares/DRs
Vagit Alekperov	purchase	31.08.2017	300,000
Vadim Vorobyov	purchase	20.09.2017	6,030
Ravil Maganov	purchase	13.09.2017	6,047
	purchase	13.12.2017	2,215
Ivan Maslyaev	purchase	22.12.2017	5,081
Alexander Matytsyn	purchase	13.12.2017	4,925
Denis Rogachev	purchase	04.07.2017	8,637
Gennady Fedotov	purchase	19.07.2017	5,924
Leonid Fedun	purchase	08.02.2017	2,555
	purchase	01.09.2017	2,111
Lyubov Khoba	purchase	13.12.2017	4,925
Azat Shamsuarov	purchase	16.01.2017	4,889
	purchase	25.12.2017	5,997

Also during 2017, 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 1,000,977 shares/DRs;
- Leonid Fedun increased his shareholding by 207,254 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 2017

KPMG

Independent Auditor's 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 2017, 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 2017, 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.

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

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

Moscow, Russia.

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

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

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

PJSC LUKOIL
Independent Auditors' Report
Page 2

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of Property, plant and equipment (PP&E) in exploration and production segment	
Please refer to the Note 12 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
Due to continuing volatility in commodity prices, there is a risk of irrecoverability of the Group's PP&E balance in exploration and production segment, which is material to the financial statements as at 31 December 2017. Because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.	In this area our audit procedures included testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow models. We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group. We assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and discount rates. We compared the short-term price assumptions used by management, which represent a critical judgement, to the market forward curves. We also compared the short and long-term assumptions to views published by brokers, economists, consultancies and respected industry bodies, which provided a range of relevant third-party data points. We also considered whether the sensitivity of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of PP&E in exploration and production segment.

Estimation of oil and gas reserves and resources	
Please refer to the Note 4 in the consolidated financial statements	
The key audit matter	**How the matter was addressed in our audit**
The estimate of oil and gas reserves and resources has a significant impact on the financial statements, particularly impairment testing and depreciation, depletion and	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

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.	underlying information and documentation, along with checking that assumptions used to estimate reserves and resources were made in compliance with relevant regulations.

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

A.I. Oussov

JSC "KPMG"

Moscow, Russia

20 March 2018

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

	Note	31 December 2017	31 December 2016
Assets			
Current assets			
Cash and cash equivalents	6	330,390	261,367
Accounts receivable, net	7	418,272	360,897
Other current financial assets		19,561	16,934
Inventories	8	398,186	404,284
Prepaid taxes	9	87,338	93,675
Other current assets	10	54,367	83,175
Assets held for sale	15	-	35,309
Total current assets		**1,308,114**	**1,255,641**
Property, plant and equipment	12	3,575,165	3,391,366
Investments in associates and joint ventures	11	164,286	162,405
Other non-current financial assets	13	79,717	101,812
Deferred income tax assets	27	25,128	29,079
Goodwill and other intangible assets	14	41,304	43,134
Other non-current assets		32,501	31,236
Total non-current assets		**3,918,101**	**3,759,032**
Total assets		**5,226,215**	**5,014,673**
Liabilities and equity			
Current liabilities			
Accounts payable	16	559,977	550,247
Short-term borrowings and current portion of long-term debt	17	128,713	58,429
Taxes payable	19	118,484	94,955
Provisions	21, 22	58,253	26,015
Other current liabilities	20	93,420	97,110
Liabilities related to assets held for sale	15	-	3,930
Total current liabilities		**958,847**	**830,686**
Long-term debt	18	487,647	640,161
Deferred income tax liabilities	27	237,980	239,811
Provisions	21, 22	47,962	69,944
Other non-current liabilities		3,380	6,407
Total non-current liabilities		**776,969**	**956,323**
Total liabilities		**1,735,816**	**1,787,009**
Equity	23		
Share capital		1,151	1,151
Treasury shares		(251,089)	(241,615)
Additional paid-in capital		129,641	129,514
Other reserves		27,090	28,975
Retained earnings		3,576,158	3,302,855
Total equity attributable to PJSC LUKOIL shareholders		**3,482,951**	**3,220,880**
Non-controlling interests		7,448	6,784
Total equity		**3,490,399**	**3,227,664**
Total liabilities and equity		**5,226,215**	**5,014,673**

President of PJSC LUKOIL
Alekperov V.Y.

Chief accountant of PJSC LUKOIL
Verkhov V.A.

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

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

	Note	2017	2016
Revenues			
Sales (including excise and export tariffs)	32	5,936,705	5,227,045
Costs and other deductions			
Operating expenses		(456,765)	(456,433)
Cost of purchased crude oil, gas and products		(3,129,864)	(2,609,764)
Transportation expenses		(272,792)	(299,017)
Selling, general and administrative expenses		(165,331)	(196,156)
Depreciation, depletion and amortisation		(325,054)	(311,588)
Taxes other than income taxes		(606,510)	(443,338)
Excise and export tariffs		(461,525)	(483,313)
Exploration expenses		(12,348)	(8,293)
Profit from operating activities		**506,516**	**419,143**
Finance income	25	15,151	14,756
Finance costs	25	(27,331)	(47,030)
Equity share in income of affiliates	11	16,864	7,967
Foreign exchange loss		(19,948)	(111,976)
Other income (expenses)	26	32,932	(10,345)
Profit before income taxes		**524,184**	**272,515**
Current income taxes		(99,976)	(58,170)
Deferred income taxes		(3,786)	(6,703)
Total income tax expense	27	**(103,762)**	**(64,873)**
Profit for the year		**420,422**	**207,642**
Profit for the year attributable to non-controlling interests		(1,617)	(848)
Profit for the year attributable to PJSC LUKOIL shareholders		**418,805**	**206,794**
Other comprehensive income (loss), net of income taxes			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations		2,626	(74,175)
Change in fair value of available-for-sale financial assets		(2,180)	-
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability/asset of pension plan	22	(2,325)	(925)
Other comprehensive loss		**(1,879)**	**(75,100)**
Total comprehensive income for the year		**418,543**	**132,542**
Total comprehensive income for the year attributable to non-controlling interests		(1,650)	(871)
Total comprehensive income for the year attributable to PJSC LUKOIL shareholders		**416,893**	**131,671**
Basic and diluted earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):	23	589.14	290.06

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

	Share capital	Treasury shares	Additional paid-in capital	Other reserves	Retained earnings	Total equity attributable to PJSC LUKOIL shareholders	Non-controlling interests	Total equity
31 December 2016	1,151	(241,615)	129,514	28,975	3,302,855	**3,220,880**	6,784	**3,227,664**
Profit for the year	-	-	-	-	418,805	**418,805**	1,617	**420,422**
Other comprehensive income:	-	-	-	(1,885)	(27)	**(1,912)**	33	**(1,879)**
Total comprehensive income (loss)				**(1,885)**	**418,778**	**416,893**	**1,650**	**418,543**
Dividends on common shares	-	-	-	-	(145,475)	**(145,475)**	-	**(145,475)**
Stock purchased	-	(9,474)	-	-	-	**(9,474)**	-	**(9,474)**
Changes in non-controlling interests	-	-	127	-	-	**127**	(986)	**(859)**
31 December 2017	**1,151**	**(251,089)**	**129,641**	**27,090**	**3,576,158**	**3,482,951**	**7,448**	**3,490,399**
31 December 2015	1,151	(241,615)	129,403	104,150	3,229,379	**3,222,468**	8,906	**3,231,374**
Profit for the year	-	-	-	-	206,794	**206,794**	848	**207,642**
Other comprehensive income:	-	-	-	(75,123)	-	**(75,123)**	23	**(75,100)**
Total comprehensive income (loss)				**(75,123)**	**206,794**	**131,671**	**871**	**132,542**
Dividends on common shares	-	-	-	-	(133,318)	**(133,318)**	-	**(133,318)**
Changes in non-controlling interests	-	-	111	(52)	-	**59**	(2,993)	**(2,934)**
31 December 2016	**1,151**	**(241,615)**	**129,514**	**28,975**	**3,302,855**	**3,220,880**	**6,784**	**3,227,664**

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

	Note	2017	2016
Cash flows from operating activities			
Profit for the year attributable to PJSC LUKOIL shareholders		**418,805**	**206,794**
Adjustments for non-cash items:			
Depreciation, depletion and amortisation		325,054	311,588
Equity share in income of affiliates, net of dividends received		(7,401)	(4,040)
Dry hole write-offs		9,445	1,986
(Gain) loss on disposals and impairments of assets		(39,351)	7,031
Income tax expense		103,762	64,873
Non-cash foreign exchange loss		20,917	106,605
Non-cash investing activities		25	(127)
Finance income		(15,151)	(14,756)
Finance costs		27,331	47,030
Bad debt provision		6,139	6,401
All other items – net		3,995	25,175
Changes in operating assets and liabilities:			
Trade accounts receivable		(84,055)	9,220
Inventories		(9,350)	(133,754)
Accounts payable		27,720	219,603
Other taxes		21,538	24,984
Other current assets and liabilities		19,164	(69,822)
Income tax paid		(88,323)	(71,578)
Dividends received		7,907	4,385
Interests received		10,319	10,649
Net cash provided by operating activities		**758,490**	**752,247**
Cash flows from investing activities			
Acquisition of licenses		(612)	(2,549)
Capital expenditures		(511,496)	(497,130)
Proceeds from sale of property, plant and equipment		1,649	2,089
Purchases of financial assets		(5,926)	(17,471)
Proceeds from sale of financial assets		12,309	13,283
Sale of subsidiaries, net of cash disposed		80,939	907
Sale of equity method affiliates		957	4,940
Acquisitions of subsidiaries, net of cash acquired		(7,391)	-
Acquisitions of equity method affiliates		(3,715)	(4,412)
Net cash used in investing activities		**(433,286)**	**(500,343)**
Cash flows from financing activities			
Proceeds from issuance of short-term borrowings		9,526	12,449
Principal repayments of short-term borrowings		(7,575)	(23,309)
Proceeds from issuance of long-term debt		68,049	188,684
Principal repayments of long-term debt		(127,606)	(189,592)
Interests paid		(38,872)	(49,695)
Dividends paid on Company common shares		(138,810)	(127,345)
Dividends paid to non-controlling interest shareholders		(2,689)	(3,383)
Financing received from non-controlling interest shareholders		31	342
Purchase of Company's stock		(9,474)	-
Sale of non-controlling interests		30	-
Purchases of non-controlling interest		(5)	(1,285)
Net cash used in financing activities		**(247,395)**	**(193,134)**
Effect of exchange rate changes on cash and cash equivalents		(8,786)	(54,663)
Change in cash related to assets held for sale	15	-	(3)
Net increase in cash and cash equivalents		**69,023**	**4,104**
Cash and cash equivalents at beginning of year		261,367	257,263
Cash and cash equivalents at end of year	6	**330,390**	**261,367**

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

Note 1. Organisation and environment

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

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

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

Business and economic environment

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

Note 2. Basis of preparation

Statement of compliance

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

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

The consolidated financial statements were authorised by the President of the Company on 20 March 2018.

Functional and presentation currency

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

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

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

Note 3. Summary of significant accounting policies

Principles of consolidation

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

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

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

Group's share in jointly controled operations is recognised in the consolidated financial statements proportionally to its share in assets, liabilities, income and expenses. Jointly controlled operations are arrangements in which parties that have joint controll 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 acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

Non-controlling interests

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

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.

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.

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 production is calculated on a straight-line basis over the economic lives of such assets, estimated to be in the following ranges:

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

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

Production and related overhead costs are expensed as incurred.

Note 3. Summary of significant accounting policies (continued)

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

Impairment of 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 present value of the estimated future costs to settle 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. Subsequently, the liability is accreted for the passage of time and the related asset is depreciated using the same method as asset to be abandoned, dismantled or otherwise retired. Changes in the estimates of asset retirement obligations ("ARO") occur as a result of changes in cost and timing of liquidation or change of discount rates and are accounted as part of cost of property, plant and equipment in the current period.

Assets classified as held for sale

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

Note 3. Summary of significant accounting policies (continued)

Income taxes

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

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

Employee benefits

Defined benefit plan

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

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

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

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

Treasury shares

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

Note 3. Summary of significant accounting policies (continued)

Earnings per share

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

Provisions and contingencies

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

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

Environmental expenditures

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

Share-based payments

The Group accounts for 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.

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 2017, 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. The Group is evaluating the effect of the adoption of IFRIC 22 and does not expect any material impact from its application on consolidated financial statements.

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. The Group is evaluating the effect of the adoption of IFRS 2 and does not expect any material impact from its application on consolidated financial statements.

IFRS 9 *Financial instruments*, issued in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items and is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the existing IAS 39 categories of held to maturity financial assets, loans and receivables and available for sale financial assets. Based on preliminary assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans and investments in debt securities.

IFRS 9 replaces the current 'incurred loss' model with a forward-looking 'expected credit loss' model. This will require considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income, except for investments in equity instruments, and to contract assets. Based on preliminary assessment, the Group has estimated that application of IFRS 9's impairment requirements at 1 January 2018 would not result in additional significant impairment losses.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

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, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue when a customer obtains control of the goods. Based on management's preliminary assessment this will not significantly impact the Group's revenue recognition.

(Millions of Russian rubles, unless otherwise noted)

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

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

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

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

Note 6. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash held in RUB	70,611	33,151
Cash held in US dollars	239,405	162,673
Cash held in EUR	13,490	59,135
Cash held in other currencies	6,884	6,408
Total cash and cash equivalents	**330,390**	**261,367**

Note 7. Accounts receivable, net

	31 December 2017	31 December 2016
Trade accounts receivable (net of allowances of 18,777 million RUB and 18,270 million RUB at 31 December 2017 and 2016, respectively)	393,073	332,975
Other current accounts receivable (net of allowances of 3,182 million RUB and 1,919 million RUB at 31 December 2017 and 2016, respectively)	25,199	27,922
Total accounts receivable, net	**418,272**	**360,897**

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Note 8. Inventories

	31 December 2017	31 December 2016
Crude oil and petroleum products	345,216	349,153
Materials for extraction and drilling	19,925	20,182
Materials and supplies for refining	2,999	2,741
Other goods, materials and supplies	30,046	32,208
Total inventories	**398,186**	**404,284**

Note 9. Prepaid taxes

	31 December 2017	31 December 2016
Income tax prepaid	13,543	19,646
VAT and excise tax recoverable	38,930	34,436
Export duties prepaid	15,418	17,113
Other taxes prepaid	19,447	22,480
Total prepaid taxes	**87,338**	**93,675**

Note 10. Other current assets

	31 December 2017	31 December 2016
Advance payments	17,487	48,157
Prepaid expenses	23,072	23,172
Other assets	13,808	11,846
Total other current assets	**54,367**	**83,175**

Note 11. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

		Ownership			
Name of the company	**Country**	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
Joint Ventures:					
Tengizchevroil (TCO)	Kazakhstan	5.0%	5.0%	88,390	86,851
Caspian Pipeline Consortium (CPC)	Kazakhstan	12.5%	12.5%	27,282	25,032
Turgai Petroleum	Kazakhstan	50.0%	50.0%	474	1,650
South Caucasus Pipeline Company (SCPC)	Azerbaijan	10.0%	10.0%	26,965	23,738
Associates:					
Associates				21,175	25,134
Total				**164,286**	**162,405**

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

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Note 11. Investments in associates and joint ventures (continued)

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**

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

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 (net loss)	4,111	2,313	216	1,418	(91)	**7,967**

Note 12. Property, plant and equipment

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2016	3,478,050	1,155,388	70,186	**4,703,624**
Additions	500,325	66,628	2,292	**569,245**
Acquisitions through business combinations	4,471	5,180	1,067	**10,718**
Capitalised borrowing costs	16,487	68	-	**16,555**
Disposals	(35,131)	(14,564)	(1,273)	**(50,968)**
Changes in estimates of ARO	(5,901)	-	-	**(5,901)**
Foreign currency translation differences	(55,896)	24,797	(634)	**(31,733)**
Other	(138)	(945)	905	**(178)**
31 December 2017	**3,902,267**	**1,236,552**	**72,543**	**5,211,362**
Depreciation and impairment				
31 December 2016	(1,058,116)	(307,641)	(11,794)	**(1,377,551)**
Depreciation for the period	(218,460)	(94,681)	(3,557)	**(316,698)**
Impairment loss	(22,382)	(3,241)	-	**(25,623)**
Impairment reversal	24,193	-	-	**24,193**
Disposals	15,603	10,205	353	**26,161**
Foreign currency translation differences	28,968	(8,846)	163	**20,285**
Other	(523)	759	(782)	**(546)**
31 December 2017	**(1,230,717)**	**(403,445)**	**(15,617)**	**(1,649,779)**
Advance payments for property, plant and equipment				
31 December 2016	64,764	486	43	**65,293**
31 December 2017	**10,732**	**2,717**	**133**	**13,582**
Carrying amounts				
31 December 2016	2,484,698	848,233	58,435	**3,391,366**
31 December 2017	**2,682,282**	**835,824**	**57,059**	**3,575,165**

(Millions of Russian rubles, unless otherwise noted)

Note 12. Property, plant and equipment (continued)

	Exploration and production	Refining, marketing and distribution	Other	Total
Cost				
31 December 2015	3,232,673	1,206,252	103,587	**4,542,512**
Additions	452,115	60,317	3,449	**515,881**
Capitalised borrowing costs	11,738	427	1	**12,166**
Transfer to assets held for sale	-	-	(34,315)	**(34,315)**
Disposals	(13,482)	(23,935)	(1,138)	**(38,555)**
Changes in estimates of ARO	1,746	-	-	**1,746**
Foreign currency translation differences	(201,105)	(93,609)	(2,582)	**(297,296)**
Other	(5,635)	5,936	1,184	**1,485**
31 December 2016	**3,478,050**	**1,155,388**	**70,186**	**4,703,624**
Depreciation and impairment				
31 December 2015	(953,254)	(259,515)	(14,627)	**(1,227,396)**
Depreciation for the period	(211,034)	(92,561)	(6,120)	**(309,715)**
Transfer to assets held for sale	-	-	7,846	**7,846**
Impairment loss	(7,632)	(1,172)	-	**(8,804)**
Disposals	2,793	13,704	636	**17,133**
Foreign currency translation differences	111,097	31,656	585	**143,338**
Other	(86)	247	(114)	**47**
31 December 2016	**(1,058,116)**	**(307,641)**	**(11,794)**	**(1,377,551)**
Advance payments for property, plant and equipment				
31 December 2015	94,619	1,280	138	**96,037**
31 December 2016	**64,764**	**486**	**43**	**65,293**
Carrying amounts				
31 December 2015	2,374,038	948,017	89,098	**3,411,153**
31 December 2016	**2,484,698**	**848,233**	**58,435**	**3,391,366**

The cost of assets under construction included in Property, plant and equipment was 514,886 million RUB and 593,970 million RUB at 31 December 2017 and 2016, respectively.

Exploration and evaluation assets

	2017	2016
1 January	69,829	52,302
Capitalised expenditures	34,266	28,653
Reclassified to development assets	(8,627)	(6,525)
Charged to expenses	(10,030)	(2,775)
Foreign currency translation differences	(510)	(1,700)
Other movements	1,206	(126)
31 December	**86,134**	**69,829**

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

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Note 12. Property, plant and equipment (continued)

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

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

As a result of the test in 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 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%, for refining, marketing and distribution assets – 11.9%.

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

For impairment test purposes at 31 December 2017 the following Brent Blend price assumptions have been used: $60 per barrel in 2018, $71 per barrel in 2019, $76 per barrel in 2020, $77 per barrel in 2021–2022, $79 per barrel in 2023–2025 and $82 per barrel from 2026.

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 2017	31 December 2016
Long-term loans	69,840	86,387
including loans to associates	69,668	86,181
Non-current accounts and notes receivable	4,680	7,916
Other non-current financial assets	5,197	7,509
Total other non-current financial assets	**79,717**	**101,812**

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Note 14. Goodwill and other intangible assets

	Internally generated software	Other internally generated intangible assets	Acquired intangible assets	Goodwill	Total
Cost					
31 December 2016	16,384	2,359	46,419	30,701	**95,863**
Additions as a result of internal developments	634	610	-	-	**1,244**
Acquisitions	-	-	16	-	**16**
Additions – separately acquired	-	-	4,028	-	**4,028**
Disposals	(580)	(4)	(1,114)	-	**(1,698)**
Foreign currency translation differences	(55)	(1)	(989)	1,546	**501**
Other	30	4	(25)	-	**9**
31 December 2017	**16,413**	**2,968**	**48,335**	**32,247**	**99,963**
Amortisation and impairment					
31 December 2016	(12,665)	(460)	(30,473)	(9,131)	**(52,729)**
Amortisation for the year	(1,267)	(237)	(5,886)	-	**(7,390)**
Impairment loss	-	-	(22)	-	**(22)**
Disposals	580	3	824	-	**1,407**
Foreign currency translation differences	68	-	647	(755)	**(40)**
Other	2	(5)	118	-	**115**
31 December 2017	**(13,282)**	**(699)**	**(34,792)**	**(9,886)**	**(58,659)**
Carrying amounts					
31 December 2016	3,719	1,899	15,946	21,570	**43,134**
31 December 2017	**3,131**	**2,269**	**13,543**	**22,361**	**41,304**
Cost					
31 December 2015	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)**
31 December 2016	**16,384**	**2,359**	**46,419**	**30,701**	**95,863**
Amortisation and impairment					
31 December 2015	(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**
31 December 2016	**(12,665)**	**(460)**	**(30,473)**	**(9,131)**	**(52,729)**
Advance payments for intangible assets					
31 December 2015	-	-	38	-	**38**
31 December 2016	-	-	-	-	-
Carrying amounts					
31 December 2015	4,612	1,329	21,955	23,853	**51,749**
31 December 2016	**3,719**	**1,899**	**15,946**	**21,570**	**43,134**

Goodwill was tested for impairment and no impairment was identified.

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Note 15. Assets held for sale

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

Note 16. Accounts payable

	31 December 2017	31 December 2016
Trade accounts payable	508,078	478,673
Other accounts payable	51,899	71,574
Total accounts payable	**559,977**	**550,247**

Note 17. Short-term borrowings and current portion of long-term debt

	31 December 2017	31 December 2016
Short-term borrowings from third parties	15,499	14,305
Short-term borrowings from related parties	3,170	3,743
Current portion of long-term debt	110,044	40,381
Total short-term borrowings and current portion of long-term debt	**128,713**	**58,429**

Short-term borrowings from third parties include amounts repayable in US dollars of 5,235 million RUB and 667 million RUB and amounts repayable in other currencies of 10,264 million RUB and 13,638 million RUB at 31 December 2017 and 2016, respectively. The weighted-average interest rate on short-term borrowings from third parties was 11.30% and 9.42% per annum at 31 December 2017 and 2016, respectively. Approximately 33% of total short-term borrowings from third parties at 31 December 2017 are secured by inventories.

Note 18. Long-term debt

	31 December 2017	31 December 2016
Long-term loans and borrowings from third parties	244,000	277,404
6.356% non-convertible US dollar bonds, maturing 2017	-	30,328
3.416% non-convertible US dollar bonds, maturing 2018	86,384	90,689
7.250% non-convertible US dollar bonds, maturing 2019	34,466	36,304
6.125% non-convertible US dollar bonds, maturing 2020	57,506	60,585
6.656% non-convertible US dollar bonds, maturing 2022	28,748	30,328
4.563% non-convertible US dollar bonds, maturing 2023	86,274	90,689
4.750% non-convertible US dollar bonds, maturing 2026	57,467	60,657
Finance lease obligations	2,846	3,558
Total long-term debt	597,691	680,542
Current portion of long-term debt	(110,044)	(40,381)
Total non-current portion of long-term debt	**487,647**	**640,161**

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Note 18. Long-term debt (continued)

Long-term loans and borrowings

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 194,251 million RUB and 155,720 million RUB, amounts repayable in euros of 49,749 million RUB and 50,496 million RUB, amounts repayable in Russian rubles of nill and 70,000 million RUB and amounts repayable in other currencies of nill and 1,188 million RUB at 31 December 2017 and 2016, respectively. This debt has maturity dates from 2018 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.33% and 6.06% per annum at 31 December 2017 and 2016, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 27% of total long-term loans and borrowings from third parties at 31 December 2017 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 (57.6 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. All bonds were placed at face value and have a half year coupon period.

In April 2013, a Group company issued two tranches of non-convertible bonds totaling $3 billion (172.8 billion RUB). The first tranche totaling $1.5 billion (86.4 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 (86.4 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 (57.6 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling $800 million (46.1 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 (11.5 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 (86.4 billion RUB). The first tranche totaling $900 million (51.8 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 (34.6 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 (57.6 billion RUB). $500 million (28.8 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million (28.8 billion RUB) were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period. In June 2017, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

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Note 18. Long-term debt (continued)

Reconciliation of liabilities arising from financing activities

	Loans and borrowings	Bonds	Capital lease obligation	Other liabilities	Total
31 December 2016	295,452	399,580	3,558	58,301	**756,891**
Changes from financing cash flows:					
Proceeds from issuance of short-term borrowings	9,526	-	-	-	**9,526**
Principal repayments of short-term borrowings	(7,575)	-	-	-	**(7,575)**
Proceeds from issuance of long-term debt	68,049	-	-	-	**68,049**
Principal repayments of long-term debt	(97,977)	(28,573)	(1,056)	-	**(127,606)**
Interest paid	-	-	-	(38,872)	**(38,872)**
Dividends paid on Company common stock	-	-	-	(138,810)	**(138,810)**
Total changes from financing cash flows	(27,977)	(28,573)	(1,056)	(177,682)	**(235,288)**
Other changes:					
Interest accrued	-	-	-	40,483	**40,483**
Dividends declared on Company common stock	-	-	-	145,475	**145,475**
Changes arising from obtaining or losing control of subsidiaries or other businesses	(480)	-	-	310	**(170)**
The effect of changes in foreign exchange rates	(3,299)	(20,367)	(17)	(406)	**(24,089)**
Other changes	(1,027)	205	361	(1,915)	**(2,376)**
Total other changes	(4,806)	(20,162)	344	183,947	**159,323**
31 December 2017	**262,669**	**350,845**	**2,846**	**64,566**	**680,926**

Note 19. Taxes payable

	31 December 2017	31 December 2016
Income tax payable	8,963	6,591
Mineral extraction tax	47,175	37,583
VAT	34,147	23,960
Excise taxes	17,750	16,606
Property tax	3,652	3,899
Other taxes	6,797	6,316
Total taxes payable	**118,484**	**94,955**

Note 20. Other current liabilities

	31 December 2017	31 December 2016
Advances received	27,698	35,261
Dividends payable	62,254	55,285
Other	3,468	6,564
Total other current liabilities	**93,420**	**97,110**

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 2016		37,460	35,803	4,489	8,049	4,913	5,245	**95,959**
Incl.:	Non-current	35,939	23,377	2,523	6,531	60	1,514	**69,944**
	Current	1,521	12,426	1,966	1,518	4,853	3,731	**26,015**
31 December 2017		**36,668**	**36,172**	**4,176**	**10,367**	**5,472**	**13,360**	**106,215**
Incl.:	Non-current	36,478	14	1,683	8,292	54	1,441	**47,962**
	Current	190	36,158	2,493	2,075	5,418	11,919	**58,253**

Note 21. Provisions (continued)

Asset retirement obligations changed as follows during 2017 and 2016:

	2017	2016
1 January	37,460	32,919
Provisions made during the year	4,951	5,873
Reversal of provisions	(200)	(586)
Provisions used during the year	(1,322)	(103)
Accretion expense	2,687	2,305
Change in discount rate	(2,378)	4,301
Changes in estimates	(4,073)	(2,394)
Foreign currency translation differences	(666)	(3,221)
Other movements	209	(1,634)
31 December	**36,668**	**37,460**

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 2017 and 2016.

The following table sets out movement in the net liabilities before taxation during 2017 and 2016.

	2017	2016
1 January	8,049	7,913
Components of defined benefit costs recorded in profit or loss	1,009	1,097
Components of defined benefit costs recorded in other comprehensive loss	2,709	1,132
Contributions from employer	(1,702)	(951)
Benefits paid	(666)	(734)
Opening balance adjustment	6	-
Liability assumed in business combination	119	6
Other	843	(414)
31 December	**10,367**	**8,049**

Note 23. Equity

Common shares

	31 December 2017 (thousands of shares)	31 December 2016 (thousands of shares)
Authorised and issued common shares, par value of 0.025 RUB each	850,563	850,563
Treasury shares	(140,930)	(137,630)
Outstanding common shares	**709,633**	**712,933**

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Note 23. Equity (continued)

Dividends

At the extraordinary shareholders' meeting on 4 December 2017, interim dividends for 2017 were approved in the amount of 85.00 RUB per common share.

At the annual shareholders' meeting on 21 June 2017, dividends for 2016 were approved in the amount of 120.00 RUB per common share. At the extraordinary shareholders' meeting on 5 December 2016, interim dividends for 2016 were approved in the amount of 75.00 RUB per common share. Total dividends for 2016 were approved in the amount of 195.00 RUB per common share.

Dividends on the Company's shares payable of 61,283 million RUB and 54,301 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2017 and 2016, respectively.

Earnings per share

The weighted average number of outstanding common shares, used for calculation of earnings per share, was 710,871 and 712,933 thousand shares during the year ended 31 December 2017 and 2016, respectively. There is no potential dilution in earnings available to common stockholders and as such diluted earnings per share are not disclosed.

Note 24. Personnel expenses

Personnel expenses were as follows:

	2017	2016
Salary	127,851	136,035
Statutory insurance contributions	35,387	28,879
Share-based compensation	1,135	20,370
Total personnel expenses	**164,373**	**185,284**

Note 25. Finance income and costs

Finance income was as follows:

	2017	2016
Interest income from deposits	5,222	5,878
Interest income from loans	6,715	7,306
Other finance income	3,214	1,572
Total finance income	**15,151**	**14,756**

Finance costs were as follows:

	2017	2016
Interest expense	23,116	40,283
Accretion expense	2,705	2,323
Other finance costs	1,510	4,424
Total finance costs	**27,331**	**47,030**

Note 26. Other income and expenses

Other income was as follows:

	2017	2016
Gain on disposal of assets	58,233	14,449
Reversal of impairment of assets	28,448	891
Other income	18,176	17,083
Total other income	**104,857**	**32,423**

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Note 26. Other income and expenses (continued)

Other expenses were as follows:

	2017	2016
Impairment loss	31,386	9,471
Loss on disposal of assets	15,944	12,900
Charity expenses	9,009	12,060
Other expenses	15,586	8,337
Total other expenses	**71,925**	**42,768**

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:

	2017	2016
Current income tax expense for the year	97,573	55,567
Adjustment for prior periods	2,403	2,603
Current income taxes	**99,976**	**58,170**
Deferred income tax	**3,786**	**6,703**
Total income tax expense	**103,762**	**64,873**

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.

	2017	2016
Profit before income taxes	524,184	272,515
Notional income tax at the Russian statutory rate	104,837	54,503
Increase (reduction) in income tax due to:		
Non-deductible items, net	14,614	15,355
Domestic and foreign rate differences	(16,823)	(3,789)
Change in recognised deductible temporary differences	1,134	(1,196)
Total income tax expense	**103,762**	**64,873**

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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.

	31 December 2017	31 December 2016
Property, plant and equipment	6,666	8,422
Inventories	6,010	4,556
Accounts receivable	922	678
Accounts payable and provisions	10,931	10,242
Operating loss carry forward	33,516	35,086
Other	1,483	1,718
Total deferred income tax assets	59,528	60,702
Set off of tax	(34,400)	(31,623)
Deferred income tax assets	**25,128**	**29,079**
Property, plant and equipment	(254,956)	(253,591)
Investments	(3,348)	(3,452)
Inventories	(6,187)	(6,979)
Accounts receivable	(5,065)	(4,681)
Accounts payable and provisions	(63)	(76)
Other	(2,761)	(2,655)
Total deferred income tax liabilities	(272,380)	(271,434)
Set off of tax	34,400	31,623
Deferred income tax liabilities	**(237,980)**	**(239,811)**
Net deferred income tax liabilities	**(212,852)**	**(210,732)**

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

	31 December 2015	Recognition in profit or loss	Acquisitions and disposal	Foreign currency translation differences and other	31 December 2016
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)
Net deferred income tax liabilities	**(205,372)**	**(6,703)**	**342**	**1,001**	**(210,732)**

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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 2017	31 December 2016
Property, plant and equipment	2,433	3,602
Operating loss carry forward	10,790	16,260
Other	1,090	505
Total deferred tax assets	**14,313**	**20,367**

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 2017:

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

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)
Total	**(75,307)**	**207**	**(75,100)**

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 585,547 million RUB and 644,200 million RUB at 31 December 2017 and 2016, respectively. 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 liabilibilities.

Note 28. Operating lease

At 31 December 2017 and 2016, Group companies had commitments primarily for the lease of vessels, tank-cars, storage facilities and petroleum distribution outlets. Commitments for minimum rentals under these leases are payable as follows:

	31 December 2017	31 December 2016
Less than a year	24,753	31,184
1-5 years	54,917	57,429
More than 5 years	88,277	103,199
Total	**167,947**	**191,812**

Note 29. Commitments and contingencies

Capital commitments

At 31 December 2017, capital commitments of the Group relating to construction and acquisition of property, plant and equipment are evaluated as 413,712 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 substantial fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during three subsequent calendar years. However, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Such factors significantly increase taxation risks in the Russian Federation and other emerging markets where Group companies operate, comparing to other countries where taxation regimes have been subject to development and clarification over longer periods.

Note 29. Commitments and contingencies (continued)

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

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

Litigation and claims

In June 2014, the prosecutors with the Ploesti Court of Appeals (hereinafter the “Prosecutor’s Office”) issued an order on initiation of criminal proceeding 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 was 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 were also considered to be suspects in this criminal case. Tax audits of PETROTEL-LUKOIL S.A. have not revealed any material violations so far. On 3 November 2017, the Prosecutor’s Office issued an order on discontinuance of criminal proceeding started in June 2014 against PETROTEL-LUKOIL S.A. and its general director on alleged tax evasion and money laundering. LUKOIL LUBRICANTS EAST EUROPE S.R.L., LUKOIL ENERGY & GAS ROMANIA S.R.L. and a number of other companies were also dismissed from similar charges. Due to discontinuance of the proceeding all the security measures against PETROTEL-LUKOIL S.A. (seizure of fixed assets and accounts blocking for the amount of more than $24 million (1.4 billion RUB)) have been removed.

In July 2015, a 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. Similar charges 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 (126.7 billion RUB) to $1.5 billion (86.4 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. The solution was confirmed by the Ploesti Court of Appeal on 19 January 2016. However, on 22 January 2016 the Prosecutor has prepared a new indictment act based on the same accusations which were submitted to the Prahova Tribunal. 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. On 27 January 2017, a court hearing took place and the attorneys requested that an expert examination be performed. On 19 May 2017, the Prahova Tribunal issued a decision on appointment of experts. On 12 October 2017, expert examination was completed and expert conclusion was sent to the Prahova Tribunal. Last hearing when statement of the accused was repeated due to replacement of the judge in the proceeding was held on 12 March 2018. Next hearing is scheduled on 16 April 2018. 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.

Note 29. Commitments and contingencies (continued)

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the disputes with respect to cost recovery in 2010–2013 (the “CR”) and the calculation of the “Fairness index” (the “FI”) in accordance with the Final Production Sharing Agreement relating to the Contract Area of the Karachaganak Oil and Gas Condensate Field. In relation to the CR, the parties are making efforts to resolve the dispute through negotiations and in relation to the FI the parties are taking part in an arbitration which is at its initial stage, and management believes that the amounts of claims, as well as calculations of potential losses arising from these disputes to be preliminary and should not be disclosed in order to avoid any adverse impact of the disclosure on the arbitration process and the positions of the parties therein. At the same time management does not preclude the possibility of settlement of the FI related dispute and believes that the final outcome of the above mentioned disputes will not have a material adverse effect on the Group’s financial position.

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

Political situation

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

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

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

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

Note 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 associates and joint ventures. Other financial assets mostly represent loans given to associates and joint ventures.

(Millions of Russian rubles, unless otherwise noted)

Note 30. Related party transactions (continued)

Outstanding balances with related parties:

	31 December 2017	31 December 2016
Accounts receivable	10,567	8,209
Other financial assets	82,288	93,453
Total assets	**92,855**	**101,662**
Accounts payable	6,696	8,436
Loans and borrowings	3,170	3,743
Total liabilities	**9,866**	**12,179**

Related party transactions were as follows:

	2017	2016
Sales of oil and oil products	14,927	19,972
Other sales	4,055	6,576
Purchases of oil and oil products	86,548	78,060
Other purchases	7,388	6,983
Loans given	4,988	16,279
Loans recieved	3,912	4,625

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

Key management remuneration

Key management personnel includes members of the Board of Directors and members of the Management Board. Remuneration of key management personnel, including basic salary, bonuses and other payments, amounted to 1,588 million RUB and 5,519 million RUB during 2017 and 2016, 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 was based on assigned shares and provided compensation consisting of two parts. The first part represented annual bonuses that were based on the number of assigned shares and amount of dividend per share. The payment of these bonuses was contingent on the Group meeting certain financial KPIs in each financial year. The second part was based upon the Company's common shares appreciation from 2013 to 2017, with rights vested after the date of the compensation plan's termination. The number of assigned shares was approximately 19 million shares.

For the first part of the share plan the Group recognised a liability based on expected dividends and number of assigned shares. The second part of the share plan was also classified as liability settled. The grant date fair value of this part of the plan was estimated at 7.6 billion RUB, using the Black-Scholes-Merton option-pricing model. The fair value was estimated assuming a risk-free interest rate of 6.50% per annum, an expected dividend yield of 4.09% per annum, an expected time to maturity of five years and a volatility factor of 16.1%. The expected volatility factor for the annual weighted average share price was estimated based on the historical volatility of the Company's shares for the previous seven year period up to January 2013.

Related to this share plan the Group recognised 35,878 million RUB of compensation expense for the whole period, of which 1,135 million RUB and 20,370 million RUB during 2017 and 2016, respectively. At 31 December 2017 and 2016 amounts of 24,602 million RUB and 26,921 million RUB related to this plan were included in "Provisions" of the consolidated statement of financial position, respectively. The total recognized tax benefits related to these accruals amounted to 7,089 million RUB for the whole period, of which 227 million RUB and 3,987 million RUB during 2017 and 2016, respectively.

In late December 2017, the Company introduced a new compensation plan to certain members of management. The Group is currently in the process of implementing the program.

(Millions of Russian rubles, unless otherwise noted)

Note 32. Segment information

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

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

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

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

Operating segments

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

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Note 32. Segment information (continued)

2016	Exploration and production	Refining, marketing and distribution	Corporate and other	Elimination	Consolidated
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)	-
Total revenues	1,602,661	5,096,998	88,155	(1,560,769)	5,227,045
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

Geographical segments

	2017	2016
Sales of crude oil within Russia	37,525	94,985
Export of crude oil and sales of crude oil by foreign subsidiaries	1,641,238	1,353,334
Sales of petroleum products within Russia	776,002	634,326
Export of petroleum products and sales of petroleum products by foreign subsidiaries	3,144,226	2,818,058
Sales of chemicals within Russia	34,451	38,092
Export of chemicals and sales of chemicals by foreign subsidiaries	48,187	34,711
Sales of gas within Russia	31,109	27,030
Sales of gas by foreign subsidiaries	54,611	33,663
Sales of energy and related services within Russia	61,028	61,920
Sales of energy and related services by foreign subsidiaries	12,884	14,178
Other sales within Russia	45,727	46,867
Other export sales and other sales of foreign subsidiaries	49,717	69,881
Total sales	**5,936,705**	**5,227,045**

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

(Millions of Russian rubles, unless otherwise noted)

Note 32. Segment information (continued)

2016	**Russia**	**International**	**Elimination**	**Consolidated**
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)	-
Total revenues	1,974,676	4,282,081	(1,029,712)	5,227,045
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

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

	2017	**2016**
Sales revenues		
in Switzerland	2,755,567	2,380,957
in the USA	572,264	421,930
in Singapore	457,913	341,396

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

Note 33. Subsidiaries

Key subsidiaries

The most significant subsidiaries of the Group are presented below:

		31 December 2017		**31 December 2016**	
Subsidiary	**Country of incorporation**	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%
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	99.83%	99.83%	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%

(Millions of Russian rubles, unless otherwise noted)

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 2017 and 2016:

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

		Fair value			
31 December 2016	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:					
Commodity derivative contracts	13,380	-	13,380	-	**13,380**
Available for sale securities	7,437	-	-	7,437	**7,437**
Financial liabilities:					
Commodity derivative contracts	36,935	-	36,935	-	**36,935**
Loans and borrowings	680,542	414,214	-	290,622	**704,836**

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 2017 and 2016.

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.

(Millions of Russian rubles, unless otherwise noted)

Note 35. Capital and risk management (continued)

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

Credit risk

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

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

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

Trade and other receivables

Analysis of the aging of receivables:

	31 December 2017	31 December 2016
Not past due	352,629	305,183
Past due less than 90 days	33,825	22,973
Past due from 90 to 180 days	4,587	17,994
Past due from 180 to 270 days	6,999	9,318
Past due from 270 to 365 days	5,537	1,665
Past due more than 365 days	14,695	3,764
Total trade and other receivables	**418,272**	**360,897**

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

Allowance for doubtful accounts receivable changed as follows:

	2017	2016
1 January	20,189	18,921
Increase in allowance for doubtful debts charged to profit and loss	6,130	6,192
Write-off	(2,922)	(2,187)
Foreign currency translation differences	(579)	(2,615)
Other	(859)	(122)
31 December	**21,959**	**20,189**

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).

(Millions of Russian rubles, unless otherwise noted)

Note 35. Capital and risk management (continued)

Liquidity risk

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

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

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

	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	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	-	-	-
31 December 2016	**1,249,858**	**1,427,926**	**642,859**	**149,487**	**384,750**	**250,830**

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.

(Millions of Russian rubles, unless otherwise noted)

Note 35. Capital and risk management (continued)

The carrying amounts of the Group's assets and liabilities which form currency risk at 31 December 2017 and 2016 are presented in the tables below and contain balances between Group companies whose functional currency is different from the currency of the contract.

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

31 December 2016	USD	EUR	Other currencies
Financial assets:			
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
Financial liabilities:			
Loans and borrowings	(67,790)	(59,999)	(1,188)
Trade and other payables	(32,489)	(4,337)	(624)
Net exposure	**605,898**	**1,919**	**(511)**

The following exchange rates applied:

	31 December 2017	31 December 2016
USD	57.60	60.66
EUR	68.87	63.81

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 2017 and 2016 would have affected the measurement of financial assets and liabilities denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

	Profit (loss)	
	2017	**2016**
US Dollar (increase by 10%)	22,026	55,080
Euro (increase by 10%)	(249)	3,138
Russian ruble (increase by 10%)	(19,384)	(52,445)

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

Interest rate risk

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

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

Note 35. Capital and risk management (continued)

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

The interest rate profiles of the Group are presented below:

	31 December 2017	31 December 2016
Fixed rate instruments:		
Financial assets	45,354	79,951
Financial liabilities	(367,525)	(417,333)
Net exposure	**(322,171**	**(337,382)**
Variable rate instruments:		
Financial assets	49,244	30,879
Financial liabilities	(248,835)	(281,257)
Net exposure	**(199,591**	**(250,378)**

Sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at 31 December 2017 and 2016 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**
2017		
Net financial liabilities	(1,996`	1,996
2016		
Net financial liabilities	(2,504`	2,504

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 2017	31 December 2016
Total debt	616,360	698,590
Less cash and cash equivalents	(330,390)	(261,367)
Net debt	285,970	437,223
Equity	3,490,399	3,227,664
Net debt to equity ratio	**8.19%**	**13.55%**

(Millions of Russian rubles, unless otherwise noted)

Supplementary Information on Oil and Gas Exploration and Production Activities

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

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

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

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

I. Capitalised costs relating to oil and gas producing activities

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

31 December 2016	International	Russia	Total consolidated companies	Group's share in equity companies
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)
Net capitalised costs	**505,829**	**1,914,105**	**2,419,934**	**139,949**

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

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

2016	International	Russia	Total consolidated companies	Group's share in equity companies
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
Total costs incurred	**151,410**	**292,020**	**443,430**	**15,509**

(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.

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

2016	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
Revenue				
Sales	134,682	635,130	769,812	41,014
Transfers	-	555,018	555,018	1,331
Total revenues	134,682	1,190,148	1,324,830	42,345
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)
Total results of operations for producing activities	**19,406**	**260,384**	**279,790**	**9,934**

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 65% 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 2017 and 2016 are shown in the tables set out below.

Millions of barrels	Consolidated subsidiaries			Group's share in equity companies
Crude oil	**International**	**Russia**	**Total**	
31 December 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)
31 December 2016	628	11,561	12,189	293
Revisions of previous estimates	(128)	(55)	(183)	(5)
Purchase of hydrocarbons in place	-	11	11	-
Extensions and discoveries	8	408	416	14
Production	(29)	(609)	(638)	(20)
31 December 2017	**479**	**11,316**	**11,795**	**282**
Proved developed reserves				
31 December 2016	287	7,614	7,901	124
31 December 2017	**250**	**7,331**	**7,581**	**131**

The non-controlling interest share included in the above total proved reserves was 94 million barrels and 74 million barrels at 31 December 2017 and 2016, respectively. The non-controlling interest share included in the above proved developed reserves was 57 million barrels and 37 million barrels at 31 December 2017 and 2016, respectively. All non-controlling interests relate to reserves in the Russian Federation.

Billions of cubic feet	Consolidated subsidiaries			Group's share in equity companies
Natural gas	**International**	**Russia**	**Total**	
31 December 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)
31 December 2016	7,058	16,270	23,328	165
Revisions of previous estimates	157	563	720	29
Extensions and discoveries	140	281	421	5
Production	(349)	(638)	(987)	(32)
31 December 2017	**7,006**	**16,476**	**23,482**	**167**
Proved developed reserves:				
31 December 2016	2,960	5,309	8,269	105
31 December 2017	**5,409**	**5,558**	**10,967**	**121**

The non-controlling interest share included in the above total proved reserves was 27 billion cubic feet at 31 December 2017 and 2016. The non-controlling interest share included in the above proved developed reserves was 13 and 15 billion cubic feet at 31 December 2017 and 2016, respectively. 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.

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

31 December 2016	**International**	**Russia**	**Total consolidated companies**	**Group's share in equity companies**
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)
Discounted future net cash flows	**167,578**	**2,212,269**	**2,379,847**	**45,250**
Non-controlling share in discounted future net cash flows	-	18,805	18,805	-

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

Consolidated companies	**2017**	**2016**
Discounted present value at 1 January	2,379,847	3,904,557
Net changes due to purchases and sales of minerals in place	2,167	60
Sales and transfers of oil and gas produced, net of production costs	(590,692)	(554,861)
Net changes in prices and production costs estimates	1,641,159	(4,451,693)
Net changes in mineral extraction taxes	(1,129,879)	2,667,624
Extensions and discoveries, less related costs	104,704	98,911
Previously estimated development cost incurred during the year	349,720	469,271
Revisions of previous quantity estimates	(26,040)	(45,374)
Net change in income taxes	(44,824)	346,583
Accretion of discount	262,831	436,285
Other changes	(89,795)	(491,516)
Discounted present value at 31 December	**2,859,198**	**2,379,847**

Group's share in equity companies	**2017**	**2016**
Discounted present value at 1 January	45,250	101,224
Net changes due to purchases and sales of minerals in place	-	62
Sales and transfers of oil and gas produced, net of production costs	(31,186)	(22,622)
Net changes in prices and production costs estimates	101,022	(120,495)
Net changes in mineral extraction taxes	(47,336)	61,202
Extensions and discoveries, less related costs	4,402	590
Previously estimated development cost incurred during the year	27,167	14,312
Revisions of previous quantity estimates	(316)	6,950
Net change in income taxes	(7,185)	10,302
Accretion of discount	5,791	11,365
Other changes	(2,823)	(17,640)
Discounted present value at 31 December	**94,786**	**45,250**

LUKOIL

PJSC LUKOIL

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

for the three months ended 31 December and 30 September 2017 and for the years 2017 and 2016

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 December 2017 and the results of its operations for the three months ended 31 December and 30 September 2017 and for the years 2017 and 2016, 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 149 for a discussion of some factors that could cause actual results to differ materially.

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Business overview

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

LUKOIL is one of the world's largest publicly traded vertically integrated energy companies. Our proved reserves under SEC standards amounted to 16.0 billion BOE at 1 January 2018 and comprised of 12.1 billion barrels of crude oil and 23.6 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and natural gas in Russia and internationally. In Russia, our major oil producing regions are 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, Norway, Cameroon, Nigeria and Mexico. Our daily hydrocarbon production in 2017 amounted to 2.3 million BOE, with liquid hydrocarbons representing approximately 80% of our overall production volumes.

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

We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. We also own two petrochemical plants in Russia and have petrochemical capacities at our refineries in Bulgaria and Italy. Along with our own production of refined products we refine crude oil at third party refineries depending on market conditions and other factors. Our refinery throughput in 2017 amounted to 1.4 million barrels per day, and we produced 1.2 million tonnes of petrochemicals.

We market our own and third-party crude oil and refined products through our wholesale and retail channels in Russia, Europe, South-East Asia, Central and North America and other regions. We own petrol stations in 17 countries. Most of our retail networks are located close to our refineries. Our retail sales in 2017 amounted to 14.2 million tonnes of refined products.

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally. In 2017, our total output of electrical energy was 17.6 billion kWh.

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

Key financial and operational results

	Q4 2017	Q3 2017	Change %	12 months 2017	12 months 2016	Change, %
	(millions of rubles, except for figures in percent)					
Sales	1,662,452	1,483,484	12.1	5,936,705	5,227,045	13.6
EBITDA[1], including	223,735	221,146	1.2	831,570	730,731	13.8
Exploration and production segment	172,961	155,092	11.5	569,417	521,190	9.3
Refining, marketing and distribution segment	49,009	81,381	(39.8)	263,385	233,297	12.9
EBITDA[1] net of West Qurna-2 project	219,132	215,347	1.8	814,382	691,263	17.8
Profit for the period attributable to LUKOIL shareholders	120,510	97,341	23.8	418,805	206,794	102.5
Capital expenditures	137,726	118,902	15.8	511,496	497,130	2.9
Free cash flow[2]	73,298	90,663	(19.2)	246,994	255,117	(3.2)
Free cash flow before changes in working capital	77,883	83,835	(7.1)	271,977	204,886	32.7
	(thousand BOE per day, except for figures in percent)					
Production of hydrocarbons, including our share in equity affiliates	2,315	2,259	2.5	2,269	2,276	(0.3)
Crude oil and natural gas liquids	1,791	1,795	(0.2)	1,804	1,875	(3.8)
Gas	524	464	12.9	465	401	16.0
Refinery throughput at the Group refineries	1,378	1,383	(0.4)	1,350	1,323	2.0

(1) Profit from operating activities before depreciation, depletion and amortization.

(2) Cash flow from operating activities less capital expenditures.

In 2017, profit attributable to LUKOIL shareholders amounted to 419 billion RUB, an increase of 102.5% to 2016. Our profit for the fourth quarter of 2017 increased by 23.8% compared to the previous quarter and amounted to 121 billion RUB.

Our profit was supported by increased hydrocarbon prices and lower ruble volatility. Moreover, in the second quarter of 2017, we recognized a gain on sale of JSC “Arkhangelskgeoldobycha” in the after-tax amount of 38 billion RUB.

In 2017, our EBITDA amounted to 832 billion RUB, an increase of 13.8% to 2016. Our EBITDA was affected by the decrease in volumes of compensation crude oil within the West Qurna-2 project. Net of this project, the Group’s EBITDA increased by 17.8% compared to 2016.

Our results were positively impacted by an increase in share of high-margin projects in crude oil production structure, growth in gas production volumes in Russia and Uzbekistan, better product slate at our refineries, a decrease in transportation, selling, general and administrative expenses and an increase in international hydrocarbon prices. The latter however was generally offset by strengthening of the ruble. Among other negative factors were external limitations of our liquids production in Russia due to the OPEC agreement and higher excise tax and mineral extraction tax rates in Russia.

Our free cash flow decreased by 8.1 billion RUB, or by 3.2%, compared to 2016 mostly as a result of an increase in working capital. In 2016, our cash flow from operating activities was positively impacted by the decrease in receivables related to the West Qurna-2 project, while in 2017 this factor was insignificant. Our free cash flow was also negatively affected by a moderate increase in our capital expenditures.

The Group’s average daily hydrocarbon production in 2017 decreased by 0.3% compared to 2016, driven primarily by lower volumes of compensation crude oil from the West Qurna-2 project, as well as temporary external limitations due to the OPEC agreement. Planned increase in production from V.Filanovsky and Pyakyakhinskoe fields, commissioned in 2016, continued. Net of the West Qurna-2 project, our daily hydrocarbon production increased by 2.5% compared to 2016.

In 2017, throughput at own refineries increased by 2.0% compared to 2016 mainly due to the higher utilization rates at refineries in Nizhny Novgorod and Volgograd. We also achieved better refined product slates due to the modernization of our refining capacities in Russia and feedstock optimization.

Changes in Group structure

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

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

As part of optimizing our retail business, we sold petrol station networks in Poland, Latvia, Lithuania and Cyprus in 2016.

Main macroeconomic factors affecting our results of operations

International crude oil and refined products prices

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

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

In 2017, the price for Brent crude oil fluctuated between $44 and $67 per barrel, reached its minimum of $44.3 in late June and then maximum of $66.5 in late December, and averaged 24.1% higher compared to 2016. Nevertheless, as a result of the ruble appreciation, the prices expressed in rubles increased less significantly.

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

	Q4 2017	Q3 2017	Change, %	12 months 2017	12 months 2016	Change, %
	(in US dollars per barrel, except for figures in percent)					
Brent crude	61.44	52.08	18.0	54.28	43.73	24.1
Urals crude (CIF Mediterranean)	60.79	51.03	19.1	53.37	42.52	25.5
Urals crude (CIF Rotterdam)	60.37	50.73	19.0	52.92	41.68	27.0
	(in US dollars per metric tonne, except for figures in percent)					
Fuel oil 3.5% (FOB Rotterdam)	336.48	295.75	13.8	300.49	207.64	44.7
Diesel fuel 10 ppm (FOB Rotterdam)	555.55	488.20	13.8	493.92	396.99	24.4
High-octane gasoline (FOB Rotterdam)	595.70	560.06	6.4	557.66	467.05	19.4
Naphtha (FOB Rotterdam)	552.67	458.59	20.5	480.75	382.46	25.7
Jet fuel (FOB Rotterdam)	595.46	517.62	15.0	526.17	422.20	24.6
Vacuum gas oil (FOB Rotterdam)	419.13	357.82	17.1	369.15	293.29	25.9

Source: Platts.

	Q4 2017	Q3 2017	Change, %	12 months 2017	12 months 2016	Change, %
	(in rubles per barrel, except for figures in percent)					
Brent crude	3,588	3,074	16.7	3,167	2,931	8.1
Urals crude (CIF Mediterranean)	3,550	3,012	17.9	3,114	2,850	9.3
Urals crude (CIF Rotterdam)	3,526	2,994	17.8	3,088	2,794	10.5
	(in rubles per metric tonne, except for figures in percent)					
Fuel oil 3.5% (FOB Rotterdam)	19,653	17,455	12.6	17,534	13,919	26.0
Diesel fuel 10 ppm (FOB Rotterdam)	32,449	28,813	12.6	28,822	26,612	8.3
High-octane gasoline (FOB Rotterdam)	34,793	33,055	5.3	32,541	31,309	3.9
Naphtha (FOB Rotterdam)	32,281	27,066	19.3	28,053	25,638	9.4
Jet fuel (FOB Rotterdam)	34,779	30,550	13.8	30,703	28,302	8.5
Vacuum gas oil (FOB Rotterdam)	24,481	21,118	15.9	21,541	19,661	9.6

Translated into rubles using average exchange rate for the period.

Domestic crude oil and refined products prices

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

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

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

	Q4 2017	Q3 2017	Change, %	12 months 2017	12 months 2016	Change, %
	(in rubles per metric tonne, except for figures in percent)					
Fuel oil	12,168	11,151	9.1	10,507	7,525	39.6
Diesel fuel	36,819	33,014	11.5	33,288	28,899	15.2
High-octane gasoline (Regular)	36,702	36,631	0.2	36,191	33,784	7.1
High-octane gasoline (Premium)	37,754	37,987	(0.6)	37,011	35,491	4.3

Source: InfoTEK (excluding VAT).

Changes in ruble exchange rate and inflation

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

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

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
Ruble inflation (CPI), %	0.8	(0.6)	2.5	5.4
Ruble to US dollar exchange rate				
Average for the period	58.4	59.0	58.4	67.0
At the beginning of the period	58.0	59.1	60.7	72.9
At the end of the period	57.6	58.0	57.6	60.7
Ruble to euro exchange rate				
Average for the period	68.8	69.3	65.9	74.2
At the beginning of the period	68.4	67.5	63.8	79.7
At the end of the period	68.9	68.4	68.9	63.8

Source: CBR, Federal State Statistics Service.

Taxation

Between 2015 and 2017, the Russian Government implemented the tax manoeuvre in the oil industry which involved reduction of export duty rate and increase in the crude oil extraction tax and excise tax rates. Changes within this tax manoeuvre that became effective from January and April 2016 had a negative impact on our upstream, refining and marketing margins. Changes that became effective from January 2017 had a positive impact on our upstream margins and a negative impact on our refining and marketing margins, while overall impact of tax changes on our financial results wasn't significant.

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

	Q4 2017	Q3 2017	Change, %	12 months 2017	12 months 2016	Change, %
	(in US dollars per tonne, except for figures in percent)					
Export duties on crude oil	96.34	79.75	20.8	86.71	75.72	14.5
Export duties on refined products						
Fuel oil	96.34	79.75	20.8	86.71	62.05	39.7
Gasoline	28.87	23.89	20.8	25.98	46.14	(43.7)
Straight-run gasoline	52.93	43.81	20.8	47.65	53.71	(11.3)
Diesel fuel and refined products	28.87	23.89	20.8	25.98	30.25	(14.1)
Mineral extraction tax[(1)]						
Crude oil	166.40	132.36	25.7	139.39	86.18	61.7
	(in US dollars per thousand cubic meters, except for figures in percent)					
Natural gas (Nakhodkinskoe field)	4.42	4.37	1.2	4.34	3.10	39.7
Natural gas (Pyakyakhinskoye field)[(2)]	8.78	8.35	5.1	8.28	–	–

[(1)] Translated from rubles using average exchange rate for the period.
[(2)] Gas production started in January 2017.

	Q4 2017	Q3 2017	Change, %	12 months 2017	12 months 2016	Change, %
	(in rubles per tonne, except for figures in percent)					
Export duties on crude oil[1]	5,627	4,707	19.6	5,060	5,076	(0.3)
Export duties on refined products[1]						
Fuel oil	5,627	4,707	19.6	5,060	4,160	21.6
Gasoline	1,686	1,410	19.6	1,516	3,093	(51.0)
Straight-run gasoline	3,092	2,586	19.6	2,781	3,601	(22.8)
Diesel fuel and refined products	1,686	1,410	19.6	1,516	2,028	(25.2)
Mineral extraction tax						
Crude oil	9,719	7,812	24.4	8,134	5,777	40.8
	(in rubles per thousand cubic meters, except for figures in percent)					
Natural gas (Nakhodkinskoe field)	258	258	0.1	253	208	21.6
Natural gas (Pyakyakhinskoye field)[2]	513	493	4.1	483	–	–

[1] Translated to rubles using average exchange rate for the period.
[2] Gas production started in January 2017.

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

	Mineral extraction tax	Export duty	Total	As % of oil price
	(in US dollars per barrel, except for figures in percent)			
Under 2017 tax formulae				
Standard	**17.5**	**11.5**	**29.0**	**58.1**
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
Pyakyakhinskoye field	7.3	11.5	18.8	37.5
V. Vinogradov field	9.3	11.5	20.8	41.6
Fields with depletion above 80%	10.4–17.5	11.5	21.9–29.0	43.7–58.1
New fields with reserves below 5 million tonnes	11.1–17.5	11.5	22.6–29.0	45.2–58.1
Tyumen deposits	15.5	11.5	27.0	54.0

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:

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

where *Price* is a Urals blend price in US dollars per barrel and *Exchange Rate* is an average ruble exchange rate to US dollar during the period. The *Base Rates* and *Fixed Factors* (where applicable) are presented below:

	2016	2017	2018	2019	2020	2021 and further
			(ruble)			
Base Rate	857	919	919	919	919	919
Fixed Component	–	306	357	428	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 Autonomous 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 particular unconventional deposits.

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

The table on the p. 118 illustrates the impact of crude oil extraction tax incentives on taxation of crude oil production from our different fields and deposits at $50 per barrel Urals price.

Natural gas extraction tax rate is calculated using a special formula depending on average wholesale natural gas price in Russia, the share of gas production in particular taxpayer's total hydrocarbon production, regional location and complexity of particular gas field. 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.

International Urals price	Export duty rate
Less than, or equal to, $109.5 per tonne ($15 per barrel)	$0 per tonne
Above $109.5 but less than, or equal to, $146.0 per tonne ($20 per barrel)	35% of the difference between the actual price and $109.5 per tonne (or $0.35 per barrel per each $1 increase in the Urals price over $15 per barrel)
Above $146.0 but less than, or equal to, $182.5 per tonne ($25 per barrel)	$12.78 per tonne plus 45% of the difference between the actual price and $146 per tonne (or $1.75 plus $0.45 per barrel per each $1 increase in the Urals price over $20 per barrel)
Above $182.5 per tonne ($25 per barrel)	**2015–2016:** $29.2 per tonne plus 42% of the difference between the actual price and $182.5 per tonne (or $4 plus $0.42 per barrel per each $1 increase in the Urals price over $25 per barrel) **Starting from 1 January 2017:** $29.2 per tonne plus 30% of the difference between the actual price and $182.5 per tonne (or $4 plus $0.3 per barrel per each $1 increase in the Urals price over $25 per barrel)

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

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

	Q4 2017	Q3 2017	Change, %	12 months 2017	12 months 2016	Change, %
	(in US dollars per barrel, except for figures in percent)					
Urals price (Argus)	60.74	51.16	18.7	53.09	41.69	27.3
Enacted export duty on crude oil	13.20	10.92	20.8	11.88	10.37	14.5
Net Urals price(1)	24.75	22.10	12.0	22.11	19.51	13.3
Lag effect	1.52	0.92	65.8	0.54	0.63	(13.8)
Net Urals price(1) assuming no lag	23.23	21.18	9.7	21.57	18.88	14.2
	(in rubles per barrel, except for figures in percent) (2)					
Urals price (Argus)	3,548	3,019	17.5	3,098	2,795	10.8
Enacted export duty on crude oil	771	645	19.5	693	695	(0.3)
Net Urals price(1)	1,446	1,305	10.8	1,291	1,308	(1.4)
Lag effect	89	54	64.1	32	42	(23.8)
Net Urals price(1) assuming no lag	1,357	1,250	8.5	1,259	1,266	(0.6)

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

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

The table on p. 118 illustrates the impact of crude oil export duty incentives on taxation of export of crude oil produced from our different fields and deposits at $50 per barrel Urals price.

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

	2017 and further	2016
Multiplier for:		
Light and middle distillates	0.30	0.40
Diesel fuel	0.30	0.40
Gasolines	0.30	0.61
Straight-run gasoline	0.55	0.71
Fuel oil	1.00	0.82

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

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

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

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

Excise rates on motor fuels in Russia are tied to the ecological class of fuel. Excise tax rates for the respective periods of 2017 and 2016 are listed below.

	Q4 2017	Q3 2017	Change, %	12 months 2017	12 months 2016	Change, %
	(in rubles per tonne, except for figures in percent)					
Gasoline						
Below Euro-5	13,100	13,100	–	13,100	12,454	5.2
Euro-5	10,130	10,130	–	10,130	9,484	6.8
Diesel fuel						
All ecological classes	6,800	6,800	–	6,800	5,009	35.8
Motor oils	5,400	5,400	–	5,400	6,000	(10.0)
Straight-run gasoline	13,100	13,100	–	13,100	12,454	5.2

Excise tax rates in Russia were increased twice in 2016, on 1 January and 1 April, and once in 2017, on 1 January.

Excise tax rates starting from 2018 are listed below.

	1 December to 30 June, 2018	1 July to 31 December, 2018	2019	2020 and further
	(in rubles per tonne)			
Gasoline				
Below Euro-5	13,100	13,100	13,100	13,100
Euro-5	11,213	11,892	12,314	12,752
Diesel fuel				
All ecological classes	7,665	8,258	8,541	8,835
Motor oils	5,400	5,400	5,400	5,616
Straight-run gasoline	13,100	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 Company and its Russian subsidiaries file income tax returns in Russia. A number of Group companies in Russia are paying income tax as a consolidated taxpayers' group ("CTG"). This allows taxpayers to offset taxable losses generated by certain participants of a CTG against taxable profits of other participants of the CTG.

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

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

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

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

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

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

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

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

	4rd quarter of 2017 to 3rd quarter of 2017	**12 months of 2017 to 12 months of 2016**
Transneft		
Crude oil	0.0%	3.4%
Russian Railways		
Crude oil and refined products	0.0%	6.0%

Segments highlights

Our operations are divided into three main business segments:

- **Exploration and Production** – which includes our exploration, development and production operations related to crude oil and gas. These activities are primarily located within Russia, with additional activities in Azerbaijan, Kazakhstan, Uzbekistan, the Middle East, Northern and Western Africa, Norway, Romania and Mexico.
- **Refining, Marketing and Distribution** – which includes refining, petrochemical and transport operations, marketing and trading of crude oil, natural gas and refined products, generation, transportation and sales of electricity, heat and related services.
- **Corporate and other** – which includes operations related to our headquarters (which coordinates the operations of Group companies), finance activities, and certain other activities.

Each of our segments is dependent on the others, with a portion of the revenues of one segment being a part of the costs of the others. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the "Domestic crude oil and refined products prices" section on p. 116, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. We present the financial data for each segment in Note 32 "Segment information" to our consolidated financial statements.

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 2017 and 2016.

		Changes in 2017			
(millions of BOE)	31 December 2017	Production[1]	Extensions, discoveries and changes in structure	Revision of previous estimates	31 December 2016
Western Siberia	8,384	(371)	208	(16)	8,563
Timan-Pechora	2,311	(131)	56	49	2,337
Ural region	2,196	(125)	83	23	2,215
Volga region	1,088	(84)	121	(22)	1,073
Other in Russia	179	(12)	9	–	182
Outside Russia	1,860	(105)	34	(97)	2,028
Proved oil and gas reserves	**16,018**	**(828)**	**511**	**(63)**	**16,398**
Probable oil and gas reserves	**6,409**				**6,684**
Possible oil and gas reserves	**3,087**				**2,981**

[1] Gas production shown before own consumption.

The Company's proved hydrocarbon reserves at 31 December 2017 amounted to 16,018 million BOE and comprised of 12,077 million barrels of crude oil and 23,649 billion cubic feet of gas.

The increase in proved reserves related to geological exploration and production drilling totaled 501 million BOE and was mostly related to the traditional regions of the Group's operations in Russia.

Western Siberia, the Company's main producing region, accounted for the largest reserves addition in the amount of 198 million barrels of oil equivalent. Further development of Russian offshore fields in the Caspian Sea ensured another significant addition of 100 million barrels of oil equivalent with 95 million barrels coming from the V. Filanovsky field where we started production in 2016.

Exploration and production

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

	Q4	Q3	12 months of	
	2017	**2017**	**2017**	**2016**
		(millions of rubles)		
EBITDA in Russia	149,816	133,637	491,191	445,716
EBITDA outside Russia[1]	23,145	21,455	78,226	75,474
EBITDA	**172,961**	**155,092**	**569,417**	**521,190**
Hydrocarbon extraction expenses	54,794	52,156	208,959	211,454
- in Russia	46,311	43,978	177,554	165,641
- outside Russia[2]	4,989	4,537	15,227	14,582
- in Iraq	3,494	3,641	16,178	31,231
		(ruble per BOE)		
Hydrocarbon extraction expenses[2]	251	245	244	233
- in Russia	257	245	248	233
- outside Russia[2]	205	250	204	237
		(US dollar per BOE)		
Hydrocarbon extraction expenses[2]	4.30	4.15	4.18	3.50
- in Russia	4.41	4.14	4.25	3.50
- outside Russia[2]	3.51	4.23	3.50	3.52

(1) Including EBITDA of the West Qurna-2 project in the amounts of 4,603 million RUB and 5,799 million RUB in the fourth and third quarters of 2017 and in the amounts of 17,188 million RUB and 39,468 million RUB in 2017 and 2016, respectively.

(2) Excluding expenses at the West Qurna-2 field.

Our upstream EBITDA increased by 11.5%, compared to the third quarter of 2017, and by 9.3%, compared to 2016.

Despite lower crude oil production volumes as a result of temporary external limitations driven by the OPEC agreement, our EBITDA in Russia increased due to the increase in hydrocarbon prices and the export duty lag effect. The increase in share of high-margin volumes in our overall production mix also substantially contributed to the increase.

Outside Russia, EBITDA of the West Qurna-2 project decreased compared to 2016 as we were previously compensated for the most of costs we incurred during the field development stage and the project has since moved to production maintenance stage. Excluding West Qurna-2, our international upstream EBITDA increased by 69.5% due to higher average international hydrocarbon prices and positive production trends in our gas projects, as well as business optimization measures.

The following table summarizes our hydrocarbon production by major regions.

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(thousand BOE per day)			
Crude oil and natural gas liquids[1]				
Consolidated subsidiaries				
Western Siberia	780	795	801	838
Timan-Pechora	313	312	312	339
Ural region	327	321	324	322
Volga region	213	201	199	142
Other in Russia	32	33	33	36
Total in Russia	**1,665**	**1,662**	**1,669**	**1,677**
Iraq[2]	29	40	34	95
Other outside Russia	46	41	45	45
Total outside Russia	75	81	79	140
Total consolidated subsidiaries	**1,740**	**1,743**	**1,748**	**1,817**
Our share in equity affiliates				
in Russia	14	17	19	21
outside Russia	37	35	37	37
Total share in equity affiliates	51	52	56	58
Total crude oil and natural gas liquids	**1,791**	**1,795**	**1,804**	**1,875**
Natural and petroleum gas[3]				
Consolidated subsidiaries				
Western Siberia	215	222	217	185
Timan-Pechora	34	34	35	34
Ural region	15	15	16	16
Volga region	26	22	23	28
Other in Russia	1	1	1	1
Total in Russia	291	294	292	264
Total outside Russia	218	156	159	123
Total consolidated subsidiaries	**509**	**450**	**451**	**387**
Share in equity affiliates				
in Russia	2	2	2	2
outside Russia	13	12	12	12
Total share in production of equity affiliates	15	14	14	14
Total natural and petroleum gas	**524**	**464**	**465**	**401**
Total daily hydrocarbon production	**2,315**	**2,259**	**2,269**	**2,276**

(1) Natural gas liquids produced at the Group gas processing plants in the amounts of 37 thousand BOE per day and 33 thousand BOE per day in the fourth and third quarters of 2017 and in the amounts of 36 thousand BOE per day and 27 thousand BOE per day in 2017 and 2016, respectively.

(2) Compensation oil that represented approximately 8.8% and 23.3% of production from the West Qurna-2 field in 2017 and 2016, respectively.

(3) Natural and petroleum gas production excluding flaring, reinjection, and usage at the Group's gas processing plants.

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

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(thousands of tonnes)			
Western Siberia	9,517	9,702	38,779	41,037
Timan-Pechora	4,033	3,983	15,837	17,150
Ural region	3,823	3,794	15,139	15,248
Volga region	2,571	2,431	9,554	6,939
Other in Russia	416	427	1,686	1,832
Crude oil produced in Russia	20 360	20,337	80,995	82,206
Iraq[(1)]	396	539	1,822	5,064
Other outside Russia	526	464	2,003	2,037
Crude oil produced outside Russia	922	1,003	3,825	7,101
Total crude oil produced by consolidated subsidiaries	**21,282**	**21,340**	**84,820**	**89,307**
Our share in crude oil produced by equity affiliates:				
in Russia	165	201	884	971
outside Russia	426	410	1,710	1,714
Total crude oil produced	**21,873**	**21,951**	**87,414**	**91,992**

(1) Compensation oil that represented approximately 8.8% and 23.3% of production from the West Qurna-2 field in 2017 and 2016, respectively.

The main oil producing region for the Company is Western Siberia where we produced 45.7% of our crude oil in 2017 (46.0% in 2016).

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). These fields have a major positive impact on our financial results due to high quality reserve base and tax incentives. In 2017, the Group produced 4,584 thousand tonnes of crude oil at the V. Filanovsky field and 1,531 thousand tonnes of liquids at the Pyakyakhinskoye field. In the fourth quarter of 2017, production from the V. Filanovsky field increased by 21% and production from the Pyakyakhinskoye field didn't change significantly, compared to the previos quarter.

The decrease in our production volumes in 2017 in Russia was mainly driven by a temporary external limitation due to an agreement of OPEC and some of the non-OPEC countries, including Russia, to cut production from October 2016 levels in order to stabilize the global crude oil market. We limited production in our traditional regions (Western Siberia, Timan-Pechora, Ural) by closing least-productive wells, wells with high water cut and high lifting costs. We also decreased a number of workover operations. Moreover, crude oil production in Timan-Pechora was affected by adverse weather conditions and temporary decrease in production from one of the fields as a result of a fire. At the same time, we continued ramping up production at the V. Filanovsky, Pyakyakhinskoye and other high-margin fields.

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 (for details see p. 127).

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

	Q4 2017	Q3 2017	12 months of 2017	2016
	(millions of cubic meters)			
Western Siberia	3,356	3,465	13,479	11,522
Timan-Pechora	538	533	2,166	2,127
Ural region	240	240	978	976
Volga region	414	350	1,425	1,748
Other in Russia	8	8	32	34
Gas produced in Russia	**4,556**	**4,596**	**18,080**	**16,407**
Gas produced outside Russia	3,413	2,445	9,885	7,654
Total gas produced by consolidated subsidiaries	**7,969**	**7,041**	**27,965**	**24,061**
Our share in gas produced by equity affiliates:				
in Russia	25	23	96	89
outside Russia	199	193	800	772
Total gas produced	**8,193**	**7,257**	**28,861**	**24,922**

Our major gas production region is Western Siberia (Bolshekhetskaya depression), where the major part of gas is produced from the Nakhodkinskoe field, which has been developed since 2005. In January 2017, we started gas production from our second field in Bolshekhetskaya depression, the Pyakyakhinskoye field, which substantially contributed to our overall gas production in Russia that increased by 10.2% compared to 2016. Natural gas production from Pyakyakhinskoe field amounted to 2,790 million cubic meters. Our international gas production (including our share in affiliates' production) increased by 26.8%, compared to 2016, as a result of commissioning of new gas treatment facilities within Gissar and Kandym projects 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 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 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 amount of costs claimed for reimbursement. Approved invoice amount and 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 costs incurred, compensation crude oil received, costs yet unrecovered and remuneration fee.

	Costs incurred[1]	Remuneration fee	Crude oil received	Crude oil to be received
		(millions of US dollars)		
Cumulative at 31 December 2016	7,532	272	7,275	529
Change in 2017	540	91	567	64
Income tax[2]	–	(60)	–	(60)
Cumulative at 31 December 2017	**8,072**	**303**	**7,842**	**533**

[1] Including prepayments.
[2] Income tax (including related to prior periods) on remuneration fee offset against crude oil to be received.

The West Qurna-2 project summary is presented below:

	Q4 2017		Q3 2017	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production	34,904	5,149	35,605	5,190
Production related to cost compensation and remuneration[1]	2,682	396	3,700	539
Shipment of compensation crude oil[1] [2]	2,912	430	3,924	572
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation	10,048	172	7,712	131
Remuneration fee	1,778	31	1,810	30
	11,826	203	9,522	161
Cost of compensation crude oil, received as liability settlement (included in *Cost of purchased crude oil, gas and products*)[2]	9,049	155	10,775	182
Extraction expenses	3,494	60	3,641	62
Depreciation, depletion and amortization	6,628	113	4,150	71
EBITDA	4,603	78	5,799	99

[1] Translated into barrels using conversion rate characterizing the density of oil at the field.
[2] This crude oil is sold to third party customers or delivered to our refineries. After realization of these products, respective sales revenues are recognized.

	12 months of 2017		2016	
	(thousand barrels)	(thousand tonnes)	(thousand barrels)	(thousand tonnes)
Total production	142,224	20,793	149,341	21,770
Production related to cost compensation and remuneration[1]	12,466	1,822	34,742	5,064
Shipment of compensation crude oil[1] [2]	11,854	1,733	61,005	8,893
	(millions of rubles)	(millions of US dollars)	(millions of rubles)	(millions of US dollars)
Cost compensation	32,322	554	62,998	914
Remuneration fee	5,307	91	8,612	128
	37,629	645	71,610	1,042
Cost of compensation crude oil, received as liability settlement (included in *Cost of purchased crude oil, gas and products*)[2]	33,191	567	140,392	2,106
Extraction expenses	16,178	278	31,231	462
Depreciation, depletion and amortization	16,454	282	31,438	447
EBITDA	17,188	294	39,468	566

[1] Translated into barrels using conversion rate characterizing the density of oil at the field.
[2] This crude oil is sold to third party customers or delivered to our refineries. After realization of these products, respective sales revenues are recognized.

The decrease in volumes of crude oil production related to cost compensation and remuneration was due to compensation of the most part of costs incurred at the field development stage and approximately threefold decrease in remuneration fee in February-June 2017 due to a so-called performance factor that represents a ratio of actual production volumes to target production volumes according to the provisions of the service contract. The performance factor was not applied in the second half of 2017.

Refining, marketing and distribution

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

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
		(millions of rubles)		
EBITDA in Russia	39,267	62,565	195,479	162,447
EBITDA outside Russia	9,742	18,816	67,906	70,850
EBITDA	**49,009**	**81,381**	**263,385**	**233,297**
Refining expenses at the Group refineries	23,050	22,456	86,508	90,673
- in Russia	11,182	10,207	40,970	43,742
- outside Russia	11,868	12,249	45,538	46,931
		(ruble per tonne)		
Refining expenses at the Group refineries	1,333	1,294	1,287	1,373
- in Russia	1,003	927	950	1,048
- outside Russia	1,930	1,930	1,887	1,931
		(US dollar per tonne)		
Refining expenses at the Group refineries	22.82	21.92	22.04	20.57
- in Russia	17.18	15.71	16.28	15.74
- outside Russia	33.04	32.71	32.33	28.88

In Russia, our downstream EBITDA increased substantially compared to 2016 due to better product slate at our refineries, higher domestic prices, increased throughput volumes and decrease in refining expenses, as well as the expansion of our priority sales channels. Outside Russia, our EBITDA was affected by lower trading margins and the ruble appreciation that was offset by increased refining volumes and crude oil inventory effect at the refineries driven by increasing oil price trend.

Quarter on quarter, our EBITDA was affected by seasonal decrease in retail profitability in Russia, as well as by lower refining margins both in Russia and abroad, that was partially offset by the positive inventory effect of our refineries.

Refining and petrochemicals

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

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(thousands of tonnes)			
Refinery throughput at the Group refineries	17,294	17,356	67,240	66,061
- in Russia	11,144	11,010	43,107	41,752
- outside Russia, including	6,150	6,346	24,133	24,309
- crude oil	5,669	5,823	21,970	20,356
- refined products	481	523	2,163	3,953
Refinery throughput at third party refineries	1,803	1,670	6,547	744
Total refinery throughput	**19,097**	**19,026**	**73,787**	**66,805**
Production of the Group refineries in Russia[1]	**10,507**	**10,471**	**40,746**	**39,623**
- diesel fuel	4,109	4,070	15,757	12,889
- gasoline	2,066	2,198	8,143	7,773
- fuel oil	1,512	1,089	5,312	5,995
- jet fuel	723	803	2,744	2,188
- lubricants and components	291	321	1,163	1,015
- straight-run gasoline	602	482	2,192	1,900
- vacuum gas oil	11	72	586	2,806
- bitumen	177	293	888	801
- coke	233	277	982	905
- other products	783	866	2,979	3,351
Production of the Group refineries outside Russia	**5,812**	**5,984**	**22,745**	**22,720**
- diesel fuel	2,446	2,676	9,871	9,779
- gasoline	1,334	1,347	5,140	4,984
- fuel oil	795	560	2,973	3,215
- jet fuel	227	327	1,049	922
- straight-run gasoline	184	205	786	726
- coke	55	51	190	221
- other products	771	818	2,736	2,873
Refined products produced by the Group	**16,319**	**16,455**	**63,491**	**62,343**
Refined products produced at third party refineries	1,759	1,627	6,417	726
Total refined products produced	**18,078**	**18,082**	**69,908**	**63,069**
Products produced at petrochemical plants and facilities	**229**	**303**	**1,171**	**1,270**
- in Russia	142	204	798	895
- outside Russia	87	99	373	375

(1) Net of cross-supplies of refined products among the Group refineries in the amounts of 381 thousand tonnes and 444 thousand tonnes in the fourh and third quarters of 2017 and in the amounts of 1,702 thousand tonnes and 1,316 thousand tonnes in 2017 and 2016, respectively.

Compared to 2016, the total volume of refined products produced by the Group increased by 1.8%.

Production at our refineries in Russia increased by 2.8% largely as a result of the planned maintenance at our refineries in Nizhny Novgorod and Volgograd in 2016. In Russia, we continued improving our refined product slate by launching new conversion facilities and cross-supplies of own dark products to catalytic cracking units at our refineries in Nizhny Novgorod and Volgograd and to coking unit in Perm. As a result, the share of gasoline and diesel fuel in our total production volumes increased by 6.5 p.p. compared to 2016 and share of fuel oil and vacuum gasoil decreased by 7.7 p.p. Also, purchased additives were partially substituted with additives of own production that resulted in the optimization of operating expenses.

Internationally, production didn't change significantly. At the same time, as a result of the change in price environment, the volume of crude oil processing increased by 7.9% while the volume of refined product processing decreased almost twofold.

In the periods considered, we processed our crude oil at third party refineries in Belarus and Kazakhstan. Moreover, at the end of 2016, a Group company entered into a tolling agreement with a Canadian refinery. In 2017, attributable refined products output amounted to 6.2 million tonnes. The agreement is valid through 2019.

Marketing and trading

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

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

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

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

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(thousands of tonnes)			
Crude oil purchases				
in Russia	215	236	962	849
for trading internationally	11,041	8,044	36,137	28,385
for refining internationally	5,873	5,799	22,527	15,213
Shipment of the West Qurna-2 compensation crude oil	430	572	1,733	8,893
Total crude oil purchased	**17,559**	**14,651**	**61,359**	**53,340**

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

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(thousands of tonnes)			
Retail sales	3,612	3,820	14,238	14,193
Wholesale sales	27,899	28,820	114,283	107,429
Total refined products sales	**31,511**	**32,640**	**128,521**	**121,622**
Refined products purchased in Russia	310	386	1,645	1,667
Refined products purchased internationally	13,758	13,715	58,367	61,640
Total refined products purchased	**14,068**	**14,101**	**60,012**	**63,307**

In 2016, in order to optimize our downstream operations, a Group company sold distribution companies operating in Poland, Lithuania, Latvia and Cyprus.

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:

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(thousands of tonnes)			
Exports of crude oil to Customs Union	683	695	2,807	3,007
Exports of crude oil beyond Customs Union	8,194	8,359	33,779	30,899
Total crude oil exports	**8,877**	**9,054**	**36,586**	**33,906**
Exports of crude oil through Transneft and other third party infrastructure	6,596	6,699	27,329	25,865
including volumes exported through ESPO pipeline	300	300	1,140	1,215
Exports of crude oil through the Group's transportation infrastructure	2,281	2,355	9,257	8,041
Total crude oil exports	**8,877**	**9,054**	**36,586**	**33,906**
	(millions of rubles)			
Exports of crude oil to Customs Union	13,707	11,699	48,017	44,117
Exports of crude oil beyond Customs Union	205,272	176,781	730,049	581,138
Total crude oil exports	**218,979**	**188,480**	**778,066**	**625,255**

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(thousands of tonnes)			
Refined products exports				
- diesel fuel	2,529	2,386	10,060	8,030
- gasoline	185	57	331	408
- fuel oil	751	342	2,762	3,697
- jet fuel	8	18	84	202
- lubricants and components	147	152	623	605
- gas refinery products	433	275	1,304	602
- other products	364	557	2,360	5,197
Total refined products exports	**4,417**	**3,787**	**17,524**	**18,741**
	(millions of rubles)			
Total refined products exports	**131,060**	**98,199**	**447,957**	**384,819**

In 2017, the volume of our crude oil exports from Russia increased by 7.9%, and we exported 45.2% of our domestic crude oil production (41.2% in 2016) and 366 thousand tonnes of crude oil purchased from our affiliates and third parties (458 thousand tonnes in 2016). The increase in export volumes was a result of lower domestic sales. The volume of our refined products exports decreased by 6.5% compared to 2016 following the increase in domestic sales due to higher profitability of the domestic market.

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.

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

In 2017, we sold 10 million tonnes of motor fuels via our domestic retail network, that represented an increase of 1.8% against 2016. Outside Russia, retail sales decreased to 4 million tonnes, or by 3.2%, mostly as a result of divestment of our retail networks in Poland, the Baltic states and Cyprus.

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

Power generation. We established a vertically integrated chain from generation to transportation and sale of power and heat for third party customers (commercial generation) and own consumption. We own commercial generation facilities in the Southern regions of European Russia. We also own renewable energy capacity in Russia and abroad. In 2017, our total output of commercial electrical energy was 17.6 billion kWh (18.3 billion kWh in 2016), and our total output of commercial heat energy was approximately 10.7 million Gcal (12.4 million Gcal in 2016).

Financial results

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

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(millions of rubles)			
Revenues				
Sales (including excise and export tariffs)	1,662,452	1,483,484	5,936,705	5,227,045
Costs and other deductions				
Operating expenses	(118,091)	(120,608)	(456,765)	(456,433)
Cost of purchased crude oil, gas and products	(903,181)	(782,950)	(3,129,864)	(2,609,764)
Transportation expenses	(68,582)	(62,980)	(272,792)	(299,017)
Selling, general and administrative expenses	(46,928)	(42,872)	(165,331)	(196,156)
Depreciation, depletion and amortization	(76,198)	(83,920)	(325,054)	(311,588)
Taxes other than income taxes	(171,922)	(135,266)	(606,510)	(443,338)
Excise and export tariffs	(119,930)	(116,820)	(461,525)	(483,313)
Exploration expenses	(10,083)	(842)	(12,348)	(8,293)
Profit from operating activities	**147,537**	**137,226**	**506,516**	**419,143**
Finance income	5,489	3,261	15,151	14,756
Finance costs	(5,169)	(5,925)	(27,331)	(47,030)
Equity share in income of affiliates	5,194	3,985	16,864	7,967
Foreign exchange gain (loss)	5,201	(9,441)	(19,948)	(111,976)
Other (expenses) income	(11,672)	(737)	32,932	(10,345)
Profit before income taxes	**146,580**	**128,369**	**524,184**	**272,515**
Current income taxes	(24,880)	(30,157)	(99,976)	(58,170)
Deferred income taxes	(541)	(427)	(3,786)	(6,703)
Total income tax expense	**(25,421)**	**(30,584)**	**(103,762)**	**(64,873)**
Profit for the period	**121,159**	**97,785**	**420,422**	**207,642**
Profit for the period attributable to non-controlling interests	(649)	(444)	(1,617)	(848)
Profit for the period attributable to PJSC LUKOIL shareholders	**120,510**	**97,341**	**418,805**	**206,794**
Basic and diluted earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles)	169.82	137.17	589.14	290.06

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

Sales revenues

Sales breakdown	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(millions of rubles)			
Crude oil				
Export and sales on international markets other than Customs Union	485,460	348,206	1,556,811	1,238,836
Export and sales to Customs Union	13,216	11,473	46,798	42,888
Domestic sales	9,583	9,930	37,525	94,985
	508,259	**369,609**	**1,641,134**	**1,376,709**
Cost compensation and remuneration at the West Qurna-2 project	11,826	9,522	37,629	71,610
	520,085	**379,131**	**1,678,763**	**1,448,319**
Refined products[(1)]				
Export and sales on international markets				
Wholesale	769,886	725,931	2,863,379	2,512,261
Retail	75,494	76,253	280,847	305,797
Domestic sales				
Wholesale	102,898	104,882	360,182	251,109
Retail	106,491	114,026	415,820	383,217
	1,054,769	**1,021,092**	**3,920,228**	**3,452,384**
Petrochemicals				
Export and sales on international markets	12,380	10,345	48,187	34,711
Domestic sales	5,899	9,445	34,451	38,092
	18,279	**19,790**	**82,638**	**72,803**
Gas				
Sales on international markets	17,962	14,468	54,611	33,663
Domestic sales	8,390	7,788	31,109	27,030
	26,352	**22,256**	**85,720**	**60,693**
Sales of energy and related services				
Sales on international markets	3,735	3,558	12,884	14,178
Domestic sales	16,115	12,725	61,028	61,920
	19,850	**16,283**	**73,912**	**76,098**
Other				
Export and sales on international markets	11,621	12,381	49,717	69,881
Domestic sales	11,496	12,551	45,727	46,867
	23,117	**24,932**	**95,444**	**116,748**
Total sales	**1,662,452**	**1,483,484**	**5,936,705**	**5,227,045**

Sales volumes	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(thousands of tonnes)			
Crude oil				
Export and sales on international markets other than Customs Union	18,719	15,626	67,935	62,318
Export and sales to Customs Union	658	680	2,741	2,942
Domestic sales	492	607	2,294	7,124
	19,869	**16,913**	**72,970**	**72,384**
Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project	396	539	1,822	5,064
	20,265	**17,452**	**74,792**	**77,448**
Refined products[(1)]				
Export and sales on international markets				
Wholesale	23,822	24,605	99,544	95,571
Retail	1,052	1,104	4,155	4,293
Domestic sales				
Wholesale	4,077	4,215	14,739	11,858
Retail	2,560	2,716	10,083	9,900
	31,511	**32,640**	**128,521**	**121,622**
Petrochemicals				
Export and sales on international markets	252	213	949	747
Domestic sales	116	206	699	730
	368	**419**	**1,648**	**1,477**
Total sales volumes	**52,144**	**50,511**	**204,961**	**200,547**

[(1)] Including revenue from, and volumes of, gas refined products sales.

Realized average sales prices

		Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
Average realized price on international markets					
Crude oil (beyond Customs Union) [(1)]	(RUB/barrel)	3,538	3,040	3,126	2,712
Crude oil (Customs Union)	(RUB/barrel)	2,740	2,302	2,329	1,989
Refined products					
Wholesale	(RUB/tonne)	32,318	29,503	28,765	26,287
Retail	(RUB/tonne)	71,762	69,070	67,593	71,232
Petrochemicals	(RUB/tonne)	49,127	48,568	50,777	46,467
Crude oil (beyond Customs Union) [(1)]	($/barrel)	60.58	51.51	53.58	40.46
Crude oil (Customs Union)	($/barrel)	46.91	39.00	39.92	29.67
Refined products					
Wholesale	($/tonne)	553	500	493	392
Retail	($/tonne)	1,229	1,170	1,158	1,063
Petrochemicals	($/tonne)	841	823	870	693
Average realized price within Russia					
Crude oil	(RUB/barrel)	2,657	2,232	2,232	1,819
Refined products					
Wholesale	(RUB/tonne)	25,239	24,883	24,437	21,176
Retail	(RUB/tonne)	41,598	41,983	41,240	38,709
Petrochemicals	(RUB/tonne)	50,853	45,850	49,286	52,181

(1) Excluding cost compensation and remuneration at the West Qurna-2 project.

During the fourth quarter of 2017, our revenues increased by 179 billion RUB, or by 12.1%, compared to the third quarter of 2017. Our revenues from crude oil sales increased by 141 billion RUB, or by 37.2%, and our revenues from sales of refined products increased by 34 billion RUB, or by 3.3%. The main reasons for that were the increase in international hydrocarbon prices and the increase in crude oil trading volumes.

In 2017, our revenues increased by 710 billion RUB, or by 13.6%, compared to 2016. Our revenues from crude oil sales increased by 230 billion RUB, or by 15.9%, and our revenues from sales of refined products increased by 468 billion RUB, or by 13.6%, largely, as a result of the increase in hydrocarbon prices which was partially offset by the effect of the ruble appreciation on our revenues denominated in other currencies.

Sales of crude oil

Compared to the third quarter of 2017, our international crude oil sales revenue increased by 39.4%, or by 137 billion RUB. Our international sales volumes (beyond the Customs Union) increased by 3,093 thousand tonnes, or by 19.8%, due to higher volumes of crude oil trading. Our average international ruble realized prices increased by 16.4%. In the fourth quarter of 2017, our realized domestic crude oil sales price increased by 19.0%, and our domestic sales volumes decreased by 115 thousand tonnes, or by 18.9%. As a consequence, our domestic sales revenue decreased by 3.5%, or by 0.3 billion RUB.

Compared to 2016, our international crude oil sales revenue increased by 25.7%, or by 318 billion RUB. In 2017, our international sales volumes (beyond the Customs Union) increased by 5,617 thousand tonnes, or by 9.0%, due to higher volumes of exports from Russia and trading. Our average international ruble realized prices increased by 15.3%. Our realized domestic crude oil sales price increased by 22.7%, compared to 2016, and our domestic sales volumes decreased by 4,830 thousand tonnes, or by 67.8%, in favor of export deliveries and refining and also as a result of lower production. As a consequence, in 2017, our domestic sales revenue decreased by 60.5%, or by 57 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.

During the fourth quarter of 2017, the amount of cost compensation and remuneration fee increased by 2 billion RUB, or by 24.2%, compared to the third quarter of 2017.

At the same time, in 2017, the volumes of crude oil related to cost compensation and remuneration fee significantly decreased compared to 2016. Therefore the amount of cost compensation and remuneration fee decreased by 34 billion RUB, or by 47.5%. For details see p. 127.

Sales of refined products

During the fourth quarter of 2017, our revenue from the wholesale of refined products outside Russia increased by 44 billion RUB, or by 6.1%. Compared to the previous quarter, our sales volumes decreased by 3.2% and our realized ruble prices increased by 9.5%.

Compared to the third quarter of 2017, our international retail revenue decreased by 1 billion RUB, or by 1.0%. Our international retail realized ruble prices increased by 3.9% and our sales volumes decreased by 52 thousand tonnes, or by 4.7%.

Compared to the third quarter of 2017, our revenue from the wholesale of refined products on the domestic market decreased by 2 billion RUB, or by 1.9%. Our realized prices increased by 1.4% and our sales volumes decreased by 3.3%.

In the fourth quarter of 2017, our revenue from refined products retail sales in Russia decreased by 8 billion RUB, or by 6.6%. Our average domestic retail prices and volumes decreased by 0.9% and by 5.7%, respectively.

In 2017, our revenue from the wholesale of refined products outside Russia increased by 351 billion RUB, or by 14.0%, that was both price and volume driven. Compared to 2016, our sales volumes increased by 4.2%. Our dollar and our ruble realized prices increased by 25.7% and by 9.4%, respectively.

In 2017, our dollar realized retail prices outside Russia increased by 9.0%, while our ruble realized prices decreased by 5.1%, due to the ruble appreciation. Our sales volumes decreased by 3.2% to 2016 as a consequence of sale of our retail networks in Eastern Europe. As a result, our international retail revenue decreased by 25 billion RUB, or by 8.2%, compared to 2016.

In 2017, our revenue from the wholesale of refined products on the domestic market increased by 109 billion RUB, or by 43.4%. Our realized prices and volumes increased by 15.4% and by 24.3%, respectively.

Our revenue from refined products retail sales in Russia increased by 33 billion RUB, or by 8.5%, compared to 2016. Our average domestic retail prices and volumes increased by 6.5% and by 1.8%, respectively.

Sales of petrochemical products

In the fourth quarter of 2017, our revenue from sales of petrochemical products decreased by 2 billion RUB, or by 7.6%, largely, as a result of a decrease in sales volumes following planned repairs at our petrochemical plant in Stavropol region of Russia. That was partially offset by the increase in petrochemical products trading volumes outside Russia.

In 2017, our revenue from sales of petrochemical products increased by 10 billion RUB, or by 13.5%, largely as a result of the increased trading volumes.

Sales of gas

Sales of gas increased by 4 billion RUB, or by 18.4%, in the fourth quarter of 2017 as a result of an increase in gas production and by 25 billion RUB, or by 41.2%, in 2017 also as a result of an increase in production and higher realized prices.

The increase in revenue from sales of gas mostly related to our operations outside of Russia and was a result of commissioning of new gas treatment facilities within Gissar and Kandym projects in Uzbekistan.

Sales of energy and related services

Compared to the third quarter of 2017, our revenue from sales of energy and related services increased by 4 billion RUB, or by 21.9%, due to a seasolnal factor.

In 2017, our revenue from sales of energy and related services decreased by 2 billion RUB, or by 2.9%.

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.

During the fourth quarter of 2017, revenue from other sales decreased by 2 billion RUB, or by 7.3%. Our revenue from transportation services increased by 1 billion RUB, or by 19.2%, and non-petrol revenue of our retail network decreased by 3 billion RUB, or by 24.7%, due to seasonal factors and ruble appreciation.

In 2017, revenue from other sales decreased by 21 billion RUB, or by 18.2%. In the second quarter of 2017, we divested our diamond business and therefore had no respective revenue in the second half of 2017. Our results for 2017 included 6 billion RUB of revenue from sales of diamonds (20 billion RUB in 2016). Our revenue from transportation services decreased by 7 billion RUB, or by 33.8%, in 2017. This was partially offset by an increase in non-petrol revenue of our retail network.

Operating expenses

Operating expenses include the following:

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
		(millions of rubles)		
Hydrocarbon extraction expenses[1]	51,300	48,515	192,781	180,223
Extraction expenses at the West Qurna-2 field	3,494	3,641	16,178	31,231
Own refining expenses	23,050	22,456	86,508	90,673
Refining expenses at third-party refineries	5,168	7,223	15,403	1,959
Expenses for crude oil transportation to refineries	12,473	12,896	48,754	46,349
Power generation and distribution expenses	10,143	9,204	39,046	39,406
Petrochemical expenses	3,180	2,987	12,081	12,758
Other operating expenses	9,283	13,686	46,014	53,834
Total operating expenses	**118,091**	**120,608**	**456,765**	**456,433**

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

The method of allocation of operating expenses above differs from the approach used in preparing data for Note 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.

Compared to the third quarter of 2017, our operating expenses decreased by 3 billion RUB, or by 2.1%. Seasonal increase in hydrocarbon extraction expenses, own refining expenses and power generation expenses was offset by the decrease in refining expenses at third-party refineries and other operating expenses.

In 2017, our operating expenses remained at the same level as in 2016. The effect of the ruble appreciation to US dollar and Euro on the ruble value of foreign subsidiaries’ expenses and the decrease in expenses at the West Qurna-2 oilfield were offset by the increase in hydrocarbon extraction expenses and refining expenses at third parties refineries.

Hydrocarbon extraction expenses

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

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
		(millions of rubles)		
Hydrocarbon extraction expenses[1]	51,300	48,515	192,781	180,223
- in Russia	46,311	43,978	177,554	165,641
- outside Russia[1]	4,989	4,537	15,227	14,582
		(ruble per BOE)		
Hydrocarbon extraction expenses[1]	251	245	244	233
- in Russia	257	245	248	233
- outside Russia[1]	205	250	204	237

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

Our extraction expenses increased by 3 billion RUB, or by 5.7%, in the fourth quarter of 2017 and by 13 billion RUB, or by 7.0%, in 2017.

In Russia, average hydrocarbon extraction expenses increased driven by higher energy costs, costs of materials and services, as well as shift to more costly project benefiting from tax exemptions.

The increase in extraction expenses outside Russia was mainly a result of launching new production facilities as part of the Gissar and Kandym project in Uzbekistan. At the same time, per BOE expenses significantly decreased due to sizeable contribution of gas to overall hydrocarbon production increase outside Russia.

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. 127.

The decrease in expenses in 2017 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. Quarter on quarter, expenses were relatively flat.

Own refining expense

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(millions of rubles)			
Refining expenses at the Group refineries	23,050	22,456	86,508	90,673
- in Russia	11,182	10,207	40,970	43,742
- outside Russia	11,868	12,249	45,538	46,931
	(ruble per tonne)			
Refining expenses at the Group refineries	1,333	1,294	1,287	1,373
- in Russia	1,003	927	950	1,048
- outside Russia	1,930	1,930	1,887	1,931

Our own refining expenses increased by 1 billion RUB, or by 2.6%, during the fourth quarter of 2017 and decreased by 4 billion RUB, or by 4.6%, in 2017.

Despite the inflation, refining expenses at our domestic refineries decreased year on year as a result of consumption of additives of own production following our refineries' upgrade and lower overhaul costs. Quarter on quarter, the growth was owing to seasonal increase in energy consumption and higher consumption of additives.

Outside Russia, our refining expenses decreased following the ruble appreciation.

Refining expenses at third-party refineries

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

At the end of 2016, as part of our trading business development, a Group company entered into a 3-year tolling agreement with a Canadian refinery. Related refining expenses represent variable toll that is mostly the difference between the price of feedstocks supplied, including various related costs, and the selling price of the refined products taken. In 2017, this tolling fee amounted to 15 billion RUB. When the refined products are sold, this toll is naturally offset by the respective refined products sales revenue. The agreed compensation is received by the Group company for execution of this agreement.

Expenses for crude oil transportation to refineries

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

During the fourth quarter of 2017, our expenses for crude oil transportation to refineries didn't change significantly, compared to the previous quarter.

In 2017, as a result of the increase in volumes of own crude oil supplies to our refineries outside Russia, our expenses for crude oil transportation to refineries increased by 2 billion RUB, or by 5.2%, compared to 2016.

Petrochemical expenses

In the fourth quarter of 2017, our petrochemical expenses increased by 6.5% due to planned repairs at our petrochemical plant in Stavropol region of Russia.

In 2017, our petrochemical expenses went down by 5.3%, largely as a result of the effect of the ruble appreciation.

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.

In the fourth quarter of 2017, other operating expenses decreased by 4.4 billion RUB, or by 32.2%, largely as a result of a seasonal decrease in cost of non-petrol goods sold, and services provided, by our retail network.

Compared to 2016, other operating expenses decreased by 8 billion RUB, or by 14.5%, largely as a result of the decreased cost of transportation services provided to third parties and the decrease in the ruble value of other operating expenses of our foreign subsidiaries. This decrease also reflects the effect from sale of our diamond business in the middle of 2017.

Cost of purchased crude oil, gas and products

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

	Q4	Q3	12 months of	
	2017	2017	2017	2016
	(millions of rubles)			
Cost of purchased crude oil in Russia	4,446	4,071	16,896	12,046
Cost of purchased crude oil outside Russia	432,095	302,990	1,314,764	869,090
Compensation crude oil related to West Qurna-2 project	9,049	10,775	33,191	140,392
Cost of purchased crude oil	**445,590**	**317,836**	**1,364,851**	**1,021,528**
Cost of purchased refined products in Russia	10,339	12,530	50,392	45,435
Cost of purchased refined products outside Russia	442,466	400,036	1,659,961	1,569,366
Cost of purchased refined products	**452,805**	**412,566**	**1,710,353**	**1,614,801**
Other purchases	14,600	7,176	41,635	29,107
Net loss from hedging of trading operations	29,789	23,727	15,909	60,487
Change in crude oil and petroleum products inventory	(39,603)	21,645	(2,884)	(116,159)
Total cost of purchased crude oil, gas and products	**903,181**	**782,950**	**3,129,864**	**2,609,764**

In the fourth quarter of 2017, the cost of purchased crude oil, gas and products increased by 120 billion RUB, or by 15.4%, largely as a result of the increase in volumes of crude oil trading and hydrocarbon prices.

In 2017, the cost of purchased crude oil, gas and products increased by 520 billion RUB, or by 19.9%, following the increase in hydrocarbon prices and volumes of crude oil trading. Crude oil purchases in 2017 also included 33 billion RUB related to 1,733 thousand tonnes of compensation crude oil received from Iraq's state-owned South Oil Company within the West Qurna-2 project (140 billion RUB related to 8,893 thousand tonnes of compensation crude oil in 2016).

Transportation expenses

	Q4	Q3	12 months of	
	2017	2017	2017	2016
	(millions of rubles)			
Crude oil transportation expenses	25,271	19,891	91,635	91,628
Refined products transportation expenses	39,874	37,941	163,170	189,405
Other transportation expenses	3,437	5,148	17,987	17,984
Total transportation expenses	**68,582**	**62,980**	**272,792**	**299,017**

Our transportation expenses increased by 6 billion RUB, or by 8.9%, in the fourth quarter of 2017 and decreased by 26 billion RUB, or by 8.8%, in 2017.

In the fourth quarter of 2017, our expenses for transportation of crude oil increased by 5 billion RUB as a result of the increase in sales volumes and changes in delivery terms abroad, while expenses in Russia didn't change significantly. Our expenses for transportation of refined products increased by 2 billion RUB as the decrease in expenses abroad was outweighed by the expenses growth in Russia.

In 2017, our transportation expenses decreased mainly as a result of a decline in refined products transportation tariffs outside Russia which was amplified by the effect of the ruble appreciation. This was partially offset by an increase in domestic expenses for transportation of refined products following the growth both in sales volumes and tariffs. At the same time, our expenses for transportation of crude oil remained at the level of the previous year. The decrease in expenses in Russia was outweighed by the expenses increase abroad. Despite the increase in tariffs in Russia, expenses declined as a result of the decrease in volumes transported. Moreover, the increase in share of crude oil from new high-margin oilfields in total volume of export also contributed to the decrease in transportation expenses as these fields are closer to markets as compared to traditional fields of Western Siberia. Outside Russia, the effect of the ruble appreciation was outweighed by the increase in sales volumes and changes in delivery terms that mostly related to the fourth quarter of 2017.

Selling, general and administrative expenses

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

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(millions of rubles)			
Labor costs included in selling, general and administrative expenses	13,792	15,854	59,120	67,498
Other selling, general and administrative expenses	28,811	24,130	98,937	101,887
Increase in liability related to share-based compensation program	810	3,043	1,135	20,370
Expenses (income) on provision for doubtful debts	3,515	(155)	6,139	6,401
Total selling, general and administrative expenses	**46,928**	**42,872**	**165,331**	**196,156**

Our selling, general and administrative expenses increased by 4 billion RUB, or by 9.5%, in the fourth quarter of 2017, compared to the previous quarter. In 2017, our selling, general and administrative expenses decreased by 31 billion RUB, or by 15.7%.

In Russia, expenses decreased mostly as a result of lower accruals within share-based compensation program due to LUKOIL share price fluctuations. Our expenses outside Russia decreased largely as a result of the effect of the ruble appreciation on the expenses of our foreign subsidiaries along with the restructuring of our international upstream business sector and the divestment of retail networks in Poland, Lithuania, Latvia and Cyprus.

Depreciation, depletion and amortization

Compared to the third quarter of 2017, our depreciation, depletion and amortization expenses decreased by 8 billion RUB, or by 9.2%, largely due to a decrease of depreciation rate at Group's certain fields as a result of positive revision of respective hydrocarbon reserves.

Year-on-year, depreciation, depletion and amortization expenses increased by 13 billion RUB, or by 4.3%, compared to 2016, resulting from the increase in value of depreciable assets. This was partially offset by the decrease in expenses related to the West Qurna-2 project. Our depreciation, depletion and amortization expenses for 2017 included 16 billion RUB related to the West Qurna-2 field, compared to 31 billion RUB in 2016.

Equity share in income of affiliates

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

Our share in income of affiliates increased by 1 billion RUB compared to the third quarter of 2017 and increased by 9 billion RUB compared to 2016, largely, as a result of the increase in income of Tengizchevroil.

Taxes other than income taxes

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(millions of rubles)			
In Russia				
Mineral extraction taxes	152,463	121,084	544,586	388,835
Social security taxes and contributions	9,469	6,421	29,178	22,863
Property tax	5,817	4,882	20,308	18,437
Other taxes	1,121	650	2,998	2,402
Total in Russia	**168,870**	**133,037**	**597,070**	**432,537**
International				
Social security taxes and contributions	2,246	1,416	6,210	6,016
Property tax	295	209	910	1,122
Other taxes	511	604	2,320	3,663
Total internationally	**3,052**	**2,229**	**9,440**	**10,801**
Total taxes other than income taxes	**171,922**	**135,266**	**606,510**	**443,338**

Our taxes other than income taxes increased by 37 billion RUB, or by 27.1%, quarter on quarter and by 163 billion RUB, or by 36.8%, year-on-year. This was driven by the increase in the mineral extraction tax rate in Russia resulting from the increase in crude oil prices. The year-on-year increase was amplified by an increase in mineral extraction tax base 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).

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(millions of rubles)			
Decrease in extraction taxes from application of reduced and zero rates for crude oil and gas production	20,886	19,260	75,714	59,527
	(thousands of tonnes)			
Volume of crude oil production subject to:				
zero rates	357	326	1,147	977
reduced rates (tax holidays for specific regions and high viscosity oil)	1,304	1,368	5,439	4,854
reduced rates (depleted fields)	3,687	3,511	14,332	14,202
reduced rates (other)	624	865	3,111	3,480
Total volume of production subject to reduced or zero rates	**5,972**	**6,070**	**24,029**	**23,513**

Excise and export tariffs

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(millions of rubles)			
In Russia				
Excise tax on refined products	30,676	33,576	119,152	95,692
Crude oil export tariffs	35,394	29,419	137,379	136,126
Refined products export tariffs	10,616	7,008	41,367	54,444
Total in Russia	**76,686**	**70,003**	**297,898**	**286,262**
International				
Excise tax and sales taxes on refined products	43,147	46,724	163,162	196,484
Crude oil export tariffs	16	9	134	81
Refined products export tariffs	81	84	331	486
Total internationally	**43,244**	**46,817**	**163,627**	**197,051**
Total excise and export tariffs	**119,930**	**116,820**	**461,525**	**483,313**

In the fourth quarter of 2017, export tariffs increased by 10 billion RUB, or by 26.3%. The increase was a result of higher export duty rates and increased volumes of refined products export. Compared to the third quarter of 2017, the volumes of crude oil export beyond the Customs Union decreased by 2.0% and the volumes of refined products exports increased by 16.6%. The decrease in excise tax expenses both in Russia and abroad was driven by a seasonal decrease in sales volumes.

In 2017, export tariffs decreased by 12 billion RUB, or by 6.2%. The decrease was mostly a result of lower export duty rates for refined products. Compared to 2016, the volumes of crude oil export beyond the Customs Union increased by 9.3% and the volumes of refined products exports decreased by 6.5%. The increase in excise tax expenses in Russia was driven by increase in rates and domestic sales volumes, while international excise expenses decreased due to the ruble appreciation and divestment of retail networks in Eastern Europe.

Foreign exchange gain (loss)

Foreign exchange gains or losses are mostly related to revaluation of US dollar and euro net monetary position of Russian entities that largely consists of accounts receivables, loans to our foreign subsidiaries and loans received in other currencies, and it's current structure results in exchange gains when the ruble devaluates and losses when it appreciates to that currencies. Nevertheless, in the fourth quarter of 2017, the Company's US dollar net monetary position significantly decreased as a result of the change in the structure of intra-group financing.

During the fourth quarter of 2017, foreign exchange gain amounted to 5 billion RUB compared to foreign exchange loss of 9 billion RUB in the previous quarter.

In 2017, foreign exchange loss amounted to 20 billion RUB compared to 112 billion RUB loss in 2016.

Other (expenses) income

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

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

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

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

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 5.7 billion RUB, for its international exploration and production assets in the amount of 1.9 billion RUB and for its refining, marketing and distribution assets in the amount of 1.2 billion RUB.

Income taxes

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

In the fourth quarter of 2017, our total income tax expense didn't change significantly as compared to the third quarter of 2017. At the same time, our profit before income tax increased by 18 billion RUB, or by 14.2%. In the fourth quarter of 2017, our effective income tax rate was 17.3%, compared to 23.8% in the third quarter of 2017.

In 2017, our total income tax expense increased by 39 billion RUB, or by 59.9%, compared to 2016. At the same time, our profit before income tax increased by 252 billion RUB, or by 92.4%. In 2017, our effective income tax rate was 19.8%, compared to 23.8% in 2016.

The effective income tax rate decrease compared to the third quarter of 2017 and to the year 2016 was generally due to recalculation of the Group's deferred tax liabitilies in Russia as a result of reassessment of the amounts of incentives subject to regional income tax rates.

Non-GAAP items reconciliation

Reconciliation of profit for the period to EBITDA

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

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
		(millions of rubles)		
Profit for the period	**121,159**	**97,785**	**420,422**	**207,642**
Add back				
Income tax expense	25,421	30,584	103,762	64,873
Financial income	(5,489)	(3,261)	(15,151)	(14,756)
Financial costs	5,169	5,925	27,331	47,030
Foreign exchange (gain) loss	(5,201)	9,441	19,948	111,976
Equity share in income of affiliates	(5,194)	(3,985)	(16,864)	(7,967)
Other expenses (income)	11,672	737	(32,932)	10,345
Depreciation, depletion and amortization	76,198	83,920	325,054	311,588
EBITDA	**223,735**	**221,146**	**831,570**	**730,731**
EBITDA by operating segments				
Exploration and production	172,961	155,092	569,417	521,190
- in Russia	149,816	133,637	491,191	445,716
- outside Russia[1]	23,145	21,455	78,226	75,474
Refining, marketing and distribution segment	49,009	81,381	263,385	233,297
- in Russia	39,267	62,565	195,479	162,447
- outside Russia	9,742	18,816	67,906	70,850
Corporate and other	5,696	(6,075)	1,028	(18,271)
Elimination	(3,931)	(9,252)	(2,260)	(5,485)
EBITDA	**223,735**	**221,146**	**831,570**	**730,731**

[1] Including EBITDA of the West Qurna-2 project in the amounts of 4,603 million RUB and 5,799 million RUB in the fourth quarter and third quarter of 2017 and in the amounts of 17,188 million RUB and 39,468 million RUB in 2017 and 2016, respectively.

Reconciliation of Cash provided by operating activities to Free cash flow

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
		(millions of rubles)		
Net cash provided by operating activities	211,024	209,565	758,490	752,247
Capital expenditures	(137,726)	(118,902)	(511,496)	(497,130)
Free cash flow	**73,298**	**90,663**	**246,994**	**255,117**

Non-recurring losses and gains

As a result of impairment tests in 2017 and 2016, the Group recognized losses on assets impairment. At the same time, due to an improvement in economic parameters of some of our projects, in 2017, the Group reversed significant impairment losses recognized in prior periods. Moreover, in 2017, we recognized a profit before income tax from sale of our diamond business in the amount of 48 billion RUB (38 billion RUB after income tax).

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

	2017	2016
	(millions of rubles)	
Impairment losses included in *Other expense*		
Impairment losses in Exploration and Production segment	(20,886)	(7,632)
Impairment losses in Refining, Marketing and Distribution segment	(2,241)	(1,172)
Other impairments	(8,259)	(667)
Total impairment losses in *Other expense*	(31,386)	(9,471)
Impairment reversal included in *Other income*		
in Exploration and Production segment	22,202	–
in Refining, Marketing and Distribution segment	–	891
Other reversals	6,246	–
Total reversals of impairment of assets in *Other income*	28,448	891
Profit from sale of our diamond business in *Other income*	47,575	–
Total non-recurring gains (losses)	**44,637**	**(8,580)**
Income tax effect	(9,262)	1,150
Total after tax non-recurring gains (losses)	**35,375**	**(7,430)**

Liquidity and capital resources

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(millions of rubles)			
Net cash provided by operating activities	211,024	209,565	758,490	752,247
including (increase) decrease in working capital	(4,585)	6,828	(24,983)	50,231
Net cash used in investing activities	(141,970)	(121,430)	(433,286)	(500,343)
Net cash used in financing activities	(31,210)	(91,393)	(247,395)	(193,134)

Operating activities

Our primary source of cash flow is funds generated from our operations. In 2017, cash generated from operations increased by 6 billion RUB, or by 0.8%, compared to 2016. Our cash flow from operating activities was significantly affected by the increase in working capital. Net of working capital changes, our net cash provided by operating activities increased by 11.6% compared to 2016. The negative trend in the working capital was a result of the decrease in receivables related to the West Qurna-2 project in 2016 due to costs reimbursement.

Investing activities

In 2017, the amount of cash used in investing activities decreased by 67 billion RUB, or by 13.4%. This decrease was mostly a result of proceeds from sale of our diamond business in the amount of 81 billion RUB.

At the same time, in 2017, our capital expenditures increased by 14 billion RUB, or by 2.9%, compared to 2016.

	Q4 2017	Q3 2017	12 months of 2017	12 months of 2016
	(millions of rubles)			
Capital expenditures				
Exploration and production				
Western Siberia	32,334	30,771	132,170	115,152
Timan-Pechora	19,048	17,352	77,079	83,870
Ural region	9,981	7,312	31,449	26,668
Volga region	17,098	16,335	60,832	50,060
Other in Russia	4,691	2,977	13,944	8,015
Total in Russia	83,152	74,747	315,474	283,765
Iraq	5,249	3,142	15,978	31,845
Other outside Russia	21,205	26,149	112,182	111,841
Total outside Russia	26,454	29,291	128,160	143,686
Total exploration and production	**109,606**	**104,038**	**443,634**	**427,451**
Refining, marketing and distribution				
Russia	22,263	10,830	50,293	51,588
- refining	10,022	5,074	25,220	32,624
- retail	6,581	1,950	10,677	6,888
- other	5,660	3,806	14,396	12,076
International	5,374	3,847	16,134	16,547
- refining	2,728	2,540	9,840	9,814
- retail	1,898	1,529	5,490	5,383
- other	748	(222)	804	1,350
Total refining, marketing and distribution	**27,637**	**14,677**	**66,427**	**68,135**
Corporate and other	**483**	**187**	**1,435**	**1,544**
Total capital expenditures	**137,726**	**118,902**	**511,496**	**497,130**

In 2017, our capital expenditures in the exploration and production segment increased by 16 billion RUB, or by 3.8%. In Western Siberia, we increased production drilling. The increase in capital expenditures in Volga region was a result of continuing development of Yu. Korchagin and V. Filanovsky fields, and the decrease in capital expenditures in Timan-Pechora was due to completion of another stage of Yaregskoe field development. Outside Russia, higher investments in Uzbekistan projects were partially offset by lower capital expenditures in other upstream projects.

The decrease in capital expenditures in the domestic refining, marketing and distribution segment was due to completion of upgrades at our refineries.

The table below presents our exploration and production capital expenditures in new promising oil regions.

	Q4 2017	Q3 2017	12 months of 2017	2016
	(millions of rubles)			
Western Siberia (Yamal)	4,420	2,732	15,723	24,453
Caspian region (Projects in Russia)	14,655	15,615	55,932	41,422
Timan-Pechora (Yaregkoye field)	4,863	4,077	14,764	24,180
Iraq (West Qurna-2 project)	4,430	2,796	14,184	27,490
Iraq (Block-10)	819	346	1,794	4,355
Uzbekistan	14,351	19,113	84,025	65,780
Total	**43,538**	**44,679**	**186,422**	**187,680**

Financing activities

In 2017, net movements of short-term and long-term debt generated an outflow of 58 billion RUB, compared to an outflow of 12 billion RUB in 2016.

Credit rating

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

Moody's set the Company's long-term corporate family rating and long-term issuer rating to Baa3.

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

Debt maturity

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

	Total	2018	2019	2020	2021	2022	After
	(millions of rubles)						
Short term debt	18,669	18,669	–	–	–	–	–
Long-term bank loans and borrowings	244,000	22,909	41,243	23,303	46,020	70,283	40,242
3,416% Non-convertible US dollar bonds, maturing 2018	86,384	86,384	–	–	–	–	–
7,250% Non-convertible US dollar bonds, maturing 2019	34,466	–	34,466	–	–	–	–
6,125% Non-convertible US dollar bonds, maturing 2020	57,506	–	–	57,506	–	–	–
6,656% Non-convertible US dollar bonds, maturing 2022	28,748	–	–	–	–	28,748	–
4,563% Non-convertible US dollar bonds, maturing 2023	86,274	–	–	–	–	–	86,274
4,750% Non-convertible US dollar bonds, maturing 2026	57,467	–	–	–	–	–	57,467
Capital lease obligation	2,846	751	741	810	519	25	–
Total	**616,360**	**128,713**	**76,450**	**81,619**	**46,539**	**99,056**	**183,983**

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.

Other information

Sectorial sanctions against the Russian companies

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

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

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

Operations in Iraq

The Group is exposed to various risks due to its operations in Iraq. The management monitors these risks and believes that there is no adverse effect on the Group’s financial position that can be reasonably estimated at present.

Forward-looking statements

Certain statements in this document are not historical facts and are “forward-looking.” We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to products or services
- statements of future economic performance
- statements of assumptions underlying such statements.

Forward looking statements that may be made by us from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios. Words such as “believes,” “anticipates,” “expects,” “estimates,” “intends” and “plans” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include:

- inflation, interest rate and exchange rate fluctuations
- the price of oil
- the effects of, and changes in, Russian government policy
- the effects of competition in the geographic and business areas in which we conduct operations
- the effects of changes in laws, regulations, taxation or accounting standards or practices
- our ability to increase market share for our products and control expenses
- acquisitions or divestitures
- technological changes
- our success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made, and, subject to any continuing obligations under the Listing Rules of the U.K. Listing Authority, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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