PJSC LUKOIL

Report on Payments to Governments

for the year 2016

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Underlying Principles

1.1 Regulation and Scope of the Report

This consolidated report on payments to governments (hereinafter, the "Report") was prepared by PJSC LUKOIL pursuant to Cl. 4.3A of the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority in relation to the minerals exploration, development and production activities (hereinafter, the "extractive activities"). This Report includes the payments made during the financial year ended at 31 December 2016 in favor of the governments only on behalf of the LUKOIL Group companies (hereinafter, "the Group") (see Section 1.5 hereof) that conduct extractive activities, and does not include the payments made by the LUKOIL Group companies that do not conduct such activities.

The Report contains the following:

a) information on all the respective payments the Group is responsible for made by the Group companies to the governments;
b) information on all the respective payments to the governments, if a Group company participates in the project as the operator.

Should the respective payments be made by the third party operator, such payments are not included in the Report.

The Report is based on the provision that the extractive activities will be ceased as the resource (for instance, oil) is transported from the extraction point to the immediate sales point (or the place where it can be marketed for the first time). Thus, export or transportation of oil, gas or other minerals is not covered by the Report requirements.

1.2 Currency of the Report

The presentation currency of the Report, as well as that of PJSC LUKOIL's consolidated financial statements prepared in accordance with the International Financial Reporting Standards (hereinafter, "IFRS") is the Russian ruble. The financial values presented in the Russian rubles were rounded to the nearest million.

The payments in foreign currencies were translated into the Russian rubles at the annual average exchange rate.

1.3 Terms: Government

For the purposes of the Report the term "government" means any national, federal and local authorities, ministries and agencies authorized to collect taxes, budgetary and other payments pursuant to the applicable laws in effect as of the time a contribution or payment becomes due. In the context of this Report the governments also include organizations, commercial enterprises and other legal entities authorized to collect taxes, charges and other payments in favor of the governments.

1.4 Terms: Payment

The Report includes all direct, indirect and non-monetary (in kind) forms of payments made to the governments.

For the purposes of this Report "payment" includes:

a) Taxes levied on income, production or profit of the company (mineral extraction tax; profit tax, including the profit tax paid by PJSC LUKOIL for its production subsidiaries as part of the consolidated group of taxpayers; property tax; water tax; land tax; transport tax; social

security taxes and contributions to governmental non-budgetary funds; regular subsoil use payments), except for those stated in Cl. (i) below;
b) Royalties;
c) License fees and payments, rental fees, other considerations for licenses or concessions;
d) Signature, discovery and production bonuses;
e) Production entitlements of the government or its representative (mainly, host government's share of production in the reporting period derived from production sharing agreements);
f) Dividends (other than those specified in paragraph (k) below);
g) Payments for infrastructure improvement (except for social costs);
h) Other payments (state duties, administrative fines, pollution fees, payments under agreements with local authorities, etc.).

For the purposes of this Report the following payments are not considered payments to the governments:

i) Taxes on turnover (VAT, sales tax) or withholding taxes deducted from the source by an entity acting as a tax agent (personal income tax);
j) Fines and penalties on taxes paid to the budgets of different levels;
k) Dividends paid to the state shareholders (holders of shares) on the same terms as to the other shareholders;
l) Export duties or other payments related to minerals export and transportation;
m) The Group's expenses on field infrastructure development as part of service contracts reimbursable by the government.

No bonuses (d), dividends (f) and infrastructure improvement (g) payments were made to the governments in 2016.

1.5 Companies covered by the Report.

For the purposes hereof the Group companies are its directly or indirectly controlled subsidiaries, as well as the shares under the production sharing agreements and the joint operations consolidated proportionally to the Group's share in the assets, liabilities, income and expenditures, where the party representing PJSC LUKOIL is an operator of such joint operations. Should such Group company not be the operator, but make payments to the governments on its behalf, it is included in the Report, and the respective payments are specified. The affiliates, joint ventures and joint operations consolidated using an equity method are not covered by the Report.

This Report is provided with a breakdown into:

a) Jurisdictions in which the Group conducts extractive activities;
b) Projects implemented as part of extractive activities.

For the purposes of this Report, the "project" means:

a) A legal entity engaged in extractive activities in the Russian Federation. This definition of the project as related to the activities in the Russian Federation is based on the existing taxation regime focused on a legal entity rather than on a separate field. Pursuant to the effective tax laws of the Russian Federation, only the mineral extraction tax may be determined for a separate field. All other taxes relate to a legal entity as a whole and cannot be broken down by separate fields.

b) Extractive activities as part of a particular project, contract, license, agreement or another legally binding agreement relating to the production outside the Russian Federation pursuant to which a Group company is obliged to make payments to foreign state authorities.

Thus, the payment information related to the Russian Group companies is given with a breakdown into legal entities, while that related to foreign companies – with a breakdown into projects and jurisdictions.

If a Russian Group company conducts different operations (including extractive activities), while a portion of the tax liabilities immediately related to the above operations cannot be singled out, then the whole aggregate tax payment is included in the Report.

1.6 Materiality of the Amounts Included in the Report

For the purposes of this Report the list of payments includes the payments which exceed, individually or in aggregate, 6 million of Russian rubles (around 86,000.00 GBP) within one financial year. If the total amount paid to a certain country does not exceed the above threshold, the payments made to such country are not included in the Report.

Table 1. Distribution of payments per jurisdiction and oil and gas project

RUB mln, unless otherwise noted	Taxes	Royalties	License payments	Government entitlement to a portion of minerals extracted	Other payments	Total
Russia						
AO Arkhangelskgeoldobycha	2,419	-	-	-	241	**2,660**
OOO KomiArcticOil	66	-	-	-	5	**71**
PJSC Komineft	431	-	-	-	52	**483**
ZAO LUKOIL-AIK	12,531	-	-	-	10	**12,541**
OOO LUKOIL-Western Siberia	223,467	-	2,191	-	2,310	**227,968**
OOO LUKOIL-KMN	3,980	-	61	-	11	**4,052**
OOO LUKOIL-Komi	90,459	-	-	-	1,281	**91,740**
OOO LUKOIL-Nizhnevolzhskneft	6,451	-	-	-	2	**6,453**
OOO LUKOIL-PERM	85,256	-	16	-	881	**86,153**
OOO LUKOIL-Primoryeneftegaz	72	-	-	-	4	**76**
AO RITEK	35,660	-	12	-	770	**36,442**
ZAO TURSUNT	497	-	-	-	-	**497**
OOO UralOil	-	-	-	-	6	**6**
Uzbekistan						
Khauzak-Kandym project	597	7,930	-	4,077[1]	39	**12,643**
Gissar project	725	3,693	-	1,819[2]	38	**6,275**
Kazakhstan						
Karachaganak project	5,300	-	-	-	-	**5,300**
Egypt						
WEEM project	-	-	-	2,147[3]	-	**2,147**
WEEM Extension project	-	-	-	57[4]	-	**57**
Iraq						
Western Kurna-II project	3,599	-	-	-	-	**3,599**
TOTAL	**471,510**	**11,623**	**2,280**	**8,100**[5]	**5,650**	**499,163**

[1] Including the government's entitlement to a portion of minerals extracted in the amount equal to the market price of 2,691 thousand barrels of oil equivalent;

[2] Including the government's entitlement to a portion of minerals extracted in the amount equal to the market price of 804 thousand barrels of oil equivalent;

[3] Including the government's entitlement to a portion of minerals extracted in the amount equal to the market price of 1,001 thousand barrels of oil equivalent;

[4] Including the government's entitlement to a portion of minerals extracted in the amount equal to the market price of 27 thousand barrels of oil equivalent;

[5] The total amount includes the government's entitlement to a portion of minerals extracted in the amount equal to the market price of 4,523 thousand barrels of oil equivalent.

Table 2. Distribution of payments in jurisdictions per government

RUB mln, unless otherwise noted	Taxes	Royalties	License payments	Government entitlement to a portion of minerals extracted	Other payments	Total
Russia						
Federal Tax Service of the Russian Federation	452,949		-	-	9	**452,958**
Pension Fund of the Russian Federation	7,886		-	-	-	**7,886**
Local land and property administration authorities	-		-	-	1,779	**1,779**
Municipalities	-		194	-	1,282	**1,476**
Rosprirodnadzor (Federal Service for Supervision of Natural Resource Usage)	-		-	-	594	**594**
Social Insurance Fund of the Russian Federation	454		-	-	-	**454**
Rosnedra (Federal Agency for Subsoil Management), territorial authorities	-		2,086	-	110	**2,196**
Ministry of Natural Resources and Environment Protection of Komi Republic	-		-	-	357	**357**
Ministry of Finance of Tatarstan Republic	-		-	-	140	**140**
Other recipients	-		-	-	1,302	**1,302**
Uzbekistan						
Government of the Republic of Uzbekistan	-	-	-	5,225[1]	-	**5,225**
State Tax Committee of the Republic of Uzbekistan	1,322	11,623	-	-	-	**12,945**
NHC Uzbekneftegaz	-	-	-	671[2]	-	**671**
State Department for Architectural and Construction Supervision of the Republic of Uzbekistan	-	-	-	-	25	**25**
State Customs Committee of the Republic of Uzbekistan	-	-	-	-	45	**45**
Foreign Labor Migration Agency of the Republic of Uzbekistan	-	-	-	-	7	**7**
Kazakhstan						
State budget of the Republic of Kazakhstan	5,278	-	-	-	-	**5,278**
Government of the Republic of Kazakhstan	22	-	-	-	-	**22**
Egypt						
To the government through The Egyptian General Petroleum Corporation (EGPC)	-	-	-	2,147[3]	-	**2,147**
To the government through Ganoub El Wadi Petroleum holding Co (GANOPE)	-	-	-	57[4]	-	**57**
Iraq						
General Tax Commission of the Republic of Iraq	3,599	-	-	-	-	**3,599**
TOTAL	**471,510**	**11,623**	**2,280**	**8,100[5]**	**5,650**	**499,163**

[1] Including the government's entitlement to a portion of minerals extracted in the amount equal to the market price of 3,042 thousand barrels of oil equivalent;

[2] Including the government's entitlement to a portion of minerals extracted in the amount equal to the market price of 453 thousand barrels of oil equivalent;

[3] Including the government's entitlement to a portion of minerals extracted in the amount equal to the market price of 1,001 thousand barrels of oil equivalent;

[4] Including the government's entitlement to a portion of minerals extracted in the amount equal to the market price of 27 thousand barrels of oil equivalent;

[5] The total amount includes the government's entitlement to a portion of minerals extracted in the amount equal to the market price of 4,523 thousand barrels of oil equivalent.