# APPENDICES

PJSC LUKOIL ANNUAL REPORT FOR 2019

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# APPENDIX 1.

Corporate Governance Code Compliance Report

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

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

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

The Board of Directors confirms that the Company has complied with all core principles of the Code (i.e. the principles specified in the Code under two-digit numbers).

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

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

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

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

The Company fully complies with the requirements to corporate governance set out in the Listing Rules of PJSC Moscow Exchange guided by the recommendations of the Corporate Governance Code. Compliance with these requirements is a prerequisite for including Company shares in the Level One Quotation List of the Moscow Exchange.

Compliance with the Code was influenced by the following events in 2019.

In the reporting year, the number of independent directors on the Board of Directors increased to six, enabling the Board to change the composition of its HR and Compensation Committee to comprise only independent directors, while previously it comprised one non-executive director and two independent directors. The HR and Compensation Committee of the Board of Directors combines functions prescribed by the Code for the remuneration committee and the nomination committee. The presence of only independent directors on the Committee complies with the recommendations of the Code and international best practices.

During 2019, LUKOIL SECURITIES LIMITED (a wholly-owned subsidiary of the Company) held quasi-treasury shares issued by PJSC "LUKOIL", which were acquired under the buy-back programme. In line with the requirements of the Code, quasi-treasury shares did not participate in the voting at the Annual and Extraordinary General Shareholders Meetings held in 2019. Previously, quasi-treasury shares participated in the voting.

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

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

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

The Board of Directors certifies that the data in this Report contains full and reliable information on compliance by the Company with the principles and recommendations of the Corporate Governance Code for 2019.

| | Corporate governance principles | Compliance criteria | Compliance status | Reasons for non-compliance |
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| 1.1 | The company shall ensure fair and equitable treatment of all shareholders in exercising their rights to participate in the governance of the company. | | | |
| 1.1.1 | The company shall ensure the most favorable conditions for its shareholders to participate in the general meeting, develop an informed position on items on the agenda of the general meeting, coordinate their actions, and voice their opinions on items considered. | 1. The company's internal document approved by the general shareholders meeting governing the procedures to hold general meetings of shareholders is publicly available.<br>2. The company provides accessible means of communication with the company, such as a hotline, email or online forum, to enable shareholders to express their opinion and send questions on the agenda in preparation for the general meeting. The company performed the above actions in advance of each general meeting held in the reporting period. | ☑ Full<br>☐ Partial<br>☐ 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.<br>2. The notice of an upcoming meeting indicates the location of the meeting and the documents required for admission.<br>3. Shareholders were given access to the information on who proposed the agenda items and nominees to the company's board of directors and the audit commission. | ☐ Full<br>☑ Partial<br>☐ None | Criterion 3 is partially not complied with.<br><br>In 2019, the materials provided to shareholders to prepare for the Company's Annual General Shareholders Meeting included information on nominees to the Board of Directors proposed by the Board of Directors at its discretion, as well as nominees to the Board of Directors proposed by shareholders holding at least 2% of voting shares in PJSC "LUKOIL". At the same time, the information on shareholders who proposed nominees to the Board of Directors and Audit Commission was shared in the reports of the Corporate Secretary at the 2019 Annual General Shareholders Meeting of PJSC "LUKOIL" on the agenda items related to electing members of the Company's Board of Directors and Audit Commission.<br>In the future, the Company plans to meet these recommendations when preparing for its General Shareholders Meetings. |

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| 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.<br>2. The position of the board of directors (including dissenting opinions entered in the minutes) on each item on the agenda of general meetings held in the reporting period was included in the materials for the general shareholders meeting.<br>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<br>☐ Partial<br>☐ 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.<br>2. In the reporting period, the company did not reject proposals for the agenda or candidates to governance bodies due to misprints or other insignificant flaws in the shareholder's proposal. | ☑ Full<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ None |

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| 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.<br>2. Nominees to the company's governance and control bodies were available to answer shareholders' questions during the meeting at which their nominations were put to vote.<br>3. When passing resolutions on the preparation and holding of general shareholders meetings, the board of directors considered the use of telecommunications means to provide shareholders with remote access to general meetings in the reporting period. | ☐ Full<br>☑ Partial<br>☐ None | Criterion 2 is partially not complied with.<br>Under the version of the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting of PJSC "LUKOIL" effective in 2019, the Company's Board of Directors distributed invitations to attend the General Shareholders Meeting to nominees when the General Shareholders Meeting was supposed to consider election of members of the Company's Board of Directors and Audit Commission.<br>As a rule, all nominees (with limited exceptions) are present at the General Shareholders Meeting and available to answer questions of shareholders. The Company may not guarantee that each and all nominees would be present at the General Shareholders Meeting and recognizes that certain nominees may be absent for a good reason.<br>In 2019, not all nominees were present at the General Shareholders Meeting. |
| 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.<br>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<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ None | |

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

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| 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<br>☐ Partial<br>☐ None |
| 1.4 | Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as are enabled to freely dispose of their shares without any hindrance. | | |
| 1.4.1 | Shareholders are provided with reliable and effective methods for recording their rights in shares, as well as are enabled to freely dispose of their shares without any hindrance. | 1. The quality and reliability of the securities register maintained by the company's registrar meet the requirements of the company and its shareholders. | ☑ Full<br>☐ Partial<br>☐ 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.<br>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<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ 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.<br>2. The board of directors assessed the risk management and internal control system in the company during the reporting period. | ☑ Full<br>☐ Partial<br>☐ None |

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| 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 (policies) on remuneration and/or reimbursement (compensation) of costs incurred by members of the board of directors, executive bodies, and other key executives, approved by the board of directors.<br>2. In the reporting period, the board of directors reviewed at its meetings matters related to the said policy (policies). | ☑ Full<br>☐ Partial<br>☐ 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.<br>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<br>☐ Partial<br>☐ 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.<br>2. The company has designated the persons responsible for the implementation of the information policy. | ☑ Full<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ None |
| 2.2 | The board of directors shall be accountable to the company shareholders. | | |
| 2.2.1 | Performance of the board of directors shall be disclosed and made available to the shareholders. | 1. The company's annual report for the reporting period includes the information on individual attendance at board of directors and committee meetings.<br>2. The annual report contains key results of assessment of the board of directors' work in the reporting period. | ☑ Full<br>☐ Partial<br>☐ None |
| 2.2.2 | The chairman of the board of directors shall be available to communicate with the company shareholders. | 1. The company has in place a transparent procedure enabling shareholders to forward questions to the chairman of the board of directors and express their respective position. | ☑ Full<br>☐ Partial<br>☐ None |

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| 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.<br>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<br>☐ Partial<br>☐ None |
| 2.3.2 | The company's board of directors shall be elected as per a transparent procedure enabling shareholders to receive information about nominees which is sufficient to get an idea of their personal and professional qualities. | 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<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ 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 the ability to set up committees of the board of directors and enable the company's significant minority shareholders to elect a nominee to the board of directors for whom they vote. | 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<br>☐ Partial<br>☐ None |

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

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| 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<br>☑ Partial<br>☐ None | Criterion 1 is partially not complied with.<br><br>The Company's Charter includes no list of transactions or other actions deemed to be material corporate actions.<br>In the context of absence of a uniform approach to defining "material corporate actions" in the Russian legislation, the Company intends to amend its internal documents alongside with amendments to the applicable laws.<br><br>The Company also organizes meetings of its President with Directors prior to each scheduled in-person meeting of the Board of Directors, to brief them on ongoing material transactions, negotiations underway, etc., to enable the Directors to assess their decisions, including for possible conflicts of interest. |
| 2.5 | The chairman of the board of directors shall facilitate the best performance of assigned duties by the board of directors. | | | |
| 2.5.1 | The board of directors shall be chaired by an independent director, or a senior independent director shall be chosen from among the elected independent directors to coordinate the activities of independent directors and enable the interaction with the chairman of the board of directors. | 1. The board of directors is chaired by an independent director, or a senior independent director is appointed from among the independent directors.<br>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<br>☑ Partial<br>☐ None | Criterion 1 is not complied with.<br><br>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.<br>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.<br>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<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ None | |

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| 2.6 | Members of the board of directors shall act reasonably and in good faith in the best interests of the company and its shareholders, relying on sufficient information, exercising due care and prudence. | | | |
| 2.6.1 | Members of the board of directors shall make decisions based on all information available, without conflict of interest, subject to equal treatment of the company shareholders, and assuming normal business risks. | 1. The company's internal documents provide that a member of the board of directors shall notify the board of directors if he/she has a conflict of interest in respect of any item on the agenda of the board meeting or the board's committee meeting, prior to the discussion of the relevant agenda item.<br>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.<br>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<br>☑ Partial<br>☐ None | Criterion 3 is partially not complied with.<br>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.<br>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".<br>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<br>☐ Partial<br>☐ 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.<br>2. In accordance with the company's internal documents, members of the board of directors shall inform the board of their intentions to join governance bodies of other organizations (except for entities controlled by, or affiliated to, the company), or of the relevant appointment made. | ☑ Full<br>☐ Partial<br>☐ None | |

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| 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.<br>2. The company has in place a formalized induction program for newly elected members of the board of directors. | ☑ Full<br>☐ Partial<br>☐ None | |
| 2.7 | Meetings of the board of directors, preparation for such meetings and participation of members of the board of directors shall ensure efficient performance by the board of directors. | | | |
| 2.7.1 | Meetings of the board of directors shall be held as needed, taking into account the scale of operations and goals of the company at a particular time. | 1. The board of directors held at least six meetings in the reporting year. | ☑ Full<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ 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 discussed at in-person meetings of the board of directors. | ☐ Full<br>☑ Partial<br>☐ None | Criterion 1 is partially not complied with.<br>The Regulations on the Board of Directors of PJSC "LUKOIL" list matters to be discussed only at in-person meetings of the Board of Directors.<br>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.<br>For instance, due to the large number of the Company subsidiaries, coordination of their operations, including approvals of material transactions, are referred to the jurisdiction of the Management Committee in order to increase the efficiency of the decision-making process.<br>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). |

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| 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<br>☑ Partial<br>☐ None | Criterion 1 is partially not complied with.<br><br>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.<br>The most essential matters brought up for approval by the Board of Directors are subject to preliminary discussion by core Committees of the Board of Directors, which ensures a unanimous approach to the final decision in most cases.<br><br>In 2019, resolutions on the matters set out in paragraphs 1, 2, 4, 6, 7, 10 of Recommendation 170 of the Code were passed by the Company's Board of Directors by a majority of at least three quarters of all Directors. The Board of Directors did not consider in 2019 any matters set out in paragraphs 3, 5, 8, 9 of Recommendation 170. |
| 2.8 | The board of directors shall set up committees for preliminary consideration of the most important matters related to the business of the company. | | | |
| 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.<br>2. The company's internal documents set out the tasks of the audit committee, including those listed in Recommendation 172 of the Code.<br>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.<br>4. Meetings of the audit committee were held at least once a quarter during the reporting period. | ☑ Full<br>☐ Partial<br>☐ None | |

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| 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.<br>2. The remuneration committee is chaired by an independent director who is not the chairman of the board of directors.<br>3. The company's internal documents set out the tasks of the remuneration committee, including those listed in Recommendation 180 of the Code. | ☐ Full<br>☑ Partial<br>☐ None | Criterion 3 is partially not complied with.<br><br>The Company combines the functions of the remuneration committee and the nomination committee within the HR and Compensation Committee of the Board of Directors.<br><br>The functions and tasks of the HR and Compensation Committee of the Board of Directors, provided for by the Regulations on the HR and Compensation Committee of the Board of Directors of PJSC "LUKOIL", include the tasks listed in Recommendation 180 of the Code, save for the task specified in paragraph 5 of Recommendation 180 – selection of an independent advisor on remuneration of members of executive bodies and other key employees.<br>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.<br>The Company believes that such engagement will involve additional time to be spent on preparing and sending all necessary information to the advisor, as well as additional financial expenses for the Company, and will eventually affect shareholders' income. However, the Company may engage such independent advisor should any significant shareholders express their interest.<br>The HR and Compensation Committee of the Board of Directors regularly considers at its meetings matters related to remuneration of members of executive bodies and other key employees, which enables the Committee to oversee the introduction and implementation of the Company's policy on remuneration of members of executive bodies and other key employees. |

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

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| 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.<br>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<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ 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.<br>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<br>☑ Partial<br>☐ None | Criterion 1 is partially not complied with.<br><br>The self-assessment of the Board of Directors' performance carried out in the reporting period included the assessment of performance of Committees and the Board of Directors in general but did not include any formal assessment of individual Directors (except for assessment of the performance of the Chairman of the Board of Directors and Chairmen of the Board of Directors' Committees).<br>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<br>☐ Partial<br>☑ None | Criterion 1 is not complied with.<br><br>For the last three years, the Company did not engage an external entity to conduct an independent assessment of the Board of Directors' performance; at the same time, the effective internal procedure for assessment of the Board of Directors' performance applied in the Company was developed with the help of an internationally recognized independent advisor.<br>The Company may engage an independent advisor in the future to conduct such an assessment. |

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| **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.<br>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<br>☐ Partial<br>☐ None | |
| 3.1.2 | The corporate secretary shall be sufficiently independent of the company's executive bodies and have the powers and resources required to perform his/her tasks. | 1. The board of directors approves the appointment, dismissal and additional remuneration of the corporate secretary. | ☑ Full<br>☐ Partial<br>☐ None | *Note.*<br>*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 members of the board of directors, executive bodies and other key executives of the company shall be in compliance with the approved remuneration policy of the company.** | | | |
| 4.1.1 | The amount of remuneration paid by the company to members of the board of directors, executive bodies and other key executives shall create sufficient incentives for them to work efficiently, while enabling the company to engage and retain competent and qualified specialists. At the same time, the company shall avoid unnecessarily high remuneration, as well as unjustifiably large gaps between remunerations of the above persons and the company employees. | 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<br>☐ Partial<br>☐ 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 the reporting period, the remuneration committee considered the remuneration policy (policies) and the practical aspects of its (their) introduction and presented relevant recommendation to the board of directors as required. | ☑ Full<br>☐ Partial<br>☐ None | |

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| 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<br>☐ Partial<br>☐ None | |
| 4.1.4 | The company shall define a policy on reimbursement (compensation) of expenses detailing a list of reimbursable expenses and specifying service levels that members of the board of directors, executive bodies and other key executives of the company can claim. Such policy can make part of the company's remuneration policy. | 1. The remuneration policy (policies) defines (define) the rules for reimbursement of costs incurred by members of the board of directors, executive bodies and other key executives of the company. | ☑ Full<br>☐ Partial<br>☐ None | |
| 4.2 | The system of remuneration of members of the board of directors shall ensure alignment of financial interests of directors with long term financial interests of shareholders. | | | |
| 4.2.1 | The company shall pay fixed annual remuneration to members of the board of directors. The company shall not pay remuneration for attending particular meetings of the board of directors or its committees.<br>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<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ None | *Note.*<br>*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 powers of members of the board of directors resulting from the change of control or any other reasons whatsoever. | 1. The company does not provide for any extra payments or compensations in the event of early termination of powers of members of the board of directors resulting from the change of control or any other reasons whatsoever. | ☑ Full<br>☐ Partial<br>☐ None | |

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| 4.3 | The company shall consider its performance and the personal contribution of each executive to the achievement of such performance, when determining the amount of remuneration payable to members of executive bodies and other key executives of the company. | | | |
| 4.3.1 | Remuneration due to members of executive bodies and other key executives of the company shall be determined in a manner providing for reasonable and justified ratio of the fixed and variable parts of remuneration, depending on the company's results and the employee's personal contribution. | 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.<br>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.<br>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<br>☑ Partial<br>☐ None | Criterion 3 is not complied with.<br><br>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.<br>Should any such situations arise, the Company will solve these issues in compliance with the applicable law. |
| 4.3.2 | The company shall put in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company shares (options and other derivative instruments where the company shares are the underlying asset). | 1. The company has in place a long-term incentive program for members of executive bodies and other key executives of the company with the use of the company shares (financial instruments based on the company shares).<br>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<br>☑ Partial<br>☐ None | Criterion 2 is partially not complied with.<br><br>The Long-Term Incentive Program for Key Employees of LUKOIL Group for 2018–2022 provides for other terms and conditions for the right to dispose of the shares distributed to members of the Program during its term.<br>The Company believes, however, that the terms of the above Program more efficiently support the interest of the Program members in achieving long-term goals. |

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| 4.3.3 | The compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, shall not exceed the double amount of the fixed part of their annual remuneration. | 1. In the reporting period, the compensation (golden parachute) payable by the company in case of early termination of powers of members of executive bodies or key executives at the company's initiative, provided that there have been no actions in bad faith on their part, did not exceed the double amount of the fixed part of their annual remuneration. | ☑ Full<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ 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<br>☐ Partial<br>☐ 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.<br>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<br>☑ Partial<br>☐ None | Criterion 1 is not complied with.<br><br>The Company has in place the Code of Business Conduct and Ethics of Public Joint Stock Company "Oil Company 'LUKOIL'". This document is a compilation of rules for individual and collective behavior, and governs, inter alia, ethics of relations with business partners, government authorities and public organizations countering corruption. It also contains standards preventing conflicts of interest.<br>The Company also has in place the Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations approved by the Company's Management Committee, as well as other local anti-corruption regulations.<br><br>In accordance with the resolution passed by the Board of Directors, the Company plans to develop in 2020 a local regulation of PJSC "LUKOIL" to define unified anti-corruption principles, goals and objectives. |

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| 5.1.4 | The company's board of directors shall take necessary measures to make sure that the company's risk management and internal control system is consistent with the principles of, and approaches to, its organization determined by the board of directors, and that the system is functioning efficiently. | 1. In the reporting period, the board of directors or the board's audit committee assessed the efficiency of the company's risk management and internal control system. The information on the key results of this assessment is included in the company's annual report. | ☑ Full<br>☐ Partial<br>☐ None |
| 5.2 | The company shall perform internal audit for the regular independent assessment of the reliability and effectiveness of the risk management and internal control system and corporate governance. | | |
| 5.2.1 | The company shall set up a separate business unit or engage an independent external organization to carry out internal audits. The functional and administrative subordination of the internal audit unit shall be separated. The internal audit unit shall functionally report to the board of directors. | 1. To perform internal audits, the company has set up a separate internal audit unit functionally reporting to the board of directors or the audit committee, or engaged an independent external organization under the same principle of subordination. | ☑ Full<br>☐ Partial<br>☐ None |
| 5.2.2 | The internal audit unit shall assess the performance of the internal control, risk management, and corporate governance systems. The company shall apply generally accepted standards of internal audit. | 1. In the reporting period, the performance of the internal control and risk management system was assessed as part of the internal audit procedure.<br>2. The company applies generally accepted approaches to internal audit and risk management. | ☑ Full<br>☐ Partial<br>☐ None |
| 6.1 | The company and its business shall be transparent for shareholders, investors, and other stakeholders. | | |
| 6.1.1 | The company shall develop and adopt an information policy ensuring an efficient exchange of information between the company, its shareholders, investors, and other stakeholders. | 1. The company's board of directors approved an information policy developed in accordance with the Code's recommendations.<br>2. The board of directors (or one of its committees) considered matters related to the company's compliance with its information policy at least once in the reporting period. | ☑ Full<br>☐ Partial<br>☐ None |
| 6.1.2 | The company shall disclose information on its corporate governance system and practices, including detailed information on compliance with the principles and recommendations of the Code. | 1. The company discloses information on its corporate governance system and general principles of corporate governance applied in the company, in particular, on the corporate website.<br>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).<br>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<br>☐ Partial<br>☐ None |

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| 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.<br>2. If the company securities are traded on foreign regulated markets, the company shall ensure concerted and equivalent disclosure of material information in the Russian Federation and in the said markets in the reporting period.<br>3. If foreign shareholders hold a significant amount of the company shares, during the reporting year, information was disclosed not only in the Russian language, but also in one of the most widespread foreign languages. | ☑ Full<br>☐ Partial<br>☐ 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.<br>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<br>☐ Partial<br>☐ 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.<br>2. The company's annual report contains information on the environmental and social aspects of the company's operations. | ☑ Full<br>☐ Partial<br>☐ None |

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| 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<br>☑ Partial<br>☐ None | Criterion 1 is partially not complied with.<br><br>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'".<br><br>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.<br>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.<br>In addition, the majority of PJSC "LUKOIL" subsidiaries, including those material to the Company, have their own websites which describe their operations. These websites can also be accessed via PJSC "LUKOIL"'s official website |
| 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.<br>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<br>☐ Partial<br>☐ None | |

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| 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 the rights and interests of shareholders and other stakeholders. | | | |
| 7.1.1 | Material corporate actions shall include restructuring of the company, acquisition of 30% or more of the company's voting shares (takeover), execution by the company of significant transactions, increase or reduction of the company's charter capital, listing or delisting of the company shares, as well as other actions which may lead to material changes in the rights of shareholders or violation of their interests. The charter of the company shall provide a list of transactions, or other actions classified as material corporate actions pertaining to the competence of the board of directors of the company. | 1. The company's charter provides for a list of transactions or other actions classified as material corporate actions, and criteria for their identification. Resolutions on material corporate actions are referred to the competence of the board of directors. When execution of such corporate actions is expressly referred by law to the competence of the general shareholders meeting, the board of directors presents relevant recommendations to shareholders.<br>2. Under the charter, material corporate actions include at least: company reorganization, acquisition of 30% or more of the company's voting shares (takeover), entering in significant transactions, increase or reduction of the company's charter capital, listing or delisting of the company shares. | ☐ Full<br>☑ Partial<br>☐ None | Criterion 1 is partially not complied with.<br>Criterion 2 is not complied with.<br>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).<br>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.<br>Following the established practices, when addressing the matter of preparing for and holding the General Shareholders Meeting of the Company, the Board of Directors approves the Board of Directors' position and recommendations for shareholders for voting on all agenda items, including those which may be regarded as material corporate actions.<br>There are inconsistencies with the Code's recommendations with respect to transactions involving controlled legal entities, which are specified in Recommendation 307 of the Code and which the Code recommends to refer to the Board of Directors.<br>Due to the large number of the Company subsidiaries, coordination of their operations, preliminary approval of their decisions regarding stakes in other entities, as well as decisions on acquiring subsoil licenses, which may result in investments exceeding an amount in rubles equivalent to USD 150 million, decisions to approve material transactions by the Company subsidiaries, and decisions on acquisition and disposal of equity interests in other entities are referred by the Charter to the competence of the Management Committee.<br>The Company also notes that the term "controlled legal entity material to the Company" used in Recommendation 307 of the Code is used in the applicable Russian laws only for disclosure purposes. Therefore, until this term is consolidated in the corporate law, the Company's Charter cannot refer this matter to the competence of the Board of Directors. |

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| 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<br>☑ Partial<br>☐ None | Criterion 1 is partially not complied with.<br><br>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).<br><br>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 legitimate interests of shareholders, equal terms and conditions shall be ensured for all shareholders of the company, and, in case of insufficient statutory mechanisms for protecting shareholder rights, additional measures shall be taken to protect the rights and legitimate interests of the company shareholders. In doing so, the company shall be guided by the corporate governance principles set forth in the Code, as well as by formal statutory requirements. | 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.<br>2. In the reporting period, all material corporate actions were subject to the approval procedure prior to execution. | ☐ Full<br>☑ Partial<br>☐ None | Criterion 1 is partially not complied with.<br><br>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).<br><br>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. |

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| 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<br>☑ Partial<br>☐ None | Criterion 1 is partially not complied with.<br><br>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).<br>In the reporting period, there were no such actions as reorganization of PJSC "LUKOIL"; acquisition of 30 or more percent of voting shares in PJSC "LUKOIL"; listing or delisting of shares in PJSC "LUKOIL"; or other actions that could lead to material changes in the rights of shareholders or to violation of their interests.<br>In the reporting period, the Company reduced its charter capital through acquisition of a portion of PJSC "LUKOIL" issued shares in order to reduce the total number thereof. In doing so, the Company made timely and detailed disclosures of all relevant information.<br><br>The Company also timely disclosed information on PJSC "LUKOIL"'s transactions worth ten or more percent of the book value of its assets in line with the Regulations on Information Disclosure by Securities Issuers. |

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| 7.2.2 | Rules and procedures related to material corporate actions taken by the company shall be set out in the company's internal documents. | 1. The company's internal documents provide for the procedure for engaging an independent appraiser to determine the value of the property disposed of or acquired pursuant to a major transaction or an interested party transaction.<br>2. The company's internal documents provide for the procedure for engaging an independent appraiser to assess the value of the company shares at their repurchase or redemption.<br>3. The company's internal documents provide for an expanded list of grounds on which members of the company's board of directors as well as other persons as per the applicable law are deemed to be interested parties to the company's transactions. | ☐ Full<br>☑ Partial<br>☐ None | Criterion 3 is not complied with.<br>The Company's internal documents do not provide for an expanded list of grounds on which the Company's Directors and other persons as per the applicable law are deemed to be interested parties to the Company's transactions.<br>The Company duly notes that in 2017 provisions of the Federal Law On Joint Stock Companies regarding interested party transactions came into force, reducing the scope of interested parties: to define interested parties, the term "affiliated" was replaced with the term "controlled", the procedure for entering into interested party transactions was simplified, and the list of transactions with parties that would appear to qualify as interested but not subject to the rules on interested party transactions was expanded.<br>The above amendments to the Federal Law On Joint Stock Companies were made after the Code had come into force, were approved by the industry, relied on the accumulated expertise, and were aimed at reducing the number of interested party transactions and lowering the administrative burden on companies associated with approving transactions. The Company welcomes this trend and has no reasons to expand the list of grounds for transactions to be deemed interested party transactions in its internal documents. The Regulations on the Board of Directors of PJSC "LUKOIL" instruct Directors to:<br>– notify the Board of Directors of any conflict of interest they may have in respect of any item on the agenda of the Board meeting or the Board's Committee meeting, prior to the discussion of the relevant agenda item; and<br>– abstain from voting on any item in connection with which they have a conflict of interest.<br>The above instructions for Directors enable the Board of Directors to make unbiased decisions, and help restrict decision-making for Directors whose stance may be affected by circumstances not formalized in the applicable law. |

# APPENDIX 2.

Risks

| 1. Macroeconomic risks | |
|---|---|
| **Risk description** | **Risk management** |
| Our financial performance could be adversely affected by macroeconomic changes due to global energy price volatility, FX fluctuations, inflation, and shifts in fiscal and monetary policies. | We use a scenario-based approach for macroeconomic forecasting. A base scenario is chosen to illustrate the most likely course of macroeconomic developments as according to our management, who also develop best-case and stress scenarios. The stress scenario aids in identifying the assets and investment projects most susceptible to negative macroeconomic changes, and management decisions are made based on its analysis. |

| 2. Country risks | |
|---|---|
| **Risk description** | **Risk management** |
| LUKOIL Group operates in a number of countries with a high level of risks (Iraq, Egypt, Uzbekistan, and West African countries) which, should they materialize, could adversely impact and even halt our operations.<br>Key factors that could have an adverse effect on the business of LUKOIL Group in these countries:<br>• Political disruption;<br>• Escalation of armed conflicts;<br>• Macroeconomic instability;<br>• Expropriation of the Company's assets;<br>• Inefficiencies in the judicial system and flawed legal framework. | Most of our production and refining assets are located within Russia, which limits our exposure to the risk. We also seek to further diversify our international operations.<br>We place higher requirements on the returns profile of our projects located in regions with high risk. Additionally, in case of adverse changes in the political or social and economic environment in the regions of our operation, PJSC LUKOIL can implement a number of anti-crisis measures including cost reduction, investment program optimization, reducing our stake in a project, and engaging partners. |

| 3. Price risks | |
|---|---|
| **Risk description** | **Risk management** |
| We have limited influence over the prices of our products, as they largely depend on regulatory actions and/or the market environment. Declines in crude oil and petroleum product prices could adversely impact our financial performance. | PJSC LUKOIL is a vertically integrated company that combines assets in oil production, refining, and distribution. This structure serves as a natural hedging technique, where different risk factors offset each other.<br>Additionally, we implement a range of measures to mitigate price risks:<br>• A scenario-based approach when designing strategic development programs;<br>• Managing our investment project portfolio according to each project's price sensitivity;<br>• Commodity supply management, ensuring prompt responses to market changes and the ability to make arbitrage shipments;<br>• Hedging transactions in international operations. |

| 4. Industry risks | |
|---|---|
| **4.1. Risks related to well construction and development of fields with hard-to-recover hydrocarbon reserves** | |
| **Risk description** | **Risk management** |
| Group entities and their contractors purchase the majority of well construction equipment and materials from suppliers in the EU and USA. The ban on imports of equipment and materials could have an adverse effect on our operations. | We currently have a one-year supply of spare parts, equipment, and materials for use in the Group's projects, and we have developed a set of measures which allow to substitute chemical reagents that are being sourced at present from the EU and USA, used to prepare and condition drilling muds, with products from Russia and other countries.<br>We actively deploy Russian technologies and consistently substitute imported equipment with Russian equivalents. We are conducting pilot tests of Russian equipment and gradually deploying Russian multi-zone fracturing systems. |

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

| 4.3. Risk of non-discovery of reserves or unmet projections | |
|---|---|
| **Risk description** | **Risk management** |
| Non-discovery of commercially productive oil and gas reserves and/or discovery of reserves that do not meet the levels projected during prospecting drilling or new project implementation poses a risk, which may require expensing the subsequent costs while our financial performance is negatively affected. | We have been consistently improving our exploration technologies and phase our operations when plans for the next phase are based on results of the one prior.<br>By working with leading global oil and gas players, we can study and successfully implement their best exploration practices at the Group's assets. |

| 4.4. Risk of underperformance in projected technological effect of well intervention and production drilling programs | |
|---|---|
| **Risk description** | **Risk management** |
| Well intervention and production drilling programs may not result in their projected technological effect, which could lead to the downgrading of hydrocarbon production targets and adversely affect the Company's financial performance. | PJSC LUKOIL takes a range of measures to allow it to promptly respond to this risk in case it occurs, such as by preemptively preparing an additional set of effective well interventions, and by maintaining a reserve pool of potential production wells. We make appropriate adjustments to current well intervention and production drilling programs based on actual monthly and quarterly performance. |

| 4.5. Subsoil use and licensing risks | |
|---|---|
| **Risk description** | **Risk management** |
| We face certain risks associated with the Russian legislation on subsoil use and licensing of exploration and mining operations. The key risks include:<br>• early termination of subsoil licenses or administrative fines due to a breach of license agreements;<br>• subsoil licenses not being granted to a company that has discovered a subsoil deposit of federal significance or a field within subsoil areas of federal significance, including legal entities with participation of foreign investors; and<br>• non-acceptance of application documents for tenders or auctions for subsoil use licenses. | We mitigate subsoil use and licensing risks by:<br>• monitoring changes in legislation on subsoil use and licensing while making proposals to update the existing legal framework;<br>• updating our list of open acreage areas that are of interest to the Group;<br>• preparing applications for tenders and auctions for subsoil use licenses, and license renewal documents;<br>• running annual professional development training courses for licensing and subsoil use experts and sending experts to key subsoil use and licensing workshops;<br>• employing a dedicated information system to monitor subsoil use; and<br>• liaising with regulatory authorities to mitigate risks of early termination of subsoil licenses. |

| 5. Financial risks | |
|---|---|
| **5.1. Liquidity risks** | |
| **Risk description** | **Risk management** |
| High volatility in prices for oil, gas, and their derivatives, as well as foreign currency exchange rates, growth in tariffs and supplier prices, and other exogenous factors could cause discrepancies in our plans, budgets, and investment programs, thus leading to a shortage of liquidity and financing sources. | Our Group-wide, centralized and efficient liquidity management uses a rolling liquidity forecast as the main tool for the operational and strategic management of LUKOIL Group's consolidated cash position. We have put in place an efficient global liquidity management system comprising automatic cash concentration and disbursement, and corporate dealing. We regularly forecast consolidated cash flows and cash position in the mid- and long-term, and continuously monitor liquidity ratios, assessing the sensitivity of the figures laid out in our plans, budgets, and investment programs in relation to macroeconomic changes. If necessary, we adjust plans, reduce spending in transitioning to the stress scenario, shift payment and project implementation dates, include optional projects in the current plan if the macroeconomic situation improves, as well as ensure timely financing of our business activities.<br>At the end of 2019, PJSC LUKOIL had investment-grade ratings from three major international rating agencies – S&P (BBB), Fitch (BBB+), and Moody's (Baa2).<br>We regularly monitor our financials to ensure they meet the requirements of rating agencies. |
| **5.2. FX risks** | |
| **Risk description** | **Risk management** |
| The bulk of our proceeds is derived from oil and petroleum product sales in US dollars, while the majority of operating and capital expenses are denominated in rubles.<br>Therefore, FX fluctuations could have a significant effect on our financial performance. | We manage FX risks using a comprehensive approach, including natural hedging techniques, managing currency balances of monetary assets and obligations. |
| **5.3. Counterparty default and non-payment risks** | |
| **Risk description** | **Risk management** |
| A counterparty default could cause underpayments or delayed payments for our supplied products. In the case of financing counterparties, a default may prevent us from withdrawing all or a part of funds from an account held with a counterparty, which could adversely affect our financial performance and require us to raise additional funding in order to meet our financial obligations. | We mitigate counterparty default and non-payment risks by doing business with third parties outside the Group on a prepayment basis or requiring letters of credit or bank guarantees from end customers.<br>We conduct regular end-to-end analyses and use tools for rating banks and financial institutions to prepare a list of approved banking counterparties. |
| **6. Legal risks** | |
| **Risk description** | **Risk management** |
| Legislative changes in tax, subsoil use, power generation sector and corporate governance could have an adverse effect on our financial performance. | We monitor legislative changes and take steps to obtain information about them at the preliminary discussion stage. Our representatives participate in such discussions to clarify our views on respective matters, as well as risks and uncertainties in relation to the proposed changes.<br>Our representatives are involved in expert panels that discuss and develop effective means of applying new laws. |

| **7. Reputational risks** | |
|---|---|
| **Risk description** | **Risk management** |
| PJSC LUKOIL is exposed to various factors that may cause reputational risks, adversely impacting our financial performance and market value of our shares. This risk may occur due to both internal and external factors, including noncompliance with statutory requirements, constituent documents, and internal regulations, as well as through breach of contractual obligations, poor product quality, and a rise in negative perceptions of our financial stability and position. | To mitigate this risk, we make efforts to:<br>• maintain regular communication with our stakeholders;<br>• provide unbiased information on financial and operational performance of PJSC LUKOIL in a timely manner;<br>• ensure continuous monitoring of PJSC LUKOIL compliance with statutory requirements and effective agreements; and<br>• effect timely payments to counterparties.<br>The company controls the quality of its products and services. For instance, the Filling Stations Hotline has been set up to promptly address any comments and suggestions regarding filling stations' operation.<br>We pay close attention to safety and environmental protection, and operate in line with the best HSE standards.<br>We place a great emphasis on social responsibility and working conditions, maintaining and improving our effective occupational health and social security framework through targeted programs. |

| **8. Strategic risks** | |
|---|---|
| **Risk description** | **Risk management** |
| At the end of 2017, the Board of Directors approved the Strategic Development Program of LUKOIL Group for 2018–2027, which outlines key risks related to pursuing the program. The risks include delays in investment project implementation dates, low return on investments, a heavier tax burden, and operational accidents. | We regularly identify strategic risks when developing our strategy. As part of our strategic planning process, we assess the risks and effectiveness of various strategic initiatives and prepare a set of optimal strategic solutions in terms of risk/return ratio.<br>To mitigate strategic risks, our management closely monitors the macroeconomic situation and industry trends, as well as analyzes the performance of our business units and peers. When developing the strategy and investment program, we actively use scenario and probabilistic modeling tools to assess various risks. |

| **9. Other risks** | |
|---|---|
| **9.1. Risk of terrorism and unlawful acts of third parties** | |
| **Risk description** | **Risk management** |
| LUKOIL Group operates in several countries with a high risk of terrorism and other criminal acts made against the Group's assets.<br>We are also exposed to the risk of unlawful competitive practices including unfair competition, financial abuse or other kinds of abuse by employees, embezzlement, and theft of moneys or tangible assets. | We minimize these risks by:<br>• participating in counter-terrorism events organized by the National Anti-Terrorism Committee, the Federal Security Service, and the Ministry of Internal Affairs of the Russian Federation;<br>• identifying employees who intentionally damage interests of PJSC LUKOIL in favor of third parties;<br>• planning and hosting events aimed at strengthening information security; and<br>• using data encryption tools. |

| 9.2. HSE risks | |
|---|---|
| **Risk description** | **Risk management** |
| The Group's facilities are exposed to risks of process disruptions, hazardous releases, environmental damage, accidents, fires, and incidents that may result in unscheduled idle time at these facilities. | To mitigate these risks, we designed and successfully deployed the Environmental Protection, Occupational Health and Safety Management System certified to ISO 14001 and OHSAS 18001, as well as implemented:<br>• target corporate HSE programs;<br>• industrial control over the operation of hazardous production facilities;<br>• diagnostics (non-destructive testing) and monitoring of equipment performance;<br>• repair and timely replacement of equipment;<br>• a process ensuring contractors' end-to-end compliance with mandatory HSE requirements;<br>• development of leadership and safety culture;<br>• the appointment of qualified staff across various business levels of the Group;<br>• special assessments and improvements of working conditions;<br>• development of the Plans to Localize and Mitigate the Consequences of Accidents at Hazardous Production Facilities (PLMA) and the Spill Prevention, Control, and Countermeasure (SPCC) Plans; maintaining a pool of emergency personnel and resources; and training personnel who operate hazardous production facilities as well as the emergency response teams applying PLMA and SPCC Plans; and<br>• other measures aimed at reducing accident and injury rates at production sites of LUKOIL Group entities. |

| 9.3. Climate change risk | |
|---|---|
| **Risk description** | **Risk management** |
| Strengthened climate change regulations could adversely impact operations of PJSC LUKOIL as a major fossil fuel producer and greenhouse gas emitter by driving costs up and performance down.<br>Additionally, LUKOIL Group operates in various regions with hard-to-predict potential climate change impacts that may result in a significant adverse effect. | We minimize this risk by:<br>• recording greenhouse gas emissions and planning initiatives aimed at their control;<br>• carrying out constant monitoring of relevant legislative changes and taking steps to obtain information about them at the preliminary discussion stage, as well as ensuring our representatives participate during the preliminary discussions so that the risks and uncertainties that may arise from new legislative initiatives are clarified and our views in relation to the proposed changes have been represented; and<br>• taking climate change risk into account when designing and constructing facilities in environmentally sensitive areas (the Far North, offshore facilities). |

| 9.4. Risk of investment program non-delivery | |
|---|---|
| **Risk description** | **Risk management** |
| When implementing our investment projects, we face risks of cost overruns and delays in commissioning production facilities.<br>Project delays including delays related to preparing design documentation and cost estimates, obtaining permits, entering into contracts, failing to meet deadlines, and changing field development roadmaps based on new geological data may lead to a deterioration in operating and investment project performance in future years. | We manage this risk by monitoring the progress of all our projects on a quarterly basis. The availability of initial permits for the coming year is monitored when drafting the investment program. |

| **9.5. Risks related to competition** | |
|---|---|
| **Risk description** | **Risk management** |
| The oil and gas industry is a highly competitive space. We compete with other major Russian and international companies in:<br>• obtaining exploration and production licenses in auctions and tenders for subsoil use licenses;<br>• purchasing assets, equipment, and stakes in new projects;<br>• engaging specialized third-party organizations to perform services;<br>• recruiting qualified and experienced staff;<br>• gaining access to key transportation infrastructure;<br>• developing, seeking out, purchasing, and deploying technologies;<br>• distributing finished products; and<br>• gaining access to capital.<br>Additionally, PJSC LUKOIL may be faced with the challenge of competing against alternative and green renewable energy providers. | PJSC LUKOIL is one of the largest vertically integrated oil companies in Russia and the world. Many years of robust performance have made the Group a leader in the industry and a strong contender. PJSC LUKOIL is recognized as a reliable partner with a stable financial position. We carry out strategic planning to reduce potential risks associated with increased competition. As part of our long-term vision of the market, we commit to the most lucrative assets and forms of equity participation.<br>We regularly monitor the market situation to promptly respond to its changes and sharpen our competitive edge by developing the professional and managerial proficiency of our staff and introducing new technology into our operations and business processes. |

| **9.6. Risk of shortages in qualified personnel** | |
|---|---|
| **Risk description** | **Risk management** |
| Insufficient skills or qualifications of personnel may have an adverse effect on our financial performance. | To mitigate this risk, we focus on the comprehensive development of our talent pool. LUKOIL's talent management strategy is aligned with its development strategy and the staffing demand of its business segments based on planning and budgeting processes that enable the workforce to be efficiently reallocated through insourcing as well as flexible recruitment, professional training, and developing talent |

| **9.7. Cyber risks** | |
|---|---|
| **Risk description** | **Risk management** |
| Information technology and IT solutions for automating processes which affect our financial position and operational performance, the reliability of financial and accounting information, as well as our ability to fulfill our obligations operate in a shared information environment and are inevitably exposed to external and internal cyber-attack risks threatening the confidentiality, integrity, and availability of the information in our IT systems.<br>We believe that we should safeguard our information and the means of its processing, as well as the data entrusted to us by government authorities, shareholders, business partners, and personal data against cyber risks. | We comply with recognized international standards and best practices in information security, strive to make better use of our deployed security measures, and constantly improve our internal information security services. However, evolving cyber threats also require constant readiness to repel unprecedented cyber attacks. The success of these efforts relies on early identification of new cyber threats before they are launched against the Company and real-time counteraction to cyberattacks, helping to prevent or minimize their consequences. |

| 9.8. IT risks | |
|---|---|
| **Risk description** | **Risk management** |
| In addition to cyber risks threatening the confidentiality, integrity, and availability of information in the IT systems used by the Company, the information technology used to support our management and financial activities are exposed to risks not related to a breach of information security. These risks include the failure of projects aimed at the building and upgrading of IT systems, faults and failures in IT systems, an inability to obtain IT services from external suppliers (due to extended international sanctions as well), and the loss of our market share caused by a lag in deploying innovative digital technology. | In addressing risks related to running projects that build and upgrade IT systems, we apply and improve modern development management practices and focus on proven technical solutions with reliable technical support.<br>In addition to preventive measures aimed at mitigating risks, including the creation of a resilient IT infrastructure, testing IT systems prior to their commissioning, and monitoring changes, we also pay close attention to planning proactive actions upon a risk's occurrence to resume critical business operations and decision-making processes before the resulting impact becomes unacceptable.<br>We mitigate risks related to external suppliers' participation in our IT services through our robust supplier selection and monitoring processes, as well as building internal skills for developing the most critical IT services for the Group.<br>Sanction risk management activities are also in progress, and an action plan to respond to the toughened sanction regime has been prepared. We have included digitalization initiatives into our IT Strategy. |

| 9.9. Securities trading risks | |
|---|---|
| **Risk description** | **Risk management** |
| PJSC LUKOIL securities are traded on regulated markets both within Russia and abroad. Changes to issuer requirements brought in by regulatory authorities and stock exchanges may require us to modify our corporate governance framework and adopt additional obligations in information disclosure and shareholder relations. Failure to comply with issuer requirements or meet obligations in a timely manner could cause our securities to be downgraded to lower listing grades or to be delisted, potentially having an adverse effect on their liquidity and value. | We keep track of changes made to listing rules and other requirements of stock exchanges and regulatory bodies. Our representatives participate in workshops and other events for issuers organized by stock exchanges and other organizations providing consulting and informational services to issuers. We also strive to implement international best practices of corporate governance. |

| 9.10. Risks related to disclosure obligations | |
|---|---|
| **Risk description** | **Risk management** |
| We perform mandatory disclosures to maintain our securities on the stock exchange list, following the procedures and timelines established by regulatory and stock exchange requirements. Disclosures are made electronically by submitting information via the websites and emails to information disclosure agencies authorized by regulators. Issues affecting our engagement with information disclosure agencies, such as information system failures and technical failures, as well as cyberattacks, may cause a disruption in our ability to disclose required information on time, which could be considered as a breach of obligations and lead to the securities market regulator imposing a fine on PJSC LUKOIL and/or its management. | We mitigate these risks by signing agreements with several information disclosure agencies at once, and by providing information disclosures ahead of established timelines to have ample time to fix potential technical problems; and, if necessary, the Company's authorized employees promptly interact with employees of information disclosure agencies. |

# APPENDIX 3.

Major and Interested Party Transactions

## LIST OF TRANSACTIONS MADE BY PJSC "LUKOIL" IN 2019 AND RECOGNISED AS MAJOR TRANSACTIONS IN ACCORDANCE WITH THE FEDERAL LAW ON JOINT STOCK COMPANIES

In 2019 PJSC "LUKOIL" did not perform any transactions that are recognised as major transactions in accordance with the Federal Law On Joint Stock Companies.

## INTERESTED PARTY TRANSACTION ENTERED INTO BY PJSC "LUKOIL" IN 2019, WHERE DECISIONS ON CONSENT TO PERFORM THE TRANSACTIONS IN ACCORDANCE WITH THE FEDERAL LAW «ON JOINT STOCK COMPANIES» WAS TAKEN BY THE ANNUAL GENERAL SHAREHOLDERS MEETING OF PJSC "LUKOIL" ON 20 JUNE 2019

| 1. Reference Number of the transaction | 1 |
|---|---|
| 2. Price | Not more than USD 470,000 – Insurance premium for coverage A, B and C |
| 3. Names of parties | PJSC "LUKOIL" (Policyholder)<br>Ingosstrakh Insurance Company (Insurer) |
| 4. Names of beneficiaries | Under Cover A – the sole executive body, members of governing bodies, employees of PJSC "LUKOIL" and/or subsidiaries of PJSC "LUKOIL", and/or other organisations with the participation of PJSC "LUKOIL" and/or its subsidiary based on whose proposals the sole executive body and/or members of governing bodies of such organisations were elected (hereinafter, the Insured Person).<br>Under Cover B – PJSC "LUKOIL", subsidiaries of PJSC "LUKOIL", other organisations with the participation of PJSC "LUKOIL" and/or its subsidiary based on whose proposals the sole executive body and/or members of governing bodies of such organisations were elected (hereinafter, the Company for the purposes of Cover B).<br>Under Cover C – PJSC "LUKOIL", subsidiaries of PJSC "LUKOIL" (hereinafter the "Company").<br>The above parties are collectively named the Insured Party. |
| 5. Name of the transaction | Contract (Policy) on Directors, Officers and Companies Liability Insurance (hereinafter the "Policy"). |
| 6. Subject of the transaction | The Insurer undertakes, for the payment stipulated in the Policy (Insurance Premium), to pay the insurance coverage (indemnification) under the Policy to (as the case may be) the respective Insured Party and/or any other person entitled to such indemnification should any insured event specified in the Policy occur, within the insurance premium (liability limit) determined by the Policy.<br>An insured event for the purposes of Cover A in respect of cover for the liability of any Insured Person for any Loss incurred by any third parties shall be deemed to be the onset of all of the following circumstances: (a) the liability of any Insured Person arising at any time prior to or during the Policy Period pursuant to applicable law as a consequence of the incurrence by any third parties of any Loss in connection with any Wrongful Act of the Insured Person, and (b) any Claim made against such Insured Person during the Period of Insurance (means the effective period during which the insurance set forth in the Policy shall be valid, starting from the first day of the Policy Period and ending on the expiry date of the Policy Period or, if there is a Discovery Period (a 60-day the period immediately following the expiry of the Policy Period or early termination/cancellation of the Policy, during which written notice may be given to the Insurer of any Claim first made during such period or during the Policy Period in connection with any Wrongful Act committed prior to the end of the Policy Period), ending on the expiry date of the Discovery Period).<br>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.<br>For the purposes of Cover A the Insurer shall pay to or on behalf of any Insured Person any Loss related to any Claim first made against any Insured Person during the Policy Period or the Discovery Period (if applicable) and reported to the Insurer in writing pursuant to the terms of the Policy, except when and to the extent that the Company has indemnified such Loss. |

| | |
|---|---|
| | An insured event for the purposes of Cover B shall be deemed to be the incurrence of any expenses by any Company for the purposes of Cover B in connection with the indemnification for any Loss by such Company for the purposes of Cover B to any Insured Person and/or other person or entity in the interests of any Insured Person in connection with any Claim made against any Insured Person and/or the liability of any Insured Person for any Loss incurred by third parties. For the purposes of Cover B the Policy also covers such expenses incurred by any Company subsequent to the Period of Insurance but relating to any Claim made during the Period of Insurance and/or in connection with the liability of any Insured Person for any Loss incurred by third parties in relation to which a Claim was made during the Period of Insurance.<br>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.<br>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.<br>For the purposes of Cover C the Insurer shall pay to any Company or on behalf of any Company any Loss related to any Securities Claim first made against any Company during the Policy Period or the Discovery Period (if applicable) and reported to the Insurer in writing pursuant to the terms of the Policy. Insurance cover C is without any prejudice to Insurance cover A in respect of any Securities Claims. |
| 7. Interested parties, grounds for being recognised as such | The President, members of the Board of Directors and Management Committee of PJSC "LUKOIL" are simultaneously beneficiaries under the transaction. |
| 8. Other material terms of the transaction | The policy is effective from 19 July 2019 through 18 July 2020.<br>The insurance premium (liability limit) is at least USD 150,000,000 (total aggregate limit for coverage A, B and C, including legal defence costs).<br>The insurance premium will be paid in roubles at the exchange rate determined by the Parties as of the date the Policy is signed, pursuant to the terms of the Policy. |

# LIST OF INTERESTED PARTY TRANSACTIONS ENTERED INTO BY PJSC "LUKOIL" IN 2019, WHERE DECISIONS ON CONSENT TO PERFORM THE TRANSACTION IN ACCORDANCE WITH THE FEDERAL LAW ON JOINT STOCK COMPANIES WERE TAKEN BY THE BOARD OF DIRECTORS OF PJSC "LUKOIL"

| 1. Reference Number of the transaction | 1 |
|---|---|
| 2.1. Price (amount in US dollars) | The estimated amount of the transaction is USD 2,200,712,225.49 (loan amount of USD 2,058,602,554.47 plus interest of USD 142,109,671.02). |
| 2.2. Price (amount in roubles) | The estimated amount of the transaction is RUB 146,457,398,606.07 (loan amount of RUB 137,000,000,000 plus interest of RUB 9,457,398,606.07). |
| 3. Names of parties | RITEK (Lender)<br>PJSC "LUKOIL" (Borrower) |
| 4. Names of beneficiaries | - |
| 5. Name of transaction | Supplemental Agreement to Loan Agreement No.1610385 of 02.08.2016 (hereinafter the "Agreement"). |
| 6. Subject of the transaction | In accordance with the Agreement and the Supplemental Agreements thereto, the Lender provides the Borrower with a revolving special-purpose loan (either in a lump sum or in instalments (tranches)) the total amount of debt on which may not exceed RUB 87,000,000,000 (excluding the possible increase of the loan amount under point 7.1 of the Agreement) at any time during the effective term of the Agreement, on the terms and conditions stipulated by the Agreement, and the Borrower undertakes to repay the funds received and to pay interest thereon within the deadlines and in accordance with the procedure stipulated in the Agreement.<br>In accordance with the Supplemental Agreement to the Loan Agreement, point 1.1 of the Agreement is set out in a new version stipulating an increase of the loan amount to RUB 137,000,000,000. |
| 7. Interested parties, grounds for being recognised as such, interested parties' equity share in the charter (joint stock) capital (percentage of the shares that belonged to the interested parties) of PJSC "LUKOIL" and the legal entity, a party to the transaction as of the transaction date[1] | Valery Isaakovich Grayfer, Chairman of the Board of Directors of PJSC "LUKOIL", is simultaneously the Chairman of the Board of Directors of RITEK, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.01%, interested party's equity share in the charter capital of RITEK – 0%.<br>Azat Angamovich Shamsuarov, a member of the Management Committee of PJSC "LUKOIL", is simultaneously a member of the Board of Directors of RITEK, interested party's equity share in the charter capital of PJSC "LUKOIL" – 0.008%, interested party's equity share in the charter capital of RITEK – 0%. |
| 8. Other material terms of the transaction | The Supplemental Agreement enters into force from the date it is signed by authorized representatives of the Parties. |
| 1. Reference Number of the transaction | 2 |
| 2.1. Price (amount in US dollars) | Credit line of USD 300,000,000, plus interest of no more than USD 29,100,000. |
| 2.2. Price (amount in roubles) | Credit line of RUB 19,440,000,000, plus interest of no more than RUB 1,885,680,000. |
| 3. Names of parties | PJSC "LUKOIL" (Guarantor)<br>ING BANK N.V., DUBLIN BRANCH (Lender) |
| 4. Names of beneficiary | LUKINTER FINANCE B.V. (Borrower) |
| 5. Name of transaction | Amendment Agreement No.4 (hereinafter the Amendment Agreement) to Suretyship Agreement No.1510442 of 09 September 2015 (hereinafter the Surety). |
| 6. Subject of the transaction | According to the Surety and Amendment Agreements 1,2 and 3 thereto the Guarantor shall, along with the Borrower, be accountable to the Lender for full, proper and timely fulfillment of all of the Borrower's obligations under the Agreement on Granting the Approved Revolving Credit Line in the amount of USD 300,000,000 of September 9, 2015, signed between the Borrower and the Lender (hereinafter, the Credit Agreement), including the costs, expenses and losses to be reimbursed to the Lender under the Credit Agreement; should the Borrower fail to settle any amount of the secured obligations to the Lender within the agreed period, the Guarantor shall transfer the said amount to the Lender upon request within five (5) business days following the request issued by the Lender to the Guarantor.<br>Under the Amendment Agreement to the Surety, the Credit Agreement definition shall be revised to change the credit line term to 24 months from the date of signing Amendment Agreement No.4. |

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

| | |
|---|---|
| 7. Interested party, basis for being recognised as such | Alexander Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V.<br>Stanislav Georgievich Nikitin[2], a member of the Management Committee of PJSC "LUKOIL", is simultaneously a Member of the Supervisory Board of LUKINTER FINANCE B.V.<br>Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V. |
| 8. Other material terms of the transaction | All other terms of the Surety shall remain unaltered and in force. The Amendment Agreement shall come into effect the day it is signed by the Parties. |
| 1. Reference Number of the transaction | 3 |
| 2.1. Price (amount in US dollars) | Loan facility in the amount of USD 300,000,000, interest in the amount of USD 29,100,000 at most and the fee of USD 6,000,000 at most. |
| 2.2. Price (amount in roubles) | Loan facility in the amount of RUB 19,440,000,000, interest in the amount of RUB 1,885,680,000 at most and the fee of RUB 388,800,000 at most. |
| 3. Names of parties | PJSC "LUKOIL" (Guarantor)<br>LUKINTER FINANCE B.V. (Borrower) |
| 4. Names of beneficiaries | - |
| 5. Name of transaction | Supplemental Agreement to Reimbursement Agreement No.1510417 of 09 September 2015 (hereinafter the Agreement) |
| 6. Subject of the transaction | The Parties concluded the Agreement and Supplemental Agreements Nos.1-4 in relation to the Suretyship Agreement No.1510442 of 09 September 2015 between the Surety and ING BANK N.V., DUBLIN BRANCH (the Bank), done as guarantee of the Borrower's performance of obligations to the Bank under the Loan Agreement on the extension of committed revolving facility in the amount of USD 300,000,000 (hereinafter the Loan Agreement), as well as interests, forfeits, penalties, fines and other guaranteed payments.<br>The Parties agreed to regard the amount paid by the Guarantor to the Bank to perform its obligations under the Suretyship Agreement as the amount subject for repayment by the Borrower to the Guarantor with interest payable for its use on the terms, at the time and in the manner established by the Agreement.<br>According to the Supplemental Agreement to the Agreement and in view of the extension of the Suretyship Agreement by virtue of Supplemental Agreement No.4 thereto, Item 3.2 of the Agreement shall be amended to read that the service charge for providing surety for the Borrower' liabilities shall be 1% per annum of the liabilities to the Bank covered by the surety of the Borrower's obligations to the Bank under the Loan Agreement, calculated for each day of the settlement period. The rate specified above shall remain unchanged throughout the term of the Agreement, unless otherwise duly agreed in writing by the Parties. The actual number of days in a year (365/366) shall be used to calculate the amount of payment for the surety of the Borrower's performance. |
| 7. Interested party, basis for being recognised as such | Alexander Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V.<br>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.<br>Lyubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V. |
| 8. Other material terms of the transaction | Supplemental Agreement shall enter into force the day it is signed by the Parties. |
| 1. Reference Number of the transaction | 4 |
| 2.1. Price (amount in US dollars) | Credit line of USD 200,000,000, plus interest of no more than USD 17,880,000. |
| 2.2. Price (amount in roubles) | Credit line of RUB 13,088,000,000, plus interest of no more than RUB 1,170,067,200. |
| 3. Names of the parties | PJSC "LUKOIL" (Guarantor)<br>ABN AMRO BANK N.V. (Lender) |
| 4. Name of the beneficiary | LUKINTER FINANCE B.V. (Borrower) |
| 5. Name of the transaction | Confirmation and Amendment Deed to Deed of Guarantee No.1510168 dated 01.04.2015 (the Guarantee). |

[2] Powers of S.G. Nikitin as member of the Management Committee of PJSC "LUKOIL" were terminate early by decision of the Board of the of Directors of PJSC "LUKOIL" on 12 December 2019 (Minutes No.19).

| | |
|---|---|
| 6. Subject of the transaction | Pursuant to Guarantee and Confirmation and Amendment Deed to the Guarantee, the Guarantor irrevocably and unconditionally guarantees to the Lender the due and punctual performance by the Borrower of all the Borrower's obligations totalling USD 200,000,000 under the Facility Agreement signed between the Borrower and the Lender (Facility Agreement), plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable (or stated to be payable) to the Lender under or in connection with the Facility Agreement.<br>Pursuant to the Confirmation and Amendment Deed to the Guarantee the Guarantor confirms its obligations under the Guarantee in connection with Supplemental Agreement No. 3 to the Facility Agreement, providing for the extension of the validity of the Facility Agreement for two years from the date the said Supplemental Agreement is signed. |
| 7. Interested parties, basis for being recognised as such | Alexander Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V.<br>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.<br>Liubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V. |
| 8. Other material terms of the transaction | This Confirmation and Amendment Deed to Deed of Guarantee and all non-contractual obligations arising out of or in connection with it are governed by English law. |
| 1. Reference Number of the transaction | 5 |
| 2.1. Price (amount in US dollars) | Credit line of USD 200,000,000, plus interest of no more than USD 17,880,000; the fee of no more than USD 4,000,000. |
| 2.2. Price (amount in roubles) | Credit line of RUB 13,088,000,000, plus interest of no more than RUB 1,170,067,200 the fee of no more than RUB 261,760,000. |
| 3. Names of the parties | PJSC "LUKOIL" (Guarantor)<br>LUKINTER FINANCE B.V. (Debtor) |
| 4. Name of the beneficiaries | - |
| 5. Name of the transaction | Supplemental Agreement to Contract of Indemnification No.1510147 of 01.04.2015 (hereinafter the "Contract"). |
| 6. Subject of the transaction | The Parties signed the Contract in connection with the Deed of Guarantee No.1510168 dated 01.04.2015 issued by the Guarantor as a guarantee to ABN AMRO BANK N.V. (the "Bank") for meeting the Debtor's liabilities worth USD 200,000,000 under the Facility Agreement, plus interest, penalties, forfeits, fines and other amounts due and payable (Facility Agreement).<br>The Parties have agreed to deem the amount paid by the Guarantor to the Bank in fulfillment of obligations under the Guarantee the amount payable by the Debtor to the Guarantor plus interest for the use of funds on the terms, within the deadlines and in accordance with the procedure defined by the Contract.<br>Under the Supplemental Agreement to the Contract and in connection with the extension of the validity of the Deed of Guarantee by Confirmation and Amendment Deed to the Guarantee Clause 3.2 of the Contract is being revised to stipulate that the cost of the Guarantee Service for the Debtor's obligation amounts to 1% per annum of the amount of the Debtor Debtor's obligations to the Bank under the Facility Agreement covered by the Guarantee and calculated for each day of the reporting period. The said rate shall not change during the validity of the Contract unless duly stipulated by the Parties in writing. In calculating the amount payable for the Guarantee Service provided the actual number of days in a year shall be used (365/366). |
| 7. Interested parties, basis for being recognised as such | Alexander Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V.<br>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.<br>Liubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V. |
| 8. Other material terms of the transaction | The Agreement shall enter into force from the date of signing by the Parties. |

| | |
|---|---|
| 1. Reference Number of the transaction | 6 |
| 2.1. Price (amount in US dollars) | Credit line of USD 250,000,000, plus interest of no more than USD 23,050,000. |
| 2.2. Price (amount in roubles) | Credit line of RUB 16,360,000,000, plus interest of no more than RUB 1,508,392,000. |
| 3. Names of the parties | PJSC "LUKOIL" (Guarantor)<br>SOCIETE GENERALE (Lender) |
| 4. Name of the beneficiary | LUKINTER FINANCE B.V. (Borrower) |
| 5. Name of the transaction | THE CONFIRMATION AND AMENDMENT DEED to the DEED OF GUARANTEE No.1510236 dated 22.04.2015 (Deed of Guarantee). |
| 6. Subject of the transaction | Under the Deed of Guarantee and the Confirmation and Amendment Deeds, the Guarantor unconditionally and irrevocably guarantees the Lender the due and timely fulfilment of all of the obligations undertaken by the Borrower under the Facility Agreement signed between the Lender and the Borrower (Facility Agreement), for the amount of USD 250,000,000 plus all accrued interest, penalties, fees, documented costs, expenses and other amounts payable (or stated to be payable) by the Borrower to the Lender under the Facility Agreement or in connection with it.<br>Pursuant to the Confirmation and Amendment Deed to the Guarantee the Guarantor confirms its obligations under the Deed of Guarantee in connection with Supplemental Agreement No. 4 to the Facility Agreement, providing for the extension of the validity of the Facility Agreement for two years from the date the said Supplemental Agreement is signed. |
| 7. Interested parties, basis for being recognised as such | Alexander Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V.<br>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.<br>Liubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V. |
| 8. Other material terms of the transaction | The Confirmation and Amendment Deed to the Deed of Guarantee and any non-contractual obligations arising out of or in connection with it are governed by English law. |
| 1. Reference Number of the transaction | 7 |
| 2.1. Price (amount in US dollars) | Credit line of USD 250,000,000, plus interest of no more than USD 23,050,000; the fee of no more than USD 5,000,000. |
| 2.2. Price (amount in roubles) | Credit line of RUB 16,360,000,000, plus interest of no more than RUB 1,508,392,000; the fee of no more than RUB 327,200,000. |
| 3. Names of the parties | PJSC "LUKOIL" (Guarantor)<br>LUKINTER FINANCE B.V. (Debtor) |
| 4. Name of the beneficiaries | - |
| 5. Name of the transaction | Supplemental Agreement to Contract of Indemnification No.1510189 of 22.04.2015 (hereinafter the "Contract"). |
| 6 Subject of the transaction | The Parties signed the Contract in connection with the Deed of Guarantee No.1510236 dated 22.04.2015 (Deed of Guarantee) issued by the Guarantor as a guarantee to SOCIETE GENERALE (the "Bank") for meeting the Borrower's liabilities worth USD 250,000,000 under the Facility Agreement, plus interest, penalties, forfeits, fines and other amounts due and payable (Facility Agreement). The Parties have agreed to deem the amount paid by the Guarantor to the Bank in fulfillment of obligations under the Guarantee the amount payable by the Debtor to the Guarantor plus interest for the use of funds on the terms, within the deadlines and in accordance with the procedure defined by the Contract.<br>Under the Supplemental Agreement to the Contract and in connection with the extension of the validity of the Deed of Guarantee by Confirmation and Amendment Deed to the Guarantee Clause 3.2 of the Contract is being revised to stipulate that the cost of the Guarantee Service for the Debtor's obligation amounts to 1% per annum of the amount of the Debtor's obligations to the Bank under the Facility Agreement covered by the Guarantee and calculated for each day of the reporting period. The said rate shall not change during the validity of the Contract unless duly stipulated by the Parties in writing. In calculating the amount payable for the Guarantee Service provided the actual number of days in a year shall be used (365/366). |
| 7. Interested parties, basis for being recognised as such | Alexander Kuzmich Matytsyn, a member of the Management Committee of PJSC "LUKOIL", is simultaneously Chairman of the Supervisory Board of LUKINTER FINANCE B.V.<br>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.<br>Liubov Nikolaevna Khoba, a member of the Board of Directors of PJSC "LUKOIL" and the spouse of Alexander Kuzmich Matytsyn, Chairman of the Supervisory Board of LUKINTER FINANCE B.V. |
| 8. Other material terms of the transaction | The Agreement shall enter into force from the date of signing by the Parties. |

# APPENDIX 4.

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

# INFORMATION ON TRANSACTIONS WITH PJSC "LUKOIL" ORDINARY SHARES/DRS PERFORMED BY MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT COMMITTEE OF PJSC "LUKOIL" IN 2019

| BoD/Management Committee member | Type of transaction | Date of transaction | Number of shares/DRs |
|---|---|---|---|
| Vagit Alekperov | purchase | 25.03.2019 | 10,000 |
| | purchase | 29.08.2019 | 25,000 |
| Vyacheslav Verkhov | purchase | 29.08.2019 | 5,000 |
| Vadim Vorobyov | purchase | 29.08.2019 | 11,875 |
| Denis Dolgov | purchase | 29.08.2019 | 10,000 |
| Ravil Maganov | purchase | 29.08.2019 | 15,000 |
| Ilya Mandrik | purchase | 29.08.2019 | 10,000 |
| | sale | 24.10.2019 | 20,892 |
| Ivan Maslyaev | purchase | 29.08.2019 | 10,000 |
| Alexander Matytsyn | purchase | 22.01.2019 | 75 |
| | purchase | 22.01.2019 | 35 |
| | purchase | 22.01.2019 | 156 |
| | purchase | 22.01.2019 | 4,153 |
| | purchase | 29.08.2019 | 12,500 |
| Anatoly Moskalenko | purchase | 29.08.2019 | 10,000 |
| Stanislav Nikitin * | purchase | 29.08.2019 | 10,000 |
| Oleg Pashaev | purchase | 29.08.2019 | 10,000 |
| Denis Rogachev | purchase | 29.08.2019 | 10,000 |
| Gennady Fedotov | purchase | 29.08.2019 | 10,000 |
| | purchase | 27.09.2019 | 6,352 |
| | purchase | 30.09.2019 | 5,438 |
| Leonid Fedun | purchase | 29.08.2019 | 10,000 |
| Evgeny Khavkin | purchase | 29.08.2019 | 10,000 |
| | sale | 27.09.2019 | 5,000 |
| Lyubov Khoba | purchase | 22.01.2019 | 3,605 |
| Azat Shamsuarov | purchase | 29.08.2019 | 10,000 |

* Management Committee member until December 12, 2019.

# APPENDIX 5.

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

# PJSC LUKOIL

# CONSOLIDATED FINANCIAL STATEMENTS

## 31 December 2019

# Independent Auditors' Report

## To the Shareholders of PJSC LUKOIL

### Opinion

We have audited the consolidated financial statements of PJSC LUKOIL (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

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

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

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

Moscow, Russia.

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

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

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.

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## Key Audit Matters

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

### Recoverability of Property, plant and equipment (PP&E) in exploration and production segment

Please refer to the Note 13 in the consolidated financial statements.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| 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 2019. Because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on. | 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.<br><br>We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group. We assessed management's macroeconomic assumptions, which include both short-term and long-term views on commodity prices, inflation rates and discount rates. We compared the short-term price assumptions used by management, which represent a critical judgement, to the market forward curves. We also compared the short and long-term assumptions to views published by brokers, economists, consultancies and respected industry bodies, which provided a range of relevant third-party data points. We also considered whether the sensitivity of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of PP&E in exploration and production segment. |

| **Estimation of oil and gas reserves and resources** | |
|---|---|
| Please refer to the Note 4 in the consolidated financial statements. | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| The estimate of oil and gas reserves and resources has a significant impact on the financial statements, particularly impairment testing and depreciation, depletion and amortization (DD&A) charges. The principal risk is in relation to management's assessment of future cash flows, which are used to project the recoverability of property, plant and equipment as described above. | In this area our audit procedures included the assessment of the competence, capabilities and objectivity of reservoir engineers, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation. Where volumetric movements had a material impact on the consolidated financial statements, we validated these volumes against underlying information and documentation, along with checking that assumptions used to estimate reserves and resources were made in compliance with relevant regulations.<br><br>We compared the volumes of reserves and resources to the information used for the impairment test and accounting for depreciation, depletion and amortization. |

## Other Information

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

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

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

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

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*Independent Auditors' Report*
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## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

A.I. Oussov

JSC "KPMG"
Moscow, Russia

10 March 2020

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

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 516,032 | 492,650 |
| Accounts receivable, net | 7 | 437,052 | 429,945 |
| Other current financial assets | 8 | 49,706 | 26,200 |
| Inventories | 9 | 413,910 | 381,737 |
| Prepaid taxes | 10 | 95,075 | 95,611 |
| Other current assets | 11 | 42,412 | 52,336 |
| **Total current assets** | | **1,554,187** | **1,478,479** |
| Property, plant and equipment | 13 | 4,026,007 | 3,829,164 |
| Investments in associates and joint ventures | 12 | 220,004 | 228,053 |
| Other non-current financial assets | 14 | 38,231 | 82,568 |
| Deferred income tax assets | 29 | 28,673 | 31,041 |
| Goodwill and other intangible assets | 16 | 43,108 | 41,765 |
| Other non-current assets | | 36,840 | 41,312 |
| **Total non-current assets** | | **4,392,863** | **4,253,903** |
| **Total assets** | | **5,947,050** | **5,732,382** |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Accounts payable | 17 | 607,734 | 547,128 |
| Short-term borrowings and current portion of long-term debt | 18 | 130,300 | 99,625 |
| Taxes payable | 20 | 142,471 | 123,974 |
| Provisions | 22, 23 | 37,232 | 38,266 |
| Other current liabilities | 21 | 168,952 | 105,567 |
| Obligation to repurchase common shares | 24 | 120,988 | - |
| **Total current liabilities** | | **1,207,677** | **914,560** |
| Long-term debt | 19 | 422,932 | 435,422 |
| Deferred income tax liabilities | 29 | 264,159 | 258,836 |
| Provisions | 22, 23 | 77,045 | 47,923 |
| Other non-current liabilities | | 1,788 | 2,115 |
| **Total non-current liabilities** | | **765,924** | **744,296** |
| **Total liabilities** | | **1,973,601** | **1,658,856** |
| **Equity** | 24 | | |
| Share capital | | 968 | 1,015 |
| Treasury shares (including obligation to repurchase common shares) | | (308,160) | (134,810) |
| Additional paid-in capital | | 39,277 | 39,173 |
| Other reserves | | 30,141 | 196,554 |
| Retained earnings | | 4,203,138 | 3,963,628 |
| **Total equity attributable to PJSC LUKOIL shareholders** | | **3,965,364** | **4,065,560** |
| Non-controlling interests | | 8,085 | 7,966 |
| **Total equity** | | **3,973,449** | **4,073,526** |
| **Total liabilities and equity** | | **5,947,050** | **5,732,382** |

President of PJSC LUKOIL
Alekperov V.Y.

Chief accountant of PJSC LUKOIL
Verkhov V.A.

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

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

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Revenues** | | | |
| Sales (including excise and export tariffs) | 33 | 7,841,246 | 8,035,889 |
| **Costs and other deductions** | | | |
| Operating expenses | | (457,710) | (464,467) |
| Cost of purchased crude oil, gas and products | | (4,308,073) | (4,534,244) |
| Transportation expenses | | (278,798) | (270,153) |
| Selling, general and administrative expenses | | (197,172) | (192,433) |
| Depreciation, depletion and amortisation | | (415,094) | (343,085) |
| Taxes other than income taxes | | (928,190) | (899,383) |
| Excise and export tariffs | | (425,763) | (556,827) |
| Exploration expenses | | (9,348) | (3,582) |
| **Profit from operating activities** | | **821,098** | **771,715** |
| Finance income | 26 | 25,134 | 19,530 |
| Finance costs | 26 | (44,356) | (38,298) |
| Equity share in income of affiliates | 12 | 18,246 | 25,243 |
| Foreign exchange gain | | 923 | 33,763 |
| Other expenses | 27 | (27,691) | (38,934) |
| **Profit before income taxes** | | **793,354** | **773,019** |
| Current income taxes | | (144,615) | (137,062) |
| Deferred income taxes | | (6,518) | (14,855) |
| **Total income tax expense** | 29 | **(151,133)** | **(151,917)** |
| **Profit for the year** | | **642,221** | **621,102** |
| Profit for the year attributable to non-controlling interests | | (2,043) | (1,928) |
| **Profit for the year attributable to PJSC LUKOIL shareholders** | | **640,178** | **619,174** |
| | | | |
| **Other comprehensive income (loss), net of income taxes** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Foreign currency translation differences for foreign operations | | (164,117) | 172,037 |
| Change in fair value of equity investments at fair value through other comprehensive income | | (348) | (2,393) |
| *Items that will never be reclassified to profit or loss:* | | | |
| Remeasurements of defined benefit liability / asset of pension plan | 23 | (1,976) | (196) |
| **Other comprehensive (loss) income** | | **(166,441)** | **169,448** |
| **Total comprehensive income for the year** | | **475,780** | **790,550** |
| Total comprehensive income for the year attributable to non-controlling interests | | (2,015) | (1,912) |
| **Total comprehensive income for the year attributable to PJSC LUKOIL shareholders** | | **473,765** | **788,638** |
| | | | |
| **Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles):** | 24 | | |
| Basic | | 963.28 | 874.47 |
| Diluted | | 934.73 | 865.19 |

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

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

| | Share capital | Treasury shares (including obligation to repurchase) | Additional paid-in capital | Other reserves | Retained earnings | Total equity attributable to PJSC LUKOIL shareholders | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| 31 December 2018 | 1,015 | (134,810) | 39,173 | 196,554 | 3,963,628 | **4,065,560** | 7,966 | **4,073,526** |
| Profit for the year | - | - | - | - | 640,178 | **640,178** | 2,043 | **642,221** |
| Other comprehensive loss | - | - | - | (166,413) | - | **(166,413)** | (28) | **(166,441)** |
| **Total comprehensive (loss) income** | | | | **(166,413)** | **640,178** | **473,765** | **2,015** | **475,780** |
| Dividends on common stock | - | - | - | - | (229,669) | **(229,669)** | - | **(229,669)** |
| Stock purchased | - | (240,767) | - | - | - | **(240,767)** | - | **(240,767)** |
| Equity-settled share-based compensation plan | - | - | - | - | 17,359 | **17,359** | - | **17,359** |
| Obligation to repurchase common shares | - | (120,988) | - | - | - | **(120,988)** | - | **(120,988)** |
| Share capital reduction | (47) | 188,405 | - | - | (188,358) | **-** | - | **-** |
| Changes in non-controlling interests | - | - | 104 | - | - | **104** | (1,896) | **(1,792)** |
| **31 December 2019** | **968** | **(308,160)** | **39,277** | **30,141** | **4,203,138** | **3,965,364** | **8,085** | **3,973,449** |
| | | | | | | | | |
| 31 December 2017 | 1,151 | (251,089) | 129,641 | 27,090 | 3,576,158 | **3,482,951** | 7,448 | **3,490,399** |
| Adjustment on adoption of IFRS 9, net of tax | - | - | - | - | (6,831) | **(6,831)** | - | **(6,831)** |
| 1 January 2018 | 1,151 | (251,089) | 129,641 | 27,090 | 3,569,327 | **3,476,120** | 7,448 | **3,483,568** |
| Profit for the year | - | - | - | - | 619,174 | **619,174** | 1,928 | **621,102** |
| Other comprehensive income | - | - | - | 169,464 | - | **169,464** | (16) | **169,448** |
| **Total comprehensive income** | | | | **169,464** | **619,174** | **788,638** | **1,912** | **790,550** |
| Dividends on common stock | - | - | - | - | (158,635) | **(158,635)** | - | **(158,635)** |
| Stock purchased | - | (62,916) | - | - | - | **(62,916)** | - | **(62,916)** |
| Equity-settled share-based compensation plan | - | - | - | - | 22,284 | **22,284** | - | **22,284** |
| Share capital reduction | (136) | 179,195 | (90,537) | - | (88,522) | **-** | - | **-** |
| Changes in non-controlling interests | - | - | 69 | - | - | **69** | (1,394) | **(1,325)** |
| **31 December 2018** | **1,015** | **(134,810)** | **39,173** | **196,554** | **3,963,628** | **4,065,560** | **7,966** | **4,073,526** |

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

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

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit for the year attributable to PJSC LUKOIL shareholders** | | **640,178** | **619,174** |
| Adjustments for non-cash items: | | | |
| Depreciation, depletion and amortisation | | 415,094 | 343,085 |
| Equity share in income of affiliates, net of dividends received | | (11,387) | (17,956) |
| Dry hole write-offs | | 7,694 | 1,667 |
| Loss on disposals and impairments of assets | | 16,975 | 26,061 |
| Income tax expense | | 151,133 | 151,917 |
| Non-cash foreign exchange gain | | (1,120) | (33,041) |
| Finance income | | (25,134) | (19,530) |
| Finance costs | | 44,356 | 38,298 |
| Allowance for expected credit losses | | 9,340 | (949) |
| Equity-settled share-based compensation plan | | 31,366 | 31,366 |
| All other items – net | | 1,823 | 6,076 |
| Changes in operating assets and liabilities: | | | |
| Trade accounts receivable | | (48,023) | 23,877 |
| Inventories | | (69,171) | 71,565 |
| Accounts payable | | 88,977 | (92,508) |
| Other taxes | | 24,053 | (8,460) |
| Other current assets and liabilities | | (2,617) | (28,066) |
| Income tax paid | | (148,314) | (133,064) |
| Dividends received | | 6,636 | 7,527 |
| Interests received | | 19,985 | 19,612 |
| **Net cash provided by operating activities** | | **1,151,844** | **1,006,651** |
| **Cash flows from investing activities** | | | |
| Acquisition of licenses | | (8,925) | (153) |
| Capital expenditures | | (449,975) | (451,526) |
| Proceeds from sale of property, plant and equipment | | 1,759 | 4,765 |
| Purchases of financial assets | | (7,198) | (7,535) |
| Proceeds from sale of financial assets | | 17,774 | 36,309 |
| Sale of subsidiaries, net of cash disposed | | 9,261 | - |
| Sale of equity method affiliates | | 259 | - |
| Acquisitions of interests in the projects and subsidiaries, net of cash acquired | | (71,693) | - |
| Acquisitions of equity method affiliates | | (1,388) | (2,252) |
| **Net cash used in investing activities** | | **(510,126)** | **(420,392)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of short-term borrowings | | 264 | 19,502 |
| Principal repayments of short-term borrowings | | (6,186) | (10,909) |
| Proceeds from issuance of long-term debt | | - | 39,786 |
| Principal repayments of long-term debt | | (106,625) | (256,771) |
| Interest paid | | (41,589) | (39,921) |
| Dividends paid on Company common shares | | (180,747) | (158,370) |
| Dividends paid to non-controlling interest shareholders | | (4,040) | (1,995) |
| Financing received from non-controlling interest shareholders | | 297 | 118 |
| Purchase of Company's stock | | (243,691) | (59,993) |
| Sale of non-controlling interest | | - | 4 |
| Purchases of non-controlling interest | | (27) | - |
| **Net cash used in financing activities** | | **(582,344)** | **(468,549)** |
| Effect of exchange rate changes on cash and cash equivalents | | (35,992) | 44,550 |
| **Net increase in cash and cash equivalents** | | **23,382** | **162,260** |
| Cash and cash equivalents at beginning of year | | 492,650 | 330,390 |
| **Cash and cash equivalents at end of year** | 6 | **516,032** | **492,650** |

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

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

## Note 1. Organisation and environment

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

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

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

### *Business and economic environment*

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

## Note 2. Basis of preparation

### *Statement of compliance*

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

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

The consolidated financial statements were authorised by the President of the Company on 10 March 2020.

### *Functional and presentation currency*

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

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

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

## Note 3. Summary of significant accounting policies

***Principles of consolidation***

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

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

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

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

Certain of Group's unincorporated joint exploration and production activities are conducted through arrangements that are not jointly controlled, either because unanimous consent is not required among all parties involved, or no single group of parties has joint control over the activity. Such activities where control can be achieved through agreement between more than one combination of involved parties are considered to be outside the scope of IFRS 11 *Joint Arrangements.* In relation to its interests in these arrangements, the Group recognises its share of any assets, liabilities, income and expenses.

***Business combinations***

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

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the 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.

**Note 3. Summary of significant accounting policies (continued)**

***Non-controlling interests***

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

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

***Transactions eliminated on consolidation***

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

***Foreign currency***

*Foreign currency transactions*

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

*Foreign operations*

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

**Note 3. Summary of significant accounting policies (continued)**

***Revenues***

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

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

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

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

***Cash and cash equivalents***

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

***Financial assets***

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

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

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

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

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

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

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

**Note 3. Summary of significant accounting policies (continued)**

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

***Non-derivative financial liabilities***

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

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

***Derivative instruments***

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

***Inventories***

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

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

***Property, plant and equipment***

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

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

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

**Note 3. Summary of significant accounting policies (continued)**

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

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

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

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

Production and related overhead costs are expensed as incurred.

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

***Impairment of non-current non-financial assets***

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

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

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

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

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

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

**Note 3. Summary of significant accounting policies (continued)**

***Asset retirement obligations***

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

***Assets classified as held for sale***

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

***Income taxes***

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

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.

**Note 3. Summary of significant accounting policies (continued)**

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

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

***Treasury shares***

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

***Earnings per share***

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

***Provisions and contingencies***

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

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

***Environmental expenditures***

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

***Share-based payments***

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

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## Note 3. Summary of significant accounting policies (continued)

### *Changes in accounting policies and disclosures*

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standard IFRS 16 *Leases* effective as of 1 January 2019.

IFRS 16, issued in January 2016, replaced existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 introduced a single, on-balance sheet lease accounting model for lessees. Under IFRS 16, a contract is, or contains, a lease if it conveys a right to control the use of an identified asset for a period of time in exchange for consideration. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. The Company has elected not to apply exemptions for short-term leases and leases for which the underlying asset is of low value. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

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

The Group applied IFRS 16 using the modified retrospective approach by one-off recognition of non-current assets and financial liabilities of 162 billion RUB at 1 January 2019 measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

### *Lease liabilities reconciliation*

| | |
|---|---|
| **Operating lease commitments at 31 December 2018** | **182,742** |
| Payments for the rent of land related to exploration and evaluation | (30,417) |
| Leases not yet commenced | (22,835) |
| Effect of discounting using incremental borrowing rate as of the date of initial application | (33,754) |
| Other | (847) |
| **Discounted using incremental borrowing rate** | **94,889** |
| Extension and termination options reasonably certain to be exercised | 10,721 |
| Service agreements classified as lease | 56,585 |
| Other | (144) |
| **Additional lease liabilities at 1 January 2019** | **162,051** |
| Finance lease liabilities at 31 December 2018 | 25,973 |
| **Total lease liabilities at 1 January 2019** | **188,024** |

For further disclosures please refer to Note 28 "Lease".

## Note 4. Use of estimates and judgments

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

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

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## Note 4. Use of estimates and judgments (continued)

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

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

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

## Note 5. New standards and interpretations not yet adopted

The following amendments to the standards and clarifications are effective for annual periods beginning on 1 January 2020, available for early adoption:

- amendments to references to Conceptual Framework in IFRS Standards;
- definition of a business (amendments to IFRS 3 *Business Combinations*);
- definition of a material (amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

However, the Group did not make an early adoption of the amended standards in the preparation of these consolidated financial statements, which are not expected to have a significant impact on the Group's consolidated financial statements.

## Note 6. Cash and cash equivalents

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Cash held in RUB | 189,055 | 201,073 |
| Cash held in US dollars | 303,046 | 264,538 |
| Cash held in EUR | 14,909 | 18,350 |
| Cash held in other currencies | 9,022 | 8,689 |
| **Total cash and cash equivalents** | **516,032** | **492,650** |

## Note 7. Accounts receivables, net

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Trade accounts receivable (net of allowances of 26,593 million RUB and 23,031 million RUB at 31 December 2019 and 2018, respectively) | 428,415 | 411,247 |
| Other current accounts receivable (net of allowances of 4,694 million RUB and 4,767 million RUB at 31 December 2019 and 2018, respectively) | 8,637 | 18,698 |
| **Total accounts receivable, net** | **437,052** | **429,945** |

## Note 8. Other current financial assets

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Financial assets measured at amortised cost** | | |
| Short-term loans | 6,814 | 19,008 |
| Other financial assets | - | 295 |
| **Financial assets measured at fair value through profit or loss** | | |
| Short-term loans | 42,892 | 6,897 |
| **Total other current financial assets** | **49,706** | **26,200** |

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## Note 9. Inventories

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Crude oil and petroleum products | 358,372 | 325,563 |
| Materials for extraction and drilling | 22,811 | 23,128 |
| Materials and supplies for refining | 4,449 | 4,084 |
| Other goods, materials and supplies | 28,278 | 28,962 |
| **Total inventories** | **413,910** | **381,737** |

## Note 10. Prepaid taxes

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Income tax prepaid | 17,120 | 12,165 |
| VAT and excise tax recoverable | 30,660 | 37,832 |
| Export duties prepaid | 11,968 | 23,093 |
| VAT prepaid | 30,199 | 18,498 |
| Other taxes prepaid | 5,128 | 4,023 |
| **Total prepaid taxes** | **95,075** | **95,611** |

## Note 11. Other current assets

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Advance payments | 10,246 | 19,851 |
| Prepaid expenses | 23,673 | 22,139 |
| Other assets | 8,493 | 10,346 |
| **Total other current assets** | **42,412** | **52,336** |

## Note 12. Investments in associates and joint ventures

Carrying value of investments in associates and joint ventures:

| | | Ownership | | | |
|---|---|---|---|---|---|
| **Name of the company** | **Country** | **31 December 2019** | **31 December 2018** | **31 December 2019** | **31 December 2018** |
| *Joint ventures:* | | | | | |
| Tengizchevroil (TCO) | Kazakhstan | 5.0% | 5.0% | 119,924 | 121,204 |
| Caspian Pipeline Consortium (CPC) | Kazakhstan | 12.5% | 12.5% | 40,670 | 39,346 |
| South Caucasus Pipeline Holding Company (SCPC) | Azerbaijan | 10.0% | 10.0% | 30,241 | 34,789 |
| Others | | | | 655 | 623 |
| *Associates:* | | | | | |
| Associates | | | | 28,514 | 32,091 |
| **Total** | | | | **220,004** | **228,053** |

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

| 31 December 2019 | TCO | CPC | SCPC | Others | Associates | Total |
|---|---|---|---|---|---|---|
| Current assets | 127,066 | 21,376 | 10,196 | 3,183 | 36,785 | **198,606** |
| Non-current assets | 2,641,370 | 410,517 | 315,987 | 1,770 | 193,540 | **3,563,184** |
| Current liabilities | 195,807 | 88,698 | 9,311 | 568 | 136,443 | **430,827** |
| Non-current liabilities | 825,320 | 17,838 | 14,467 | 3,076 | 31,737 | **892,438** |
| Net assets (100%) | 1,747,309 | 325,357 | 302,405 | 1,309 | 62,145 | **2,438,525** |
| Share in net assets | 119,924 | 40,670 | 30,241 | 655 | 28,514 | **220,004** |

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## Note 12. Investments in associates and joint ventures (continued)

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

| **2019** | **TCO** | **CPC** | **SCPC** | **Others** | **Associates** | **Total** |
|---|---|---|---|---|---|---|
| Revenues | 1,055,783 | 146,646 | 37,944 | 6,988 | 122,041 | **1,369,402** |
| Net income (100%) | 296,060 | 46,918 | 18,234 | 167 | (8,219) | **353,160** |
| Share in net income | 12,474 | 5,865 | 1,823 | 84 | (2,000) | **18,246** |

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

## Note 13. Property, plant and equipment

| | **Exploration and production** | **Refining, marketing and distribution** | **Other** | **Total** |
|---|---|---|---|---|
| **Cost** | | | | |
| 31 December 2018 | 4,476,824 | 1,373,743 | 75,882 | **5,926,449** |
| Adjustment on adoption of IFRS 16 | 54,335 | 102,189 | 5,527 | **162,051** |
| 1 January 2019 | 4,531,159 | 1,475,932 | 81,409 | **6,088,500** |
| Additions | 397,031 | 120,221 | 2,133 | **519,385** |
| Acquisitions | 72,171 | 529 | - | **72,700** |
| Disposals | (55,461) | (19,197) | (2,833) | **(77,491)** |
| Foreign currency translation differences | (165,027) | (71,067) | (1,804) | **(237,898)** |
| Other | 15,801 | 4,097 | (2,659) | **17,239** |
| **31 December 2019** | **4,795,674** | **1,510,515** | **76,246** | **6,382,435** |
| **Depreciation and impairment** | | | | |
| 31 December 2018 | (1,586,508) | (513,668) | (19,380) | **(2,119,556)** |
| Depreciation for the period | (288,349) | (121,721) | (4,064) | **(414,134)** |
| Impairment loss | (21,559) | (1,324) | - | **(22,883)** |
| Impairment reversal | 9,797 | - | - | **9,797** |
| Disposals | 36,114 | 15,289 | 789 | **52,192** |
| Foreign currency translation differences | 83,848 | 27,564 | 723 | **112,135** |
| Other | 82 | 4,224 | 779 | **5,085** |
| **31 December 2019** | **(1,766,575)** | **(589,636)** | **(21,153)** | **(2,377,364)** |
| **Advance payments for property, plant and equipment** | | | | |
| 31 December 2018 | 5,916 | 15,669 | 686 | **22,271** |
| **31 December 2019** | **6,791** | **13,314** | **831** | **20,936** |
| **Carrying amounts** | | | | |
| 31 December 2018 | 2,896,232 | 875,744 | 57,188 | **3,829,164** |
| **31 December 2019** | **3,035,890** | **934,193** | **55,924** | **4,026,007** |

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## Note 13. Property, plant and equipment (continued)

| | Exploration and production | Refining, marketing and distribution | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| 31 December 2017 | 3,902,267 | 1,236,552 | 72,543 | **5,211,362** |
| Additions | 365,329 | 91,676 | 2,189 | **459,194** |
| Disposals | (37,837) | (14,859) | (1,331) | **(54,027)** |
| Foreign currency translation differences | 245,644 | 60,352 | 2,465 | **308,461** |
| Other | 1,421 | 22 | 16 | **1,459** |
| **31 December 2018** | **4,476,824** | **1,373,743** | **75,882** | **5,926,449** |
| **Depreciation and impairment** | | | | |
| 31 December 2017 | (1,230,717) | (403,445) | (15,617) | **(1,649,779)** |
| Depreciation for the period | (247,940) | (94,405) | (3,673) | **(346,018)** |
| Impairment loss | (11,093) | (634) | - | **(11,727)** |
| Disposals | 26,777 | 7,762 | 619 | **35,158** |
| Foreign currency translation differences | (122,439) | (23,406) | (775) | **(146,620)** |
| Other | (1,096) | 460 | 66 | **(570)** |
| **31 December 2018** | **(1,586,508)** | **(513,668)** | **(19,380)** | **(2,119,556)** |
| **Advance payments for property, plant and equipment** | | | | |
| 31 December 2017 | 10,732 | 2,717 | 133 | **13,582** |
| **31 December 2018** | **5,916** | **15,669** | **686** | **22,271** |
| **Carrying amounts** | | | | |
| 31 December 2017 | 2,682,282 | 835,824 | 57,059 | **3,575,165** |
| **31 December 2018** | **2,896,232** | **875,744** | **57,188** | **3,829,164** |

The cost of assets under construction included in property, plant and equipment was 369,926 million RUB and 335,312 million RUB at 31 December 2019 and 2018, respectively.

### *Exploration and evaluation assets*

| | 2019 | 2018 |
|---|---|---|
| 1 January | 107,105 | 86,134 |
| Capitalised expenditures | 41,446 | 31,770 |
| Reclassified to development assets | (8,742) | (3,962) |
| Charged to expenses | (7,159) | (9,103) |
| Foreign currency translation differences | (3,537) | 3,657 |
| Other movements | 838 | (1,391) |
| **31 December** | **129,951** | **107,105** |

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

In the fourth quarter of 2019, the Group recognised an impairment loss for its exploration and production assets in Russia in the amount of 20,142 million RUB, for its international exploration and production assets in the amount of 1,270 million RUB, for its refining, marketing and distribution assets in Russia in the amount of 476 million RUB and for its international refining, marketing and distribution assets in the amount of 848 million RUB. Also the Group recognised an impairment reversal of 9,651 million RUB, which was mainly a result of improvement of economic parameters of our production projects in Western Siberia and European part of Russia.

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## Note 13. Property, plant and equipment (continued)

The recoverable amounts of CGUs subject to impairment and impairment reversal in 2019 in the amount of 55,822 million RUB and 100,270 million RUB, respectively, were determined as value in use equal to the present value of the expected cash flows. Value in use was estimated using the following discount rates: for exploration and production assets in Russia – 8.5%, for refining, marketing and distribution assets in Russia – from 10% to 13%.

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

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

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

For impairment test purposes at 31 December 2019 the following Brent Blend price assumptions have been used: $62.8 per barrel in 2020, $64.0 per barrel in 2021, $66.0 per barrel in 2022, $68.0 per barrel in 2023, and $70.0 per barrel from 2024.

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

## Note 14. Other non-current financial assets

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **Financial assets measured at fair value through other comprehensive income** | | |
| Equity instruments | 2,656 | 3,388 |
| **Financial assets measured at amortised cost** | | |
| Long-term loans | 26,008 | 19,468 |
| Non-current accounts and notes receivable | 1,371 | 2,469 |
| Other financial assets | 34 | 102 |
| **Financial assets measured at fair value through profit or loss** | | |
| Long-term loans | 8,162 | 57,064 |
| Other financial assets | - | 77 |
| **Total other non-current financial assets** | **38,231** | **82,568** |

## Note 15. Acquisitions of interests in the projects

In October 2019, a Group company acquired a 5% interest in the Ghasha Concession in the United Arab Emirates from the Abu Dhabi National oil company for 13.8 billion RUB ($214 million).

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## Note 15. Acquisitions of interests in the projects (continued)

In the second quarter of 2019, a Group company entered into a contract with New Age M12 Holdings Limited to acquire a 25% interest in the Marine XII license in the Republic of Congo (Congo, Brazzaville) developed under the production sharing agreement. In September 2019, the transaction in the amount of 51.4 billion RUB ($768 million) was closed after all the customary conditions, including approval by the Government of the Republic of Congo, were fulfilled. At 31 December 2019, the Company had not yet completed the fair value estimation of assets and liabilities of its 25% interest in this project. Allocation of the purchase price to the fair value of assets acquired and liabilities assumed is going to be finalized within 12 months from the acquisition date.

After acquisition the Group accounted for these projects similar to accounting for jointly controlled operations.

## Note 16. Goodwill and other intangible assets

| | Internally generated software | Other internally generated intangible assets | Acquired intangible assets | Goodwill | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 31 December 2018 | 17,714 | 3,538 | 50,296 | 35,681 | **107,229** |
| Additions as result of internal developments | 1,678 | 1,886 | - | - | **3,564** |
| Acquisitions | - | - | 16 | - | **16** |
| Additions - separately acquired | - | - | 6,922 | - | **6,922** |
| Disposals | (7) | (7) | (1,030) | - | **(1,044)** |
| Foreign currency translation differences | (289) | (2) | (3,287) | (3,344) | **(6,922)** |
| Other | 436 | (440) | (135) | - | **(139)** |
| **31 December 2019** | **19,532** | **4,975** | **52,782** | **32,337** | **109,626** |
| **Amortisation and impairment** | | | | | |
| 31 December 2018 | (14,242) | (1,001) | (38,503) | (11,718) | **(65,464)** |
| Amortisation for the year | (837) | (298) | (5,329) | - | **(6,464)** |
| Disposals | 7 | 5 | 706 | - | **718** |
| Foreign currency translation differences | 274 | 2 | 2,398 | 1,794 | **4,468** |
| Other | 1 | (14) | 237 | - | **224** |
| **31 December 2019** | **(14,797)** | **(1,306)** | **(40,491)** | **(9,924)** | **(66,518)** |
| **Carrying amounts** | | | | | |
| 31 December 2018 | 3,472 | 2,537 | 11,793 | 23,963 | **41,765** |
| **31 December 2019** | **4,735** | **3,669** | **12,291** | **22,413** | **43,108** |

**(Millions of Russian rubles, unless otherwise noted)**

## Note 16. Goodwill and other intangible assets (continued)

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

Goodwill was tested for impairment and no impairment was identified.

## Note 17. Accounts payable

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Trade accounts payable | 555,823 | 477,444 |
| Other accounts payable | 51,911 | 69,684 |
| **Total accounts payable** | **607,734** | **547,128** |

## Note 18. Short-term borrowings and current portion of long-term debt

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Short-term borrowings from third parties | 13,940 | 20,885 |
| Short-term borrowings from related parties | 2,222 | 7,843 |
| Current portion of long-term debt | 114,138 | 70,897 |
| **Total short-term borrowings and current portion of long-term debt** | **130,300** | **99,625** |

Short-term borrowings from third parties include amounts repayable in US dollars of 12,694 million RUB and 15,541 million RUB and amounts repayable in other currencies of 1,246 million RUB and 5,344 million RUB at 31 December 2019 and 2018, respectively. The weighted-average interest rate on short-term borrowings from third parties was 4.00% and 9.83% per annum at 31 December 2019 and 2018, respectively. At 31 December 2019, short-term borrowings from third parties are unsecured.

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## Note 19. Long-term debt

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Long-term loans and borrowings from third parties | 117,864 | 161,314 |
| 7.250% non-convertible US dollar bonds, maturing 2019 | - | 41,584 |
| 6.125% non-convertible US dollar bonds, maturing 2020 | 61,866 | 69,385 |
| 6.656% non-convertible US dollar bonds, maturing 2022 | 30,905 | 34,663 |
| 4.563% non-convertible US dollar bonds, maturing 2023 | 92,769 | 104,079 |
| 4.750% non-convertible US dollar bonds, maturing 2026 | 61,786 | 69,321 |
| Lease obligations | 171,880 | 25,973 |
| Total long-term debt | 537,070 | 506,319 |
| Current portion of long-term debt | (114,138) | (70,897) |
| **Total non-current portion of long-term debt** | **422,932** | **435,422** |

### *Long-term loans and borrowings*

Long-term loans and borrowings from third parties include amounts repayable in US dollars of 104,819 million RUB and 137,439 million RUB and amounts repayable in euros of 13,045 million RUB and 23,875 million RUB at 31 December 2019 and 2018, respectively. This debt has maturity dates from 2020 through 2028. The weighted-average interest rate on long-term loans and borrowings from third parties was 4.08% and 4.87% per annum at 31 December 2019 and 2018, respectively. A number of long-term loan agreements contain certain financial covenants which are being met by the Group. Approximately 48% of total long-term loans and borrowings from third parties at 31 December 2019 are secured by shares of an associated company, export sales and property, plant and equipment.

### *US dollar non-convertible bonds*

In November 2016, a Group company issued non-convertible bonds totaling $1 billion (61.9 billion RUB). The bonds were placed with a maturity of 10 years and a coupon yield of 4.750% per annum. All bonds were placed at face value and have a half year coupon period.

In April 2013, a Group company issued two tranches of non-convertible bonds totaling $3 billion (185.7 billion RUB). The first tranche totaling $1.5 billion (92.85 billion RUB) was placed with a maturity of 5 years and a coupon yield of 3.416% per annum. The second tranche totaling $1.5 billion (92.85 billion RUB) was placed with a maturity of 10 years and a coupon yield of 4.563% per annum. All bonds were placed at face value and have a half year coupon period. In April 2018, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

In November 2010, a Group company issued two tranches of non-convertible bonds totaling $1 billion (61.9 billion RUB) with a maturity of 10 years and a coupon yield of 6.125%. The first tranche totaling $800 million (49.5 billion RUB) was placed at a price of 99.081% of the bond’s face value with a resulting yield to maturity of 6.250%. The second tranche totaling $200 million (12.4 billion RUB) was placed at a price of 102.44% of the bond’s face value with a resulting yield to maturity of 5.80%. All bonds have a half year coupon period.

In November 2009, a Group company issued two tranches of non-convertible bonds totaling $1.5 billion (92.85 billion RUB). The first tranche totaling $900 million (55.7 billion RUB) with a coupon yield of 6.375% per annum was placed with a maturity of 5 years at a price of 99.474% of the bond’s face value with a resulting yield to maturity of 6.500%. The second tranche totaling $600 million (37.1 billion RUB) with a coupon yield of 7.250% per annum was placed with a maturity of 10 years at a price of 99.127% of the bond’s face value with a resulting yield to maturity of 7.375%. All bonds have a half year coupon period. In November 2014 and November 2019, a Group company redeemed all issued bonds of the first and second tranches in accordance with the conditions of the bond issue.

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## Note 19. Long-term debt (continued)

In June 2007, a Group company issued two tranches of non-convertible bonds totaling $1 billion (61.9 billion RUB). $500 million (30.95 billion RUB) were placed with a maturity of 10 years and a coupon yield of 6.356% per annum. Another $500 million (30.95 billion RUB) were placed with a maturity of 15 years and a coupon yield of 6.656% per annum. All bonds were placed at face value and have a half year coupon period. In June 2017, a Group company redeemed all issued bonds of the first tranche in accordance with the conditions of the bond issue.

***Reconciliation of liabilities arising from financing activities***

| | Loans and borrowings | Bonds | Lease obligations | Other liabilities | Total |
|---|---|---|---|---|---|
| 31 December 2018 | 190,042 | 319,032 | 25,973 | 73,920 | **608,967** |
| Adjustment on adoption of IFRS 16 | - | - | 162,051 | - | **162,051** |
| 1 January 2019 | 190,042 | 319,032 | 188,024 | 73,920 | **771,018** |
| Changes from financing cash flows: | | | | | |
| Proceeds from issuance of short-term borrowings | 264 | - | - | - | **264** |
| Principal repayments of short-term borrowings | (6,186) | - | - | - | **(6,186)** |
| Principal repayments of long-term debt | (26,955) | (38,232) | (41,438) | - | **(106,625)** |
| Interest paid | - | - | (11,258) | (30,331) | **(41,589)** |
| Dividends paid on Company common stock | - | - | - | (180,747) | **(180,747)** |
| Total changes from financing cash flows | (32,877) | (38,232) | (52,696) | (211,078) | **(334,883)** |
| Other changes: | | | | | |
| Interest accrued | - | - | 11,258 | 32,018 | **43,276** |
| Dividends declared on Company common stock | - | - | - | 229,669 | **229,669** |
| Changes arising from obtaining or losing control over subsidiaries | (4,100) | - | - | - | **(4,100)** |
| The effect of changes in foreign exchange rates | (19,407) | (33,661) | (14,757) | (555) | **(68,380)** |
| Non-cash additions to lease obligations | - | - | 42,550 | - | **42,550** |
| Other changes | 368 | 187 | (2,499) | 11,946 | **10,002** |
| Total other changes | (23,139) | (33,474) | 36,552 | 273,078 | **253,017** |
| **31 December 2019** | **134,026** | **247,326** | **171,880** | **135,920** | **689,152** |

## Note 20. Taxes payable

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Income tax | 12,031 | 11,316 |
| Mineral extraction tax | 61,464 | 46,532 |
| Tax on additional income from hydrocarbon production | 3,380 | - |
| VAT | 38,566 | 34,823 |
| Excise tax | 14,359 | 18,887 |
| Property tax | 5,120 | 4,985 |
| Other taxes | 7,551 | 7,431 |
| **Total taxes payable** | **142,471** | **123,974** |

## Note 21. Other current liabilities

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Advances received | 30,868 | 30,249 |
| Dividends payable | 135,034 | 72,103 |
| Other | 3,050 | 3,215 |
| **Total other current liabilities** | **168,952** | **105,567** |

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## Note 22. Provisions

| | Asset retirement obligations | Provision for employee compensations | Provision for environmental liabilities | Pension liabilities | Provision for unused vacations | Other provisions | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2019** | **63,387** | **9,762** | **3,783** | **12,544** | **5,861** | **18,940** | **114,277** |
| Incl.: Non-current | 62,667 | 263 | 1,175 | 10,310 | 153 | 2,477 | **77,045** |
| Current | 720 | 9,499 | 2,608 | 2,234 | 5,708 | 16,463 | **37,232** |
| 31 December 2018 | 36,424 | 9,401 | 4,014 | 8,910 | 5,968 | 21,472 | **86,189** |
| Incl.: Non-current | 36,042 | 263 | 1,604 | 5,916 | 178 | 3,920 | **47,923** |
| Current | 382 | 9,138 | 2,410 | 2,994 | 5,790 | 17,552 | **38,266** |

Asset retirement obligations changed as follows during 2019 and 2018:

| | **2019** | **2018** |
|---|---|---|
| 1 January | 36,424 | 36,668 |
| Provisions made during the year | 2,158 | 3,026 |
| Reversal of provisions | (387) | (220) |
| Provisions used during the year | (119) | (207) |
| Accretion expense | 2,707 | 2,963 |
| Change in discount rate | 23,092 | (1,331) |
| Changes in estimates | 1,360 | (7,405) |
| Foreign currency translation differences | (1,882) | 2,902 |
| Other | 34 | 28 |
| **31 December** | **63,387** | **36,424** |

## Note 23. Pension liabilities

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

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

The Company uses 31 December as the measurement date for its pension obligation. An independent actuary has assessed the benefit obligations at 31 December 2019 and 2018.

The following table sets out movement in the pension liabilities before taxation during 2019 and 2018.

| | **2019** | **2018** |
|---|---|---|
| 1 January | 8,910 | 10,367 |
| Components of defined benefit costs recorded in profit or loss | 3,182 | 518 |
| Components of defined benefit costs recorded in other comprehensive loss | 2,510 | 228 |
| Contributions from employer | (1,385) | (1,451) |
| Benefits paid | (680) | (785) |
| Opening balance adjustment | (5) | 33 |
| Liability assumed in business combination | 12 | - |
| **31 December** | **12,544** | **8,910** |

## Note 24. Equity

### *Common shares*

| | 31 December 2019 (thousands of shares) | 31 December 2018 (thousands of shares) |
|---|---|---|
| Issued common shares, par value of 0.025 RUB each | 715,000 | 750,000 |
| Treasury shares | (62,119) | (53,107) |
| **Outstanding common shares** | **652,881** | **696,893** |

The Company has the right to issue additional 85,000 thousands of common shares.

On 3 December 2019, at the extraordinary general shareholders' meeting a decision was made to reduce the share capital of the Company by purchase of a portion of issued shares in order to reduce the total number thereof. At 31 December 2019, the Group recognised an obligation to repurchase common shares in the amount of 120,988 million RUB. Share capital reduction to 693 million common shares by purchase and cancellation of 22 million common shares was executed on 10 February 2020. Most of the common shares were purchased from a Group company.

On 20 June 2019, at the annual general shareholders' meeting a decision was made to reduce the share capital of the Company to 715 million common shares by purchase and cancellation of 35 million common shares. Share cancellation and share capital reduction was executed on 28 August 2019. Out of 35 million common shares 15.5 million common shares were purchased from a Group company.

In 2019, a Group company purchased 24.5 million common shares and depositary receipts of the Company as part of the open market buyback programme announced on 30 August 2018.

In 2018, a Group company purchased 12.7 million common shares and depositary receipts of the Company as part of the open market buyback programme.

### *Dividends*

At the extraordinary shareholders' meeting on 3 December 2019, interim dividends for 2019 were approved in the amount of 192.00 RUB per common share.

At the annual general shareholders' meeting on 20 June 2019, dividends for 2018 were approved in the amount of 155.00 RUB per common share. At the extraordinary general shareholders' meeting on 3 December 2018, interim dividends for 2018 were approved in the amount of 95.00 RUB per common share. Total dividends for 2018 were approved in the amount of 250.00 RUB per common share.

Dividends on the Company's shares payable of 133,514 million RUB and 70,610 million RUB are included in "Other current liabilities" in the consolidated statement of financial position at 31 December 2019 and 2018, respectively.

### *Earnings per share*

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

| | 2019 | 2018 |
|---|---|---|
| Profit for the year attributable to PJSC LUKOIL | 640,178 | 619,174 |
| Weighted average number of common shares (thousands of shares) | 664,578 | 708,059 |
| Dilutive effect of equity-settled share-based compensation plan (thousands of shares) | 20,122 | 7,588 |
| Dilutive effect related to obligation to repurchase common shares (thousands of shares) | 180 | - |
| Weighted average number of common shares, assuming dilution (thousands of shares) | 684,880 | 715,647 |
| Earnings per share of common stock attributable to PJSC LUKOIL (in Russian rubles): | | |
| Basic | 963.28 | 874.47 |
| Diluted | 934.73 | 865.19 |

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## Note 25. Personnel expenses

Personnel expenses were as follows:

| | 2019 | 2018 |
|---|---|---|
| Salary | 143,602 | 135,671 |
| Statutory insurance contributions | 33,417 | 32,531 |
| Share-based compensation | 31,366 | 31,300 |
| **Total personnel expenses** | **208,385** | **199,502** |

## Note 26. Finance income and costs

Finance income was as follows:

| | 2019 | 2018 |
|---|---|---|
| Interest income from deposits | 15,452 | 10,595 |
| Interest income from loans | 4,878 | 6,484 |
| Other finance income | 4,804 | 2,451 |
| **Total finance income** | **25,134** | **19,530** |

Finance costs were as follows:

| | 2019 | 2018 |
|---|---|---|
| Interest expenses | 39,145 | 32,191 |
| Accretion expenses | 2,752 | 2,994 |
| Other finance costs | 2,459 | 3,113 |
| **Total finance costs** | **44,356** | **38,298** |

## Note 27. Other income and expenses

Other income was as follows:

| | 2019 | 2018 |
|---|---|---|
| Gain on disposal of assets | 10,496 | 2,919 |
| Reversal of impairment of assets | 13,468 | - |
| Other income | 8,837 | 18,351 |
| **Total other income** | **32,801** | **21,270** |

Other expenses were as follows:

| | 2019 | 2018 |
|---|---|---|
| Loss on disposal of assets | 18,056 | 17,253 |
| Impairment loss | 22,883 | 11,727 |
| Charity expenses | 9,228 | 8,785 |
| Other expenses | 10,325 | 22,439 |
| **Total other expenses** | **60,492** | **60,204** |

## Note 28. Lease

Primarily the Group leases such assets as transport (vessels, tank cars), land, drilling rigs and other equipment, storage facilities. The lease typically runs for a period of 3–5 years. Some leases include an option to renew the lease for additional period after the end of the non-cancellable period. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal option. Moreover, in determining the lease term the Group also took into account economic factors, which influence asset usage duration in its activity.

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## Note 28. Lease (continued)

| | Exploration and production | Refining, marketing and distribution | Other | Total |
|---|---|---|---|---|
| Property, plant and equipment owned | 2,995,944 | 802,364 | 51,518 | **3,849,826** |
| Right-of-use assets | 39,946 | 131,829 | 4,406 | **176,181** |
| **31 December 2019** | **3,035,890** | **934,193** | **55,924** | **4,026,007** |

Right-of-use assets:

| | Exploration and production | Refining, marketing and distribution | Other | Total |
|---|---|---|---|---|
| 1 January 2019 | 54,335 | 125,657 | 5,527 | **185,519** |
| Additions | 7,513 | 35,011 | 94 | **42,618** |
| Depreciation for the period | (13,326) | (31,850) | (818) | **(45,994)** |
| Other movements | (8,576) | 3,011 | (397) | **(5,962)** |
| **31 December 2019** | **39,946** | **131,829** | **4,406** | **176,181** |

Lease liabilities:

| | |
|---|---|
| **31 December 2019** | **171,880** |
| Incl.: Non-current | 143,902 |
| Current | 27,978 |

Within the consolidated statement of profit or loss and other comprehensive income for 2019 the following expenses were recognized: interest on lease liabilities in the amount of 9,836 million RUB and variable lease payments not included in the measurement of lease liabilities in the amount of 9,418 million RUB. Income from sub-leasing right-of-use assets was not material.

Within the consolidated statement of cash flows for 2019 the total cash outflow under leases, including variable lease payments attributable to capital expenditure, amounted to 120,755 million RUB.

## Note 29. Income tax

Operations in the Russian Federation are subject to a 20% income tax rate. For the period from 2017 till 2024 (inclusive) the Federal income tax rate is set as 3.0% and the regional income tax rate is set as 17.0%. Regional income tax rate may be reduced for certain categories of taxpayers by the laws of constituent entities of the Russian Federation, however certain restrictions apply on the application of the reduced regional rates.

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

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

Income tax was as follows:

| | 2019 | 2018 |
|---|---|---|
| Current income tax expense for the year | 149,032 | 136,996 |
| Adjustment for prior periods | (4,417) | 66 |
| **Current income taxes** | **144,615** | **137,062** |
| **Deferred income tax** | **6,518** | **14,855** |
| **Total income tax expense** | **151,133** | **151,917** |

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## Note 29. Income tax (continued)

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

| | 2019 | 2018 |
|---|---|---|
| Profit before income taxes | 793,354 | 773,019 |
| Notional income tax at the Russian statutory rate | 158,671 | 154,604 |
| Increase (reduction) in income tax due to: | | |
| Non-deductible items, net | 18,056 | 21,711 |
| Domestic and foreign rate differences | (17,709) | (25,932) |
| Adjustment for prior periods | (4,417) | 66 |
| Change in recognised deductible temporary differences | (3,468) | 1,468 |
| **Total income tax expense** | **151,133** | **151,917** |

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 2019 | 31 December 2018 |
|---|---|---|
| Property, plant and equipment | 5,332 | 8,251 |
| Investments | 60 | - |
| Inventories | 4,768 | 5,972 |
| Accounts receivable | 1,583 | 1,106 |
| Accounts payable and provisions | 11,052 | 11,251 |
| Tax loss carry forward | 35,344 | 32,989 |
| Other | 514 | 532 |
| Total deferred income tax assets | 58,653 | 60,101 |
| Set off of tax | (29,980) | (29,060) |
| **Deferred income tax assets** | **28,673** | **31,041** |
| Property, plant and equipment | (276,175) | (267,422) |
| Investments | (1,517) | (2,326) |
| Inventories | (4,557) | (4,748) |
| Accounts receivable | (8,551) | (10,251) |
| Accounts payable and provisions | (1,518) | (902) |
| Other | (1,821) | (2,247) |
| Total deferred income tax liabilities | (294,139) | (287,896) |
| Set off of tax | 29,980 | 29,060 |
| **Deferred income tax liabilities** | **(264,159)** | **(258,836)** |
| **Net deferred income tax liabilities** | **(235,486)** | **(227,795)** |

| | 31 December 2018 | Recognition in profit or loss | Acquisitions and disposal | Foreign currency translation differences and other | 31 December 2019 |
|---|---|---|---|---|---|
| Property, plant and equipment | (259,171) | (12,358) | (1,477) | 2,163 | (270,843) |
| Investments | (2,326) | 835 | - | 34 | (1,457) |
| Inventories | 1,224 | (1,016) | - | 3 | 211 |
| Accounts and notes receivable | (9,145) | 1,742 | - | 435 | (6,968) |
| Accounts payable and provisions | 10,349 | (217) | - | (598) | 9,534 |
| Tax loss carry forward | 32,989 | 4,264 | (4) | (1,905) | 35,344 |
| Other | (1,715) | 232 | - | 176 | (1,307) |
| **Net deferred income tax liabilities** | **(227,795)** | **(6,518)** | **(1,481)** | **308** | **(235,486)** |

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## Note 29. Income tax (continued)

| | 31 December 2017 | Recognition in profit or loss | Acquisitions and disposal | Foreign currency translation differences and other | 31 December 2018 |
|---|---|---|---|---|---|
| Property, plant and equipment | (248,290) | (8,254) | - | (2,627) | (259,171) |
| Investments | (3,348) | 502 | - | 520 | (2,326) |
| Inventories | (177) | 1,603 | - | (202) | 1,224 |
| Accounts and notes receivable | (4,143) | (4,083) | - | (919) | (9,145) |
| Accounts payable and provisions | 10,868 | (2,711) | - | 2,192 | 10,349 |
| Tax loss carry forward | 33,516 | (2,243) | - | 1,716 | 32,989 |
| Other | (1,278) | 331 | - | (768) | (1,715) |
| **Net deferred income tax liabilities** | **(212,852)** | **(14,855)** | **-** | **(88)** | **(227,795)** |

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

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Property, plant and equipment | 1,412 | 2,416 |
| Tax loss carry forward | 10,374 | 12,695 |
| Other | 1,043 | 1,186 |
| **Total unrecognised deferred tax assets** | **12,829** | **16,297** |

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

Amounts recognised in other comprehensive income during 2019:

| | Before tax | Tax | Net of tax |
|---|---|---|---|
| Foreign currency translation differences for foreign operations | (164,117) | - | (164,117) |
| Change in fair value of financial assets at fair value through other comprehensive income | (348) | - | (348) |
| Remeasurements of defined benefit liability/asset of pension plan | (2,510) | 534 | (1,976) |
| **Total** | **(166,975)** | **534** | **(166,441)** |

Amounts recognised in other comprehensive income during 2018:

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

Retained earnings of foreign subsidiaries for which deferred taxation has not been provided included 1,109,000 million RUB and 1,103,660 million RUB at 31 December 2019 and 2018, respectively. This liability was not recognised because the Group considers such amounts to be indefinitely invested, i.e. management believes that they will not be returned in the foreseeable future. Moreover the Group controls the dividend policy of its subsidiaries and is able to veto the payment of dividends.

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

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## Note 30. Commitments and contingencies

***Capital commitments***

Capital commitments of the Group relating to construction and acquisition of property, plant and equipment amount to 517,977 million RUB and 473,615 million RUB at 31 December 2019 and 2018, respectively.

***Insurance***

To provide insurance protection, the Group uses the services of Russian and international insurance companies with high ratings. The Group's most significant risks are reinsured at the first-class foreign markets. In respect of liability to third parties for damages to property and the environment resulting from accidents related to the Group's property or activities, the Group has insurance coverage that is generally higher than the limits set by law. Management believes that the Group has sufficient insurance coverage of its core operating assets, as well as risks, which could have a material effect on the Group's operations and financial position.

***Environmental liabilities***

Group companies and their predecessor companies have operated in the Russian Federation and other countries for many years, which resulted in certain environmental consequences. Environmental regulations are currently in development stage in the Russian Federation and other areas where the Group has operations. Group companies routinely assess and evaluate their environmental obligations in response to new and changing legislation.

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

***Social assets***

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

***Taxation environment***

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

**Note 30. Commitments and contingencies (continued)**

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

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

***Litigation and claims***

In July 2015, the prosecutors with the Ploesti Court of Appeals (hereinafter the "Prosecutor's Office") charged the general director and several officers of PETROTEL-LUKOIL S.A., a Group company, with bad faith use of the company's credit and money laundering. Similar charges were brought against LUKOIL Europe Holdings B.V., a Group company, for 2010–2014. On 10 May 2016, the Prahova Tribunal lifted all preventive measures that were in effect against the accused individuals. Upon preliminary hearings the Prosecutor's Office revised the amount of damage claimed from $2.2 billion (136.2 billion RUB) to $1.5 billion (92.85 billion RUB). An expertise of all relevant issues of the criminal case was carried out during 2017, the results of which were accepted by the Tribunal on 12 February 2018. At the final hearing on the case which was held on 23 October 2018 the court issued a not guilty decision to all the accused, including general director of PETROTEL-LUKOIL S.A., his deputies and PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. themselves. As a result freezing injunction in the amount of approximately $1.5 billion (92.85 billion RUB) was removed from all assets of the refinery, shares and accounts of PETROTEL-LUKOIL S.A. and LUKOIL Europe Holdings B.V. On 1 November 2018, this decision was appealed by the Prosecutor's Office to the Ploesti Court of Appeals. On 27 November 2019, the Ploesti Court of Appeals issued a decision to return the case for a new examination in the court of first instance. On 24 December 2019, the defendants appealed the decision in an order of extraordinary appeal to the Ploesti Court of Appeals. Consideration of the complaint is scheduled for 16 March 2020. Management does not believe that the outcome of this matter will have a material adverse effect on the Group's financial position.

LUKOIL Overseas Karachaganak B.V., a Group company, among other contractors, is involved in the disputes with the Republic of Kazakhstan with respect to cost recovery in 2010–2015 (the "CR") and the calculation of the "Fairness index" (the "FI") in accordance with the Final Production Sharing Agreement relating to the Contract Area of the Karachaganak Oil and Gas Condensate Field. In relation to the CR, the parties are making efforts to resolve the dispute through negotiations and in relation to the FI the parties are taking part in an arbitration and management believes that the amounts of claims, as well as calculations of potential losses arising from these disputes to be preliminary and should not be disclosed in order to avoid any adverse impact on the arbitration process and the positions of the parties therein. At the same time management does not preclude the possibility of settlement of the FI related dispute and believes that the final outcome of the above mentioned disputes will not have a material adverse effect on the Group's financial position.

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

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**Note 30. Commitments and contingencies (continued)**

***Political situation***

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

From January 2018 (based on acts adopted in August – October 2017), the US expanded abovementioned sanctions to include certain categories of international oil projects initiated on or after 29 January 2018 in any part of the world, in which companies placed on the Sectoral Sanctions Identifications List subject to Directive 4 (including the Company) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

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

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

***Other matters***

The Company and other Group companies have been notified by various counterparties of claims in respect of allegedly off-specification quantities of crude oil volumes delivered through the Druzhba pipeline (owned and operated by the state-owned company, PJSC Transneft) in the second quarter of 2019. The claims assert that the oil had an average organic chlorine content in excess of the contractual specification, which may allegedly cause the purchasers to suffer certain financial losses. According to publicly available information, this situation was caused by unlawful actions of certain third parties that were aimed at concealing thefts of oil from the pipeline. The losses have not been fully defined or evidenced. Currently the consequences of the incident in terms of crude oil delivered by the Group to Hungary and Slovakia have been settled between the Company, PJSC Transneft and Hungarian oil and gas company MOL. The Company is unable to estimate the amount of the remaining claims and the likelihood or prospects of their success but management does not believe that the ultimate resolution of these matters will have a material adverse impact on the Group’s operating results or financial position.

**Note 31. Related party transactions**

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

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## Note 31. Related party transactions (continued)

Outstanding balances with related parties were as follows:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Accounts receivable | 1,079 | 1,927 |
| Other financial assets | 51,053 | 64,007 |
| **Total assets** | **52,132** | **65,934** |
| Accounts payable | 5,002 | 13,492 |
| Loans and borrowings | 2,222 | 3,356 |
| **Total liabilities** | **7,224** | **16,848** |

Related party transactions were as follows:

| | 2019 | 2018 |
|---|---|---|
| Sales of oil and oil products | 31,028 | 35,325 |
| Other sales | 2,356 | 4,593 |
| Purchases of oil and oil products | 84,400 | 209,599 |
| Other purchases | 11,187 | 9,690 |
| Proceeds from sale of other financial assets, net | 10,872 | 18,749 |
| (Principal repayments) proceeds from issuance of loans, net | (1,094) | 23 |

*Key management remuneration*

Key management personnel includes members of the Board of Directors and members of the Management Board. Remuneration of key management personnel, including basic salary, bonuses and other payments, amounted to 1,866 million RUB and 1,518 million RUB during 2019 and 2018, respectively.

Also, a provision under the compensation plan (disclosed in Note 32 “Compensation plan”) was accrued in relation to the Company’s key management personnel in the amount of 3,137 million RUB during 2019 and 2018.

## Note 32. Compensation plan

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

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

Related to this share plan the Group recognised compensation expenses of 31,366 million RUB during 2019 and 2018.

## Note 33. Segment information

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

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## Note 33. Segment information (continued)

The exploration and production segment explores for, develops and produces crude oil and gas. The refining, marketing and distribution segment includes refining, petrochemical and transport operations, marketing and trading of crude oil, natural gas and refined products, generation, transportation and sales of electricity, heat and related services. The corporate and other business operating segment includes activities of the Company and businesses beyond the Group's traditional operations.

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

The Group decided to introduce a new key performance indicator in order to evaluate activity of the Group and business segments starting from the three-month period ended 31 March 2019, by changing "operating earnings" measure to "EBITDA" which is not defined under IFRS. The Group defines EBITDA as profit from operating activities before depreciation, depletion and amortisation. EBITDA is an indicator of the strength and performance of business operations of the Group, including ability to finance capital expenditures, acquisitions and other investments and to raise and service debt.

For comparison purposes earlier periods were restated accordingly.

### Operating segments

| 2019 | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|---|---|---|---|---|---|
| Sales and other operating revenues | | | | | |
| Third parties | 270,842 | 7,548,121 | 22,283 | - | 7,841,246 |
| Inter-segment | 2,093,342 | 76,077 | 45,601 | (2,215,020) | - |
| Total revenues | 2,364,184 | 7,624,198 | 67,884 | (2,215,020) | 7,841,246 |
| Operating expenses | 274,934 | 228,576 | 19,709 | (65,509) | 457,710 |
| Selling, general and administrative expenses | 47,964 | 121,383 | 63,515 | (35,690) | 197,172 |
| Profit (loss) for the year attributable to PJSC LUKOIL shareholders | 473,517 | 190,998 | (35,569) | 11,232 | 640,178 |
| EBITDA | 893,950 | 371,642 | (39,962) | 10,562 | 1,236,192 |
| Income tax expense | | | | | (151,133) |
| Finance income | | | | | 25,134 |
| Finance costs | | | | | (44,356) |
| Foreign exchange gain | | | | | 923 |
| Equity share in income of affiliates | | | | | 18,246 |
| Other expenses | | | | | (27,691) |
| Depreciation, depletion and amortisation | | | | | (415,094) |
| Profit for the year attributable to non-controlling interests | | | | | (2,043) |
| Profit for the year attributable to PJSC LUKOIL shareholders | | | | | 640,178 |

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## Note 33. Segment information (continued)

| 2018 | Exploration and production | Refining, marketing and distribution | Corporate and other | Elimination | Consolidated |
|---|---|---|---|---|---|
| Sales and other operating revenues | | | | | |
| Third parties | 247,657 | 7,763,810 | 24,422 | - | 8,035,889 |
| Inter-segment | 2,143,810 | 70,529 | 46,639 | (2,260,978) | - |
| Total revenues | 2,391,467 | 7,834,339 | 71,061 | (2,260,978) | 8,035,889 |
| Operating expenses | 273,012 | 243,214 | 19,554 | (71,313) | 464,467 |
| Selling, general and administrative expenses | 38,559 | 127,089 | 61,733 | (34,948) | 192,433 |
| Profit (loss) for the year attributable to PJSC LUKOIL shareholders | 508,401 | 156,805 | (28,401) | (17,631) | 619,174 |
| EBITDA | 870,287 | 282,144 | (36,154) | (1,477) | 1,114,800 |
| Income tax expense | | | | | (151,917) |
| Finance income | | | | | 19,530 |
| Finance costs | | | | | (38,298) |
| Foreign exchange gain | | | | | 33,763 |
| Equity share in income of affiliates | | | | | 25,243 |
| Other expenses | | | | | (38,934) |
| Depreciation, depletion and amortisation | | | | | (343,085) |
| Profit for the year attributable to non-controlling interests | | | | | (1,928) |
| Profit for the year attributable to PJSC LUKOIL shareholders | | | | | 619,174 |

## Geographical segments

| | 2019 | 2018 |
|---|---|---|
| Sales of crude oil within Russia | 22,528 | 47,508 |
| Export of crude oil and sales of crude oil by foreign subsidiaries | 2,684,320 | 2,666,156 |
| Sales of petroleum products within Russia | 923,715 | 938,092 |
| Export of petroleum products and sales of petroleum products by foreign subsidiaries | 3,748,364 | 3,961,784 |
| Sales of chemicals within Russia | 40,971 | 46,085 |
| Export of chemicals and sales of chemicals by foreign subsidiaries | 91,687 | 67,682 |
| Sales of gas within Russia | 32,490 | 33,352 |
| Sales of gas by foreign subsidiaries | 138,997 | 112,990 |
| Sales of energy and related services within Russia | 53,276 | 54,353 |
| Sales of energy and related services by foreign subsidiaries | 14,604 | 15,600 |
| Other sales within Russia | 42,270 | 46,127 |
| Other export sales and other sales of foreign subsidiaries | 48,024 | 46,160 |
| **Total sales** | **7,841,246** | **8,035,889** |

| 2019 | Russia | International | Elimination | Consolidated |
|---|---|---|---|---|
| Sales and other operating revenues | | | | |
| Third parties | 1,221,549 | 6,619,697 | - | 7,841,246 |
| Inter-segment | 1,606,632 | 2,726 | (1,609,358) | - |
| Total revenues | 2,828,181 | 6,622,423 | (1,609,358) | 7,841,246 |
| Operating expenses | 329,688 | 118,256 | 9,766 | 457,710 |
| Selling, general and administrative expenses | 93,963 | 106,939 | (3,730) | 197,172 |
| Profit for the year attributable to PJSC LUKOIL shareholders | 577,939 | 52,593 | 9,646 | 640,178 |
| EBITDA | 1,032,126 | 199,811 | 4,255 | 1,236,192 |

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## Note 33. Segment information (continued)

| 2018 | Russia | International | Elimination | Consolidated |
|---|---|---|---|---|
| Sales and other operating revenues | | | | |
| Third parties | 1,269,047 | 6,766,842 | - | 8,035,889 |
| Inter-segment | 1,621,187 | 3,270 | (1,624,457) | - |
| Total revenues | 2,890,234 | 6,770,112 | (1,624,457) | 8,035,889 |
| Operating expenses | 333,749 | 129,515 | 1,203 | 464,467 |
| Selling, general and administrative expenses | 96,486 | 99,755 | (3,808) | 192,433 |
| Profit for the year attributable to PJSC LUKOIL shareholders | 588,479 | 50,433 | (19,738) | 619,174 |
| EBITDA | 942,254 | 168,250 | 4,296 | 1,114,800 |

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

| | 2019 | 2018 |
|---|---|---|
| Sales revenues | | |
| in Switzerland | 3,503,238 | 3,739,647 |
| in the USA | 1,128,181 | 922,045 |
| in Singapore | 482,132 | 684,276 |

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

## Note 34. Subsidiaries

The most significant subsidiaries of the Group are presented below:

| | | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|---|
| Subsidiary | Country of incorporation | Total shares | Voting shares | Total shares | Voting shares |
| LUKOIL-West Siberia LLC | Russia | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL-PERM LLC | Russia | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL-Komi LLC | Russia | 100.00% | 100.00% | 100.00% | 100.00% |
| RITEK LLC | Russia | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL-Permnefteorgsintez LLC | Russia | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL-Nizhegorodnefteorgsintez LLC | Russia | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL-Nizhnevolzhskneft LLC | Russia | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL-Volgogradneftepererabotka LLC | Russia | 100.00% | 100.00% | 100.00% | 100.00% |
| ISAB S.r.l. | Italy | 100.00% | 100.00% | 100.00% | 100.00% |
| LITASCO SA | Switzerland | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKARCO B.V. | Netherlands | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL INTERNATIONAL GmbH | Austria | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL International Upstream Holding B.V. | Netherlands | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL Neftohim Burgas AD | Bulgaria | 99.85% | 99.85% | 99.85% | 99.85% |
| LUKOIL Overseas Karachaganak B.V. | Netherlands | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL Overseas Shah Deniz Ltd. | Cyprus | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL Overseas Uzbekistan Ltd. | Cyprus | 100.00% | 100.00% | 100.00% | 100.00% |
| LUKOIL Pan Americas LLC | USA | 100.00% | 100.00% | 100.00% | 100.00% |

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## Note 35. Fair value

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

The following tables show the carrying amounts and fair values of financial assets and financial liabilities included in the consolidated statement of financial position at 31 December 2019 and 2018.

| | | Fair value | | | |
|---|---|---|---|---|---|
| **31 December 2019** | **Carrying amount** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets:** | | | | | |
| Commodity derivative contracts | 180 | - | 180 | - | **180** |
| Financial assets at fair value through profit or loss | 51,053 | - | - | 51,053 | **51,053** |
| Financial assets at fair value through other comprehensive income | 2,656 | 2,656 | - | - | **2,656** |
| **Financial liabilities:** | | | | | |
| Commodity derivative contracts | 550 | - | 550 | - | **550** |
| Loans and borrowings | 537,070 | 265,109 | - | 295,726 | **560,835** |

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

The fair values of cash and cash equivalents (Level 1), accounts receivable and long-term accounts receivable (Level 3), short-term borrowings (Level 3) are approximately equal to their value as disclosed in the consolidated statement of financial position. The fair value of long-term receivables was determined by discounting with estimated market interest rates for similar financing arrangements. The fair value of long-term loans (Level 3) was determined as a result of discounting using estimated market interest rates for similar financing instruments. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar tenors, repayment schedules and other similar main terms. The fair value of bonds (Level 1) was determined based on market quotations at 31 December 2019 and 2018.

## Note 36. Capital and risk management

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

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## Note 36. Capital and risk management (continued)

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

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

### *Credit risk*

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

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

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

### *Trade and other receivables*

Analysis of the aging of receivables:

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Not past due | 402,713 | 381,900 |
| Past due less than 45 days | 21,299 | 14,051 |
| Past due from 46 to 180 days | 8,809 | 14,464 |
| Past due from 181 to 270 days | 963 | 3,129 |
| Past due from 271 to 365 days | 587 | 1,964 |
| Past due more than 365 days | 2,681 | 14,437 |
| **Total trade and other receivables** | **437,052** | **429,945** |

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

Allowance for expected credit losses changed as follows during 2019:

| | |
|---|---|
| 31 December 2018 | 27,798 |
| Increase in allowance charged to profit or loss | 9,270 |
| Write-off | (3,381) |
| Foreign currency translation differences | (2,492) |
| Other | 92 |
| **31 December 2019** | **31,287** |

**(Millions of Russian rubles, unless otherwise noted)**

## Note 36. Capital and risk management (continued)

Allowance for expected credit losses changed as follows during 2018:

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

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

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

***Liquidity risk***

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

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

| | **Carrying amount** | **Contractual cash flows (undiscounted)** | **Less than 12 months** | **1-2 years** | **2-5 years** | **Over 5 years** |
|---|---|---|---|---|---|---|
| Loans and borrowings, including interest expense | 134,484 | 174,563 | 45,260 | 25,980 | 49,746 | 53,577 |
| Bonds, including interest expense | 249,274 | 290,545 | 71,091 | 9,225 | 136,712 | 73,517 |
| Finance lease obligations | 171,880 | 235,613 | 37,069 | 26,742 | 59,077 | 112,725 |
| Trade and other payables | 606,566 | 606,566 | 605,203 | 932 | 350 | 81 |
| Derivative financial liabilities | 550 | 550 | 550 | - | - | - |
| **31 December 2019** | **1,162,754** | **1,307,837** | **759,173** | **62,879** | **245,885** | **239,900** |

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## Note 36. Capital and risk management (continued)

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

### *Currency risk*

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

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

The carrying amounts of the Group's assets and liabilities which form currency risk at 31 December 2019 and 2018 are presented in the tables below and contain balances between Group companies whose functional currency is different from the currency of the contract.

| **31 December 2019** | **USD** | **EUR** | **Other currencies** |
|---|---|---|---|
| **Financial assets:** | | | |
| Cash and cash equivalents | 64,708 | 12,309 | 761 |
| Trade and other receivables | 144,336 | 6,699 | 4,765 |
| Loans | 199,764 | 4,794 | - |
| Other financial assets | 2,651 | 54 | 124 |
| **Financial liabilities:** | | | |
| Loans and borrowings | (399,921) | (37,104) | (3,651) |
| Trade and other payables | (51,560) | (14,655) | (11,696) |
| **Net exposure** | **(40,022)** | **(27,903)** | **(9,697)** |

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

**(Millions of Russian rubles, unless otherwise noted)**

## Note 36. Capital and risk management (continued)

The following exchange rates applied:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| USD | 61.91 | 69.47 |
| EUR | 69.34 | 79.46 |

*Sensitivity analysis*

Analysis of the currency position shows that the Group mainly uses RUR, US dollar and EUR in its operating activity. Thus sensitivity analysis shows how strengthening (weakening) of these currencies at 31 December 2019 and 2018 would have affected the measurement of financial assets and liabilities denominated in foreign currencies and affected profit (loss) before taxes. The analysis assumes that all other variables remain constant.

| | Profit (loss) | |
|---|---|---|
| | **2019** | **2018** |
| US Dollar (increase by 10%) | (1,952) | (7,726) |
| Euro (increase by 10%) | 222 | 2,566 |
| Russian ruble (increase by 10%) | 1,113 | 4,937 |

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

***Interest rate risk***

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

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

The interest rate profiles of the Group are presented below:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| *Fixed rate instruments:* | | |
| Financial assets | 44,970 | 92,124 |
| Financial liabilities | (420,239) | (354,566) |
| **Net exposure** | **(375,269)** | **(262,442)** |
| *Variable rate instruments:* | | |
| Financial assets | 41,596 | 14,175 |
| Financial liabilities | (132,993) | (180,481) |
| **Net exposure** | **(91,397)** | **(166,306)** |

*Sensitivity analysis for variable rate instruments*

A reasonably possible change of 100 basis points in interest rates at 31 December 2019 and 2018 would have increased (decreased) profit (loss) before taxes by the amounts shown below. This analysis assumes that all other variables remain constant.

(Millions of Russian rubles, unless otherwise noted)

## Note 36. Capital and risk management (continued)

| | Profit (loss) before taxes | |
|---|---|---|
| | **100 bp increase** | **100 bp decrease** |
| **2019** | | |
| Net financial liabilities | (914) | 914 |
| **2018** | | |
| Net financial liabilities | (1,663) | 1,663 |

### *Capital management*

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

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

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Total debt | 553,232 | 535,047 |
| Less cash and cash equivalents | (516,032) | (492,650) |
| Net debt | 37,200 | 42,397 |
| Equity | 3,973,449 | 4,073,526 |
| **Net debt to equity ratio** | **0.94%** | **1.04%** |

**(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 2019 | International | Russia | Total consolidated companies | Group's share in equity companies |
|---|---|---|---|---|
| Unproved oil and gas properties | 84,203 | 109,313 | 193,516 | 28,692 |
| Proved oil and gas properties | 1,305,806 | 3,296,352 | 4,602,158 | 300,337 |
| Accumulated DD&A | (720,304) | (1,046,271) | (1,766,575) | (99,189) |
| **Net capitalised costs** | **669,705** | **2,359,394** | **3,029,099** | **229,840** |

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

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

| 2019 | International | Russia | Total consolidated companies | Group's share in equity companies |
|---|---|---|---|---|
| Acquisition of properties - Proved | 31,393 | 2,317 | 33,710 | - |
| Acquisition of properties - Unproved | 32,419 | 14,937 | 47,356 | - |
| Exploration costs | 13,439 | 17,014 | 30,453 | 4,336 |
| Development costs | 53,495 | 309,797 | 363,292 | 11,254 |
| **Total costs incurred** | **130,746** | **344,065** | **474,811** | **15,590** |

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

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

### *III. Results of operations for oil and gas producing activities*

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

| 2019 | International | Russia | Total consolidated companies | Group's share in equity companies |
|---|---|---|---|---|
| Revenue | | | | |
| Sales | 211,230 | 961,273 | 1,172,503 | 60,642 |
| Transfers | - | 985,859 | 985,859 | 1,420 |
| Total revenues | 211,230 | 1,947,132 | 2,158,362 | 62,062 |
| Production costs (excluding production taxes) | (40,277) | (170,590) | (210,867) | (5,899) |
| Exploration expenses | (7,493) | (1,855) | (9,348) | (33) |
| Depreciation, depletion and amortisation | (83,726) | (193,696) | (277,422) | (11,144) |
| Taxes other than income taxes | (531) | (1,035,635) | (1,036,166) | (15,446) |
| Related income taxes | (11,736) | (104,585) | (116,321) | (11,384) |
| **Total results of operations for producing activities** | **67,467** | **440,771** | **508,238** | **18,156** |

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

### *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.

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**Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)**
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Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. Since the law applies to both newly issued and old licenses and the Group has currently renewed 68% of its licenses, management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

Estimated net proved oil and gas reserves and changes thereto for 2019 and 2018 are shown in the tables set out below.

| Millions of barrels | Consolidated subsidiaries | | | Group's share in equity companies |
|---|---|---|---|---|
| **Crude oil** | **International** | **Russia** | **Total** | |
| 31 December 2017 | 479 | 11,316 | 11,795 | 282 |
| Revisions of previous estimates | (148) | 273 | 125 | 16 |
| Purchase of hydrocarbons in place | - | 3 | 3 | - |
| Extensions and discoveries | 12 | 500 | 512 | 8 |
| Production | (27) | (614) | (641) | (18) |
| 31 December 2018 | 316 | 11,478 | 11,794 | 288 |
| Revisions of previous estimates | 43 | (55) | (12) | 1 |
| Purchase of hydrocarbons in place | 29 | 18 | 47 | - |
| Extensions and discoveries | 26 | 531 | 557 | 2 |
| Production | (30) | (614) | (644) | (18) |
| **31 December 2019** | **384** | **11,358** | **11,742** | **273** |
| Proved developed reserves | | | | |
| 31 December 2018 | 204 | 7,602 | 7,806 | 133 |
| **31 December 2019** | **219** | **7,464** | **7,683** | **116** |

The non-controlling interest share included in the above total proved reserves was 71 million barrels and 73 million barrels at 31 December 2019 and 2018, respectively. The non-controlling interest share included in the above proved developed reserves was 37 million barrels and 39 million barrels at 31 December 2019 and 2018, respectively. All non-controlling interests relate to reserves in the Russian Federation.

| Billions of cubic feet | Consolidated subsidiaries | | | Group's share in equity companies |
|---|---|---|---|---|
| **Natural gas** | **International** | **Russia** | **Total** | |
| 31 December 2017 | 7,006 | 16,476 | 23,482 | 167 |
| Revisions of previous estimates | (158) | 351 | 193 | 98 |
| Purchases of hydrocarbons in place | - | 2 | 2 | - |
| Extensions and discoveries | 37 | 297 | 334 | 2 |
| Production | (533) | (626) | (1,159) | (26) |
| 31 December 2018 | 6,352 | 16,500 | 22,852 | 241 |
| Revisions of previous estimates | (106) | 124 | 18 | 18 |
| Purchases of hydrocarbons in place | 138 | - | 138 | - |
| Extensions and discoveries | 70 | 428 | 498 | - |
| Production | (586) | (626) | (1,212) | (26) |
| **31 December 2019** | **5,868** | **16,426** | **22,294** | **233** |
| Proved developed reserves | | | | |
| 31 December 2018 | 5,072 | 5,758 | 10,830 | 146 |
| **31 December 2019** | **4,504** | **5,753** | **10,257** | **133** |

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

The non-controlling interest share included in the above total proved reserves was 26 billion cubic feet and 27 billion cubic feet at 31 December 2019 and 2018, respectively. The non-controlling interest share included in the above proved developed reserves was 14 billion cubic feet at 31 December 2019 and 2018. All non-controlling interests relate to reserves in the Russian Federation.

### *V. Standardised measure of discounted future net cash flows*

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

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

| **31 December 2019** | **International** | **Russia** | **Total consolidated companies** | **Group's share in equity companies** |
|---|---|---|---|---|
| Future cash inflows | 2,567,902 | 39,282,386 | 41,850,288 | 877,924 |
| Future production and development costs | (1,488,826) | (30,022,601) | (31,511,427) | (537,056) |
| Future income tax expenses | (91,906) | (1,514,998) | (1,606,904) | (105,121) |
| Future net cash flows | 987,170 | 7,744,787 | 8,731,957 | 235,747 |
| Discount for estimated timing of cash flows (10% p.a.) | (375,184) | (4,129,628) | (4,504,812) | (110,174) |
| **Discounted future net cash flows** | **611,986** | **3,615,159** | **4,227,145** | **125,573** |
| Non-controlling share in discounted future net cash flows | - | 26,963 | 26,963 | - |

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

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

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

| **Consolidated companies** | **2019** | **2018** |
|---|---|---|
| Discounted present value at 1 January | 5,636,665 | 2,859,198 |
| Net changes due to purchases and sales of minerals in place | 31,212 | 1,367 |
| Sales and transfers of oil and gas produced, net of production costs | (901,981) | (876,998) |
| Net changes in prices and production costs estimates | (4,542,732) | 11,583,655 |
| Net changes in mineral extraction taxes | 2,640,183 | (8,206,395) |
| Extensions and discoveries, less related costs | 210,417 | 257,337 |
| Previously estimated development cost incurred during the year | 308,689 | 300,233 |
| Revisions of previous quantity estimates | (6,476) | 31,469 |
| Net change in income taxes | 389,446 | (626,197) |
| Accretion of discount | 616,850 | 312,181 |
| Other changes | (155,128) | 815 |
| **Discounted present value at 31 December** | **4,227,145** | **5,636,665** |

| **Group's share in equity companies** | **2019** | **2018** |
|---|---|---|
| Discounted present value at 1 January | 158,208 | 94,786 |
| Sales and transfers of oil and gas produced, net of production costs | (40,684) | (41,773) |
| Net changes in prices and production costs estimates | (122,290) | 227,904 |
| Net changes in mineral extraction taxes | 69,049 | (131,737) |
| Extensions and discoveries, less related costs | 452 | 4,258 |
| Previously estimated development cost incurred during the year | 38,478 | 29,688 |
| Revisions of previous quantity estimates | 1,254 | 15,001 |
| Net change in income taxes | 18,370 | (46,305) |
| Accretion of discount | 22,222 | 11,273 |
| Other changes | (19,486) | (4,887) |
| **Discounted present value at 31 December** | **125,573** | **158,208** |

# PJSC LUKOIL

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

**for the three-month periods ended**
**31 December and 30 September 2019**
**and for the years**
**2019 and 2018**

The following report contains a discussion and analysis of the financial position of PJSC LUKOIL at 31 December 2019 and the results of its operations for the three-month periods ended 31 December and 30 September 2019 and for the years 2019 and 2018, as well as significant factors that may affect its future performance. It should be read in conjunction with our International Financial Reporting Standards ("IFRS") consolidated financial statements, including notes and supplementary information on oil and gas exploration and production activities.

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

*This report includes forward-looking statements – words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results. Please see "Forward-looking statement" on page 42 for a discussion of some factors that could cause actual results to differ materially.*

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## Business overview

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

LUKOIL is one of the world's largest publicly traded vertically integrated energy companies. Our proved reserves under SEC standards amounted to 15.8 billion BOE at 31 December 2019 and comprised of 12.0 billion barrels of crude oil and 22.5 trillion cubic feet of gas. Most of our reserves are conventional. We undertake exploration for, and production of, crude oil and gas in Russia and internationally. In Russia, our major oil producing regions are West Siberia, Timan-Pechora, Ural and Volga region. Our international upstream segment includes stakes in PSA's and other projects in Kazakhstan, Azerbaijan, Uzbekistan, Romania, Iraq, Egypt, Ghana, Norway, Cameroon, Nigeria, Mexico, the Republic of Congo and the UAE. Our daily hydrocarbon production in 2019 amounted to 2.4 million BOE, with liquid hydrocarbons representing approximately 76% of our overall production volumes.

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

We own and operate four refineries located in European Russia and three refineries located outside Russia – in Bulgaria, Romania, and Italy. Moreover, we have a 45% interest in the Zeeland refinery in the Netherlands. We also own two petrochemical plants in Russia and have petrochemical facilities at our refineries in Bulgaria and Italy. Along with our own production of refined products, we refine crude oil at third party refineries depending on market conditions and other factors. Throughput at our refineries in 2019 amounted to 1.4 million barrels per day, and we produced 1.1 million tonnes of petrochemicals.

We market our own and third-party crude oil and refined products through our sales channels in Russia, Europe, South-East Asia, Central and North America and other regions. We own petrol stations in 18 countries. Most of our retail networks are located close to our refineries. Our retail sales in 2019 amounted to 14.1 million tonnes of refined products.

We are involved in production, distribution and marketing of electrical energy and heat both in Russia and internationally. In 2019, our total output of electrical energy was 18.3 billion kWh.

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

## Key financial and operational results

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Sales | 1,912,439 | 1,952,322 | (2.0) | 7,841,246 | 8,035,889 | (2.4) |
| EBITDA[1], including | 278,160 | 327,805 | (15.1) | 1,236,192 | 1,114,800 | 10.9 |
| Exploration and production segment | 211,786 | 211,958 | (0.1) | 893,950 | 870,287 | 2.7 |
| Refining, marketing and distribution segment | 82,157 | 116,380 | (29.4) | 371,642 | 282,144 | 31.7 |
| EBITDA[1] net of West Qurna-2 project | 276,055 | 321,126 | (14.0) | 1,214,502 | 1,089,370 | 11.5 |
| Profit for the year attributable to LUKOIL shareholders | 119,310 | 190,387 | (37.3) | 640,178 | 619,174 | 3.4 |
| Capital expenditures | 135,937 | 109,062 | 24.6 | 449,975 | 451,526 | (0.3) |
| Free cash flow[2] | 184,744 | 208,859 | (11.5) | 701,869 | 555,125 | 26.4 |
| Free cash flow before changes in working capital | 139,784 | 196,063 | (28.7) | 708,650 | 588,717 | 20.4 |
| | | | (thousand BOE per day) | | | |
| Production of hydrocarbons, including our share in equity affiliates | 2,419 | 2,339 | 3.4 | 2,380 | 2,347 | 1.4 |
| crude oil and natural gas liquids | 1,816 | 1,811 | 0.3 | 1,815 | 1,806 | 0.5 |
| gas | 603 | 528 | 14.2 | 565 | 541 | 4.4 |
| Refinery throughput at the Group refineries | 1,355 | 1,454 | (6.8) | 1,381 | 1,352 | 2.1 |

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

Compared to the third quarter of 2019, our results were negatively affected by a decrease in refining margins and in profitability of our retail business, as well as by accounting specifics of our international trading operations. However, this was partially offset by positive export duty and mineral extraction tax lag effects, higher international hydrocarbon production volumes, bigger share of high-margin volumes in our domestic crude oil production structure, and better product slate at our refineries.

Compared to 2018, our results improved due to growth in volumes of gas production outside Russia, an increase in share of high-margin volumes in our domestic crude oil production structure, an implementation of a tax on additional income from the hydrocarbon production at certain license areas, higher throughput volumes and better product slate at our refineries, better profitability of our retail and trading businesses, as well as the effect of the ruble devaluation. At the same time, our results dynamics was negatively affected by a decrease in international hydrocarbon prices, benchmark refining margins, and accounting specifics of our trading operations.

From 1 January 2019, the Company adopted IFRS 16 “Leases” that had a positive impact on our EBITDA in 2019 in the amount of 37.0 billion RUB, on our profit for the year in the amount of 5.1 billion RUB, and on our free cash flow in the amount of 46.7 billion RUB.

Our EBITDA amounted to 278 billion RUB in the fourth quarter of 2019, a decrease of 15.1% to the third quarter of 2019, and amounted to 1,236 billion RUB in 2019, an increase of 10.9% to 2018.

Our depreciation, depletion and amortization expenses increased compared to 2018 mainly as a result of the adoption of IFRS 16 “Leases”, as well as due to an increase in gas production outside Russia.

In the fourth quarter of 2019, profit attributable to LUKOIL shareholders amounted to 119 billion RUB, a decrease of 37.3% to the third quarter of 2019. In 2019, profit attributable to LUKOIL shareholders amounted to 640 billion RUB, an increase of 3.4% to 2018.

Our capital expenditures increased by 27 billion RUB, or by 24.6%, compared to the third quarter of 2019, and did not change significantly compared to 2018.

Our free cash flow amounted to 185 billion RUB in the first quarter of 2019, a decrease of 11.5% compared to the third quarter of 2019, and amounted to 702 billion RUB in 2019, an increase of 26.4% to 2018. A decrease to the third quarter of 2019 was mainly a result of higher capital expenditures and an increase to 2018 was mainly a result of an increase in profitability of our core operations.

The Group’s average daily hydrocarbon production increased by 3.4% compared to the third quarter of 2019 and by 1.4% compared to 2018, driven primarily by an increase in hydrocarbon production volumes outside Russia.

In the fourth quarter of 2019, throughput at our refineries decreased by 6.8% mainly due to scheduled maintenance works at the refineries both in and outside Russia. Compared to 2018, an increase in throughput at our refineries by 2.1% was mainly due to higher utilization rate of the Nizhny Novgorod refinery, as well as maintenance at the refinery in Bulgaria in the first quarter of 2018.

## Changes in accounting policies

The Group adopted IFRS 16 "Leases" ("IFRS 16") from 1 January 2019, which introduced a single, on-balance sheet lease accounting model for lessees. Under IFRS 16, a contract is, or contains, a lease if it conveys a right to control the use of an identified asset for a period of time in exchange for consideration. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items.

The Group applied IFRS 16 using the modified retrospective approach by one-off recognition of non-current assets and financial liabilities of 162 billion RUB at 1 January 2019 measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Primarily the Group leases such assets as transport (vessels, tank cars), land, drilling rigs and other equipment, storage facilities. The lease typically runs for a period of 3–5 years. Some leases include an option to renew the lease for additional period after the end of the non-cancellable period. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal option. Moreover, in determining the lease term the Group also took into account economic factors, which influence asset usage duration in its activity.

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

Adoption of IFRS 16 in 2019 had the following effects on the Group's financial statements.

Our operating, transportation and selling, general and administrative expenses decreased by 5.7 billion RUB, 22.4 billion RUB and 8.8 billion RUB, respectively. Our depreciation expenses, finance costs and income tax expenses increased by 33.0 billion RUB, 6.7 billion RUB and 0.5 billion RUB, respectively. The Group also recognized a foreign exchange gain of 7.9 billion RUB related to certain lease liabilities in foreign currencies. As a result, our EBITDA increased by 37.0 billion RUB, our profit for the year attributable to LUKOIL shareholders increased by 5.1 billion RUB and our free cash flow increased by 46.7 billion RUB.

At the same time, our debt at 31 December 2019 increased by 136.9 billion RUB.

## Changes in the Group structure

In October 2019, a Group company acquired a 5% interest in the Ghasha Concession in the United Arab Emirates from the Abu Dhabi National Oil Company for approximately 13.8 billion RUB ($214 million).

In the second quarter of 2019, a Group company entered into a contract with New Age M12 Holdings Limited to acquire a 25% interest in the Marine XII license in the Republic of Congo (Congo, Brazzaville). In September 2019, the transaction in the amount of 51.4 billion RUB ($768 million) was closed after all the customary conditions, including approval by the government of the Republic of Congo, were fulfilled.

## 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 2019, the price for Brent crude oil fluctuated between $53 and $75 per barrel, reached its maximum of $74.7 in the middle of May and its minimum of $53.2 in early January. Average price expressed in US dollars increased by 2.4% compared to the third quarter of 2019, and decreased by 9.4% compared to the 2018.

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (US dollars per barrel) | | | |
| Brent crude | 63.32 | 61.83 | 2.4 | 64.28 | 70.94 | (9.4) |
| Urals crude (CIF Mediterranean) | 62.11 | 61.68 | 0.7 | 63.84 | 69.89 | (8.7) |
| Urals crude (CIF Rotterdam) | 60.88 | 60.67 | 0.3 | 63.02 | 69.57 | (9.4) |
| | | | (US dollars per tonne) | | | |
| Diesel fuel 10 ppm (FOB Rotterdam) | 588.62 | 578.68 | 1.7 | 591.28 | 638.76 | (7.4) |
| High-octane gasoline (FOB Rotterdam) | 604.07 | 622.61 | (3.0) | 614.96 | 671.85 | (8.5) |
| Naphtha (FOB Rotterdam) | 516.87 | 471.83 | 9.5 | 501.31 | 597.08 | (16.0) |
| Jet fuel (FOB Rotterdam) | 627.23 | 626.15 | 0.2 | 630.10 | 683.19 | (7.8) |
| Vacuum gas oil (FOB Rotterdam) | 444.55 | 439.90 | 1.1 | 450.36 | 487.88 | (7.7) |
| Fuel oil 3.5% (FOB Rotterdam) | 227.10 | 330.41 | (31.3) | 329.97 | 393.98 | (16.2) |

Source: Platts.

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (rubles per barrel) | | | |
| Brent crude | 4,035 | 3,992 | 1.1 | 4,161 | 4,449 | (6.5) |
| Urals crude (CIF Mediterranean) | 3,958 | 3,983 | (0.6) | 4,133 | 4,383 | (5.7) |
| Urals crude (CIF Rotterdam) | 3,879 | 3,917 | (1.0) | 4,080 | 4,363 | (6.5) |
| | | | (rubles per tonne) | | | |
| Diesel fuel 10 ppm (FOB Rotterdam) | 37,506 | 37,364 | 0.4 | 38,277 | 40,055 | (4.4) |
| High-octane gasoline (FOB Rotterdam) | 38,491 | 40,201 | (4.3) | 39,810 | 42,130 | (5.5) |
| Naphtha (FOB Rotterdam) | 32,934 | 30,465 | 8.1 | 32,453 | 37,441 | (13.3) |
| Jet fuel (FOB Rotterdam) | 39,966 | 40,430 | (1.1) | 40,790 | 42,842 | (4.8) |
| Vacuum gas oil (FOB Rotterdam) | 28,326 | 28,404 | (0.3) | 29,154 | 30,594 | (4.7) |
| Fuel oil 3.5% (FOB Rotterdam) | 14,471 | 21,334 | (32.2) | 21,361 | 24,706 | (13.5) |

Translated to 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 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (rubles per tonne) | | | |
| Diesel fuel | 42,301 | 40,713 | 3.9 | 40,724 | 41,582 | (2.1) |
| High-octane gasoline (Regular) | 38,486 | 39,472 | (2.5) | 38,243 | 40,185 | (4.8) |
| High-octane gasoline (Premium) | 39,993 | 43,146 | (7.3) | 40,487 | 42,005 | (3.6) |
| Fuel oil | 10,125 | 15,063 | (32.8) | 14,514 | 17,747 | (18.2) |

Source: InfoTEK (excluding VAT).

### Changes in ruble exchange rate and inflation

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

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

| | Q4 2019 | Q3 2019 | 12 months of 2019 | 2018 |
|---|---|---|---|---|
| Ruble inflation (CPI), % | 0.8 | (0.2) | 3.0 | 4.2 |
| Ruble to US dollar exchange rate | | | | |
| Average for the period | 63.7 | 64.6 | 64.7 | 62.7 |
| At the beginning of the period | 64.4 | 63.1 | 69.5 | 57.6 |
| At the end of the period | 61.9 | 64.4 | 61.9 | 69.5 |
| Ruble to euro exchange rate | | | | |
| Average for the period | 70.5 | 71.8 | 72.5 | 74.0 |
| At the beginning of the period | 70.3 | 71.8 | 79.5 | 68.9 |
| At the end of the period | 69.3 | 70.3 | 69.3 | 79.5 |

Source: CBR, Federal State Statistics Service.

### Taxation

**Key upstream tax rates.** The following tables represent average enacted rates applicable to our upstream operations in Russia for the respective periods.

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | (US dollars per tonne) | | | | | |
| Mineral extraction tax[1] | 198.31 | 192.12 | 3.2 | 201.40 | 198.83 | 1.3 |
| Export duty on crude oil | 88.67 | 95.08 | (6.8) | 93.77 | 128.52 | (27.1) |

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | (rubles per tonne) | | | | | |
| Mineral extraction tax | 12,636 | 12,405 | 1.9 | 13,038 | 12,468 | 4.6 |
| Export duty on crude oil[1] | 5,650 | 6,139 | (8.0) | 6,070 | 8,059 | (24.7) |

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

These rates are linked to international crude oil prices and are changed in line with them.

**Tax manoeuvre.** The Russian Government has been implementing the so-called tax manoeuvre in the oil industry, which involves reduction of export duty rate and increase in the crude oil extraction tax and excise tax rates, as well as an introduction of a negative excise tax on refinery feedstock.

In 2018, new laws were adopted which came into effect on 1 January 2019. These laws provide for concluding the tax manoeuvre by 2024 through the gradual reduction of crude oil export duty rate to zero and the equivalent increase in the mineral extraction tax rate for crude oil. To eliminate the negative effect of export duty reduction on refining margins, a negative excise on refinery feedstock was introduced. To reduce the sensitivity of domestic prices for motor fuel to changes in international prices, a so-called damper coefficient was included into the negative excise formula and the mineral extraction tax rate was incrementally increased.

Excise tax rates on motor fuels in Russia also increased from 1 January 2019 after a temporary reduction in June–December 2018.

**Crude oil extraction tax rate** is calculated on a monthly basis. Crude oil extraction tax is payable in rubles per metric tonne extracted. The tax rate is calculated according to the formula below:

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

where *Price* is a Urals blend price in US dollars per barrel and *Exchange Rate* is an average ruble exchange rate to US dollar during the period. The *Incentive Factor* represents incentives discussed further in this section. The *Fixed Factor* is presented in the table below. The *Tax Manoeuvre Factor* is derived as Export duty reduction factor multiplied by the base export duty rate. The *Damper Factors* are applicable when the corresponding components of a negative excise formula are positive.

The table below sets out key fixed components of the extraction tax formula for crude oil.

| | 2018 | 1 January to 30 September 2019 | 1 October to 31 December 2019 | 2020 | 2021 | 2022 | 2023 | 2024 and further |
|---|---|---|---|---|---|---|---|---|
| Export duty rate reduction factor | - | 0.167 | 0.167 | 0.333 | 0.500 | 0.667 | 0.833 | 1 |
| | | | | (rubles) | | | | |
| Fixed Factor | 357 | 428 | 428 | 428 | 428 | 428 | 428 | 428 |
| Damper Factor for gasoline | - | 125 | 200 | 105 | 105 | 105 | 105 | 105 |
| Damper Factor for diesel fuel | - | 110 | 185 | 92 | 92 | 92 | 92 | 92 |

From 2020, a new variable Damper Factor will be added to the formula in addition to the fixed factors.

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

- A special reducing coefficient is applied to the standard tax rate depending on location, depletion, type of reserves, size and complexity of a particular field. This type of incentive with different coefficients is applied to our highly depleted fields (more than 80% depletion), our Yu. Korchagin field located in the Caspian offshore, the Permian layers of our Usinskoye field in Timan-Pechora producing high-viscous crude oil, our Pyakyakhinskoye field located in the Yamal-Nenets Autonomous region of West Siberia (starting from 2019, the field is subject to the tax on additional income from hydrocarbon production), a number of fields in the 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 and Imilorskoye fields and Tyumen deposits;
- A fixed tax rate of 15% of the Urals price is applied to our V. Filanovsky offshore field and other greenfields, located in the Caspian offshore;
- A fixed tax rate of 30% of the Urals price is applied to our offshore greenfields, located in the Baltic Sea;
- A reduced tax rate is applied to our Yaregskoye field producing extra-viscous crude oil, as well as to certain unconventional deposits.

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

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

| | Mineral extraction tax | Export duty | Total | As % of oil price |
|---|---|---|---|---|
| | (in US dollars per barrel) | | | |
| **Under 2019 tax formulas** | | | | |
| **Standard** | **20.2** | **9.6** | **29.8** | **59.6** |
| Yaregskoye field | 0.7 | 0.9 | 1.6 | 3.3 |
| Yu. Korchagin field | 8.0 | 0.0 | 8.0 | 16.0 |
| V. Filanovsky field | 7.5 | 0.0 | 7.5 | 15.0 |
| Usinskoye (Permian layers) | 9.9 | 9.6 | 19.5 | 39.0 |
| V. Vinogradov and Imilorskoe fields | 12.0 | 9.6 | 21.6 | 43.1 |
| Fields with depletion above 80% | 13.0–20.2 | 9.6 | 22.6–29.8 | 45.2–59.6 |
| New fields with reserves below 5 million tonnes | 13.8–20.2 | 9.6 | 23.4–29.8 | 46.7–59.6 |
| Tyumen deposits | 18.1 | 9.6 | 27.7 | 55.5 |

**Tax on additional income.** Starting from 2019, a tax on additional income from the hydrocarbon production (hereinafter TAI) has been implemented for certain license areas. The TAI rate is set at 50% and is applied to the estimated sales revenue less actual and estimated costs, where actual costs include both operating expenses and capital expenditures. Moreover, TAI tax base may be reduced by the historical cumulative losses attributable to the license area. For crude oil production subject to TAI, a special mineral extraction tax rate formula is applied. The special mineral extraction tax rate (in US dollars per barrel) equals to 50% of the difference between Urals oil price and $15 less the enacted export duty rate.

TAI is implemented for four groups of license areas. In Group 1, LUKOIL has nineteen license areas with greenfields in new regions, including Pyakyakhinskoye field, and a number of fields in Timan-Pechora with total crude oil and gas condensate production of 2,011 thousand tonnes in 2019. In Group 3, LUKOIL has eight license areas with brownfields in West Siberia with total crude oil and gas condensate production of 2,896 thousand tonnes in 2019. In Group 4, LUKOIL has two license areas with greenfields in traditional regions (West Siberia) with total crude oil and gas condensate production of 41 thousand tonnes in 2019.

TAI has significant positive impact on development plans for, and production profile of, the Company's license areas subject to TAI.

**Crude oil export duty rate** is denominated in US dollars per tonne of crude oil exported and is calculated by multiplying the base export duty rate calculated on a monthly basis by the adjusting factor from tables below.

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

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 and further |
|---|---|---|---|---|---|---|---|
| Adjusting factor | - | 0.833 | 0.667 | 0.500 | 0.333 | 0.167 | 0 |

The rate for the next month is being based on average Urals price for the period from the 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. As a result of the tax manoeuvre, the lag effect will gradually migrate from the export duty to the mineral extraction tax by 2024.

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (US dollars per barrel) | | | |
| Urals price (Argus) | 62.67 | 61.26 | 2.3 | 63.89 | 69.75 | (8.4) |
| Export duty on crude oil | 12.15 | 13.02 | (6.7) | 12.85 | 17.61 | (27.0) |
| Mineral extraction tax on crude oil | 27.17 | 26.32 | 3.2 | 27.59 | 27.24 | 1.3 |
| Net Urals price[1] | 23.35 | 21.92 | 6.5 | 23.45 | 24.90 | (5.8) |
| Export duty lag effect | 0.59 | (0.64) | - | 0.20 | (0.19) | - |
| Mineral extraction tax lag effect | 0.10 | (0.11) | - | 0.03 | - | - |
| Net Urals price[1] assuming no lag | 22.66 | 22.67 | - | 23.22 | 25.09 | (7.5) |
| | | | (rubles per barrel)[2] | | | |
| Urals price (Argus) | 3,993 | 3,955 | 1.0 | 4,136 | 4,374 | (5.4) |
| Export duty on crude oil | 774 | 841 | (8.0) | 832 | 1,104 | (24.6) |
| Mineral extraction tax on crude oil | 1,731 | 1,699 | 1.9 | 1,786 | 1,708 | 4.6 |
| Net Urals price[1] | 1,488 | 1,415 | 5.2 | 1,518 | 1,562 | (2.8) |
| Export duty lag effect | 38 | (41) | - | 13 | (12) | - |
| Mineral extraction tax lag effect | 6 | (7) | - | 2 | - | - |
| Net Urals price[1] assuming no lag | 1,444 | 1,463 | (1.3) | 1,503 | 1,574 | (4.5) |

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

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

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

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

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

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | (US dollars per thousand cubic meters)[1] | | | | | |
| Nakhodkinskoye field | 5.62 | 5.54 | 1.4 | 5.48 | 4.86 | 12.9 |
| Pyakyakhinskoye field | 8.43 | 8.16 | 3.3 | 8.26 | 8.55 | (3.3) |

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | (rubles per thousand cubic meters) | | | | | |
| Nakhodkinskoye field | 358 | 358 | - | 355 | 305 | 16.6 |
| Pyakyakhinskoye field | 537 | 527 | 1.9 | 535 | 536 | (0.2) |

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

| | 2018 and further |
|---|---|
| Multiplier for: | |
| Gasolines, diesel fuel and other light and middle distillates | 0.30 |
| Straight-run gasoline | 0.55 |
| Fuel oil | 1.00 |

Refined products exported to member countries of the Customs Union are not subject to export duties.

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

Excise tax expense on straight-run gasoline used as a petrochemical feedstock is reimbursed with a coefficient of 1.7, and excise tax expense on middle distillates processed and bunker fuel marketed is reimbursed in double amount.

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

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (rubles per tonne) | | | |
| Gasoline | | | | | | |
| Below Euro-5 | 13,100 | 13,100 | - | 13,100 | 13,100 | - |
| Euro-5 | 12,314 | 12,314 | - | 12,314 | 9,454 | 30.3 |
| Diesel fuel | | | | | | |
| All ecological classes | 8,541 | 8,541 | - | 8,541 | 6,492 | 31.6 |
| Motor oils | 5,400 | 5,400 | - | 5,400 | 5,400 | - |
| Middle distillates | 9,241 | 9,241 | - | 9,241 | 7,491 | 23.4 |
| Straight-run gasoline | 13,912 | 13,912 | - | 13,912 | 13,100 | 6.2 |

Established excise tax rates are listed below.

| | 1 January to 31 May 2018 | 1 June to 31 December 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| | | | (rubles per tonne) | | | |
| Gasoline | | | | | | |
| Below Euro-5 | 13,100 | 13,100 | 13,100 | 13,100 | 13,624 | 14,169 |
| Euro-5 | 11,213 | 8,213 | 12,314 | 12,752 | 13,262 | 13,793 |
| Diesel fuel | | | | | | |
| All ecological classes | 7,665 | 5,665 | 8,541 | 8,835 | 9,188 | 9,556 |
| Motor oils | 5,400 | 5,400 | 5,400 | 5,616 | 5,841 | 6,075 |
| Middle distillates | 8,662 | 6,665 | 9,241 | variable rate | variable rate | variable rate |
| Straight-run gasoline | 13,100 | 13,100 | 13,912 | 14,720 | 15,533 | 16,345 |

**Negative excise tax on refinery feedstock**

The reduction of export duties on crude oil in the course of the tax manoeuvre in Russia leads to an increase in feedstock costs for the domestic refineries. This negative effect is partially compensated by a decrease in export duties on refined products, with the remaining part of the negative effect being fully offset by the negative excise tax implemented from 1 January 2019. The negative excise tax is payable by the Government to the refineries. The negative excise tax rate is calculated separately for each refinery based on the average Urals crude oil price and refinery slate during the month. Our Ukhta refinery benefits from a special uplift regional coefficient of 1.3 applied to the negative excise tax.

The negative excise tax formula also includes the damper coefficient for gasoline and diesel fuel sold on the domestic market. The damper coefficient is calculated by multiplying *Compensation Coefficient* and a difference between gasoline and diesel fuel export netbacks at North-Western Russia delivery basis and corresponding *Fixed benchmarks*. When the damper coefficient is positive, it is payable by the Government to the refinery, and vice versa.

The *Fixed benchmarks* and *Compensation Coefficients* are presented in the tables below:

| | 1 January to 30 June 2019 | 1 July to 31 December 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|
| | | | (rubles per tonne) | | | | |
| Fixed benchmark for gasoline | 56,000 | 51,000 | 53,600 | 56,300 | 59,000 | 62,000 | 65,000 |
| Fixed benchmark for diesel fuel | 50,000 | 46,000 | 48,300 | 50,700 | 53,250 | 56,000 | 58,700 |

| | 1 January to 30 June 2019 | 1 July to 31 December 2019 | 2020 and further |
|---|---|---|---|
| Compensation coefficient for gasoline | 0.60 | 0.75 | 0.68 |
| Compensation coefficient for diesel fuel | 0.60 | 0.70 | 0.65 |

The following table presents the average enacted damper coefficients for the respective periods:

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (US dollars per tonne)[1] | | | |
| Gasoline | 47.06 | 80.64 | (41.6) | 56.52 | - | - |
| Diesel fuel | 64.63 | 65.70 | (1.6) | 72.93 | - | - |

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (rubles per tonne) | | | |
| Gasoline | 2,999 | 5,207 | (42.4) | 3,659 | - | - |
| Diesel fuel | 4,118 | 4,242 | (2.9) | 4,721 | - | - |

**Income tax.** Operations in the Russian Federation are subject to a 20% income tax rate. For the period from 2017 till 2024 (inclusive) a Federal income tax rate is set as 3.0% and a regional income tax rate is 17.0% at the discretion of the individual regional administration. Regional income tax rate may be reduced for certain categories of taxpayers by the laws of constituent entities of the Russian Federation, however certain restrictions apply on the application of the reduced regional rates.

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

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

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

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

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

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

| | Q4 2019 to Q3 2019 | 12 months of 2019 to 12 months of 2018 |
|---|---|---|
| Transneft (crude oil) | 0.0% | 3.9% |
| Russian Railways (crude oil and refined products) | 0.0% | 3.6% |

The tariffs for transportation of crude oil and refined products were increased on 1 January 2019. Tariffs for crude oil export through the trunk oil pipeline system grew by 3.9%. Tariffs for crude oil and refined products transportation via railway infrastructure increased by 3.6%, while tariffs for transportation of refined products by pipeline increased for the Groups' refineries in a range from 3.6% to 3.8%.

## Reserves base

The tables below summarize the net proved reserves of our consolidated subsidiaries and our share in equity affiliates under the standards of the US Securities and Exchange Commission (until the economic limit of commercial production is reached) that have been derived from our reserve reports audited by Miller and Lents Ltd, our independent reservoir engineers, at 31 December 2019 and 2018.

| (hydrocarbons, millions of BOE) | 31 December 2019 | Changes in 2019 Production[(1)] | Extensions, discoveries and changes in structure | Revision of previous estimates | 31 December 2018 |
|---|---|---|---|---|---|
| Western Siberia | 8,185 | (353) | 336 | (102) | 8,304 |
| Timan-Pechora | 2,414 | (130) | 113 | 7 | 2,424 |
| Ural region | 2,247 | (131) | 78 | 39 | 2,261 |
| Volga region | 1,173 | (98) | 92 | 23 | 1,156 |
| Other in Russia | 176 | (12) | 3 | - | 185 |
| Outside Russia | 1,574 | (145) | 90 | 28 | 1,601 |
| **Proved oil and gas reserves** | **15,769** | **(869)** | **712** | **(5)** | **15,931** |
| **Probable oil and gas reserves** | **6,217** | | | | **6,424** |
| **Possible oil and gas reserves** | **3,000** | | | | **3,242** |

[1] Gas production shown before own consumption.

| (crude oil, millions of barrels) | 31 December 2019 | Changes in 2019 Production | Extensions, discoveries and changes in structure | Revision of previous estimates | 31 December 2018 |
|---|---|---|---|---|---|
| Western Siberia | 6,070 | (279) | 283 | (118) | 6,184 |
| Timan-Pechora | 2,289 | (118) | 106 | 10 | 2,291 |
| Ural region | 2,112 | (122) | 74 | 38 | 2,122 |
| Volga region | 810 | (88) | 85 | 16 | 797 |
| Other in Russia | 174 | (12) | 3 | - | 183 |
| Outside Russia | 560 | (43) | 55 | 43 | 505 |
| **Proved oil reserves** | **12,015** | **(662)** | **606** | **(11)** | **12,082** |
| **Probable oil reserves** | **4,671** | | | | **4,855** |
| **Possible oil reserves** | **2,506** | | | | **2,727** |

| (gas, billions of cubic feet) | 31 December 2019 | Changes in 2019 Production[(1)] | Extensions, discoveries and changes in structure | Revision of previous estimates | 31 December 2018 |
|---|---|---|---|---|---|
| Western Siberia | 12,688 | (441) | 319 | 87 | 12,723 |
| Timan-Pechora | 748 | (73) | 44 | (20) | 797 |
| Ural region | 812 | (51) | 23 | 8 | 832 |
| Volga region | 2,182 | (63) | 42 | 50 | 2,153 |
| Other in Russia | 14 | (1) | - | 1 | 14 |
| Outside Russia | 6,083 | (609) | 208 | (90) | 6,574 |
| **Proved gas reserves** | **22,527** | **(1,238)** | **636** | **36** | **23,093** |
| **Probable gas reserves** | **9,275** | | | | **9,414** |
| **Possible gas reserves** | **2,966** | | | | **3,091** |

[1] Gas production shown before own consumption.

The Company's proved hydrocarbon reserves at 31 December 2019 amounted to 15.8 billion BOE and comprised of 12.0 billion barrels of crude oil and 22.5 trillion cubic feet of gas.

As a result of geological exploration and production drilling conducted in 2019, LUKOIL added 642 million barrels of oil equivalent to proved reserves, which is 11% higher year-on-year. The largest contribution was from the assets in West Siberia, Timan-Pechora and Russian sector of the Caspian Sea.

A positive revision of the proved reserves in the aggregate of 108 million barrels of oil equivalent was driven by optimization of development systems and wellwork programmes at existing fields, as well as conversion of contingent resources to reserves. Acquisition of assets in Russia and abroad in 2019 added 70 million barrels of oil equivalent to proved reserves.

The reserves dynamics was negatively affected by an 11% decrease in oil price and US dollar to ruble exchange rate used for reserves evaluation.

## Segments highlights

Our operations are divided into three main business segments:

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

Each of our segments is dependent on the others, with a portion of the revenues of one segment being a part of the costs of the others. In particular, our Refining, Marketing and Distribution segment purchases crude oil from our Exploration and Production segment. As a result of certain factors considered in the "Domestic crude oil and refined products prices" section on p. 7, benchmark crude oil market prices in Russia cannot be determined with certainty. Therefore, the prices set for inter-segment purchases of crude oil reflect a combination of market factors, primarily international crude oil market prices, transportation costs, regional market conditions, the cost of crude oil refining and other factors. We present the financial data for each segment in Note 33 "Segment information" to our consolidated financial statements.

### Exploration and production

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| EBITDA | 211,786 | 211,958 | (0.1) | 893,950 | 870,287 | 2.7 |
| in Russia | 173,108 | 169,844 | 1.9 | 729,077 | 717,244 | 1.6 |
| outside Russia and Iraq | 36,573 | 35,435 | 3.2 | 143,183 | 127,613 | 12.2 |
| in Iraq | 2,105 | 6,679 | (68.5) | 21,690 | 25,430 | (14.7) |
| Hydrocarbon extraction expenses | 54,010 | 53,428 | 1.1 | 210,867 | 213,815 | (1.4) |
| in Russia | 43,285 | 42,970 | 0.7 | 170,590 | 175,131 | (2.6) |
| outside Russia and Iraq | 6,592 | 6,607 | (0.2) | 23,267 | 21,096 | 10.3 |
| in Iraq | 4,133 | 3,851 | 7.3 | 17,010 | 17,588 | (3.3) |
| | | | (rubles per BOE) | | | |
| Hydrocarbon extraction expenses (excluding Iraq) | 233 | 239 | (2.6) | 232 | 238 | (2.5) |
| in Russia | 239 | 239 | 0.2 | 237 | 244 | (2.7) |
| outside Russia and Iraq | 200 | 245 | (18.1) | 200 | 199 | 0.3 |
| | | | (US dollars per BOE) | | | |
| Hydrocarbon extraction expenses (excluding Iraq) | 3.66 | 3.71 | (1.3) | 3.59 | 3.81 | (5.9) |
| in Russia | 3.75 | 3.70 | 1.5 | 3.67 | 3.90 | (6.0) |
| outside Russia and Iraq | 3.15 | 3.79 | (17.0) | 3.09 | 3.16 | (2.1) |

Our upstream EBITDA did not change compared to the third quarter of 2019. In Russia, our EBITDA increased mainly as a result of positive export duty and mineral extraction tax lag effects and bigger share of high-margin volumes in our crude oil production structure, which was partially offset by an increase in extraction tax rate and the effect of the ruble appreciation. Outside Russia, our upstream EBITDA increased mainly owing to an increase in hydrocarbon production volumes. At the same time, results of our international upstream were negatively affected by dry hole write-off in Romania and the ruble appreciation.

Compared to 2018, our upstream EBITDA increased by 2.7% despite a decrease in crude oil prices. In Russia, this decrease in prices was offset by bigger share of high-margin volumes in our production structure, an implementation of a tax on additional income from the hydrocarbon production at certain license areas, lower hydrocarbon extraction expenses, as well as the ruble devaluation and positive export duty and mineral extraction tax lag effects. Outside Russia, our upstream EBITDA was positively impacted by an increase in gas production volumes and gas prices in Uzbekistan, the ruble devaluation that was partially offset by a dry hole write-off in Romania.

EBITDA of the West Qurna-2 project decreased compared to the third quarter of 2019 and the twelve months of 2018 mainly as a result of an accrual of a provision for expected credit losses.

In 2019, our upstream EBITDA was also positively affected by the effect of IFRS 16 adoption, which resulted in lower operating expenses.

The following table summarizes our hydrocarbon production by major regions.

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (thousand BOE per day) | | | |
| Crude oil and natural gas liquids | | | | | | |
| Consolidated subsidiaries | | | | | | |
| West Siberia | 760 | 768 | (1.0) | 765 | 774 | (1.2) |
| Timan-Pechora | 313 | 320 | (2.2) | 317 | 318 | (0.3) |
| Ural region | 334 | 334 | - | 334 | 328 | 1.8 |
| Volga region | 235 | 228 | 3.1 | 235 | 229 | 2.6 |
| Other in Russia | 31 | 31 | - | 32 | 32 | - |
| Total in Russia | 1,673 | 1,681 | (0.5) | 1,683 | 1,681 | 0.1 |
| Iraq[1] | 31 | 31 | - | 30 | 28 | 7.1 |
| Other outside Russia | 61 | 51 | 19.6 | 52 | 47 | 10.6 |
| Total outside Russia | 92 | 82 | 12.2 | 82 | 75 | 9.3 |
| **Total consolidated subsidiaries** | **1,765** | **1,763** | **0.1** | **1,765** | **1,756** | **0.5** |
| Our share in equity affiliates | | | | | | |
| in Russia | 13 | 13 | - | 13 | 13 | - |
| outside Russia | 38 | 35 | 8.6 | 37 | 37 | - |
| **Total share in equity affiliates** | **51** | **48** | **6.3** | **50** | **50** | **-** |
| **Total crude oil and natural gas liquids** | **1,816** | **1,811** | **0.3** | **1,815** | **1,806** | **0.5** |
| | | | | | | |
| **Natural and petroleum gas[2]** | | | | | | |
| Consolidated subsidiaries | | | | | | |
| West Siberia | 205 | 196 | 4.6 | 201 | 210 | (4.3) |
| Timan-Pechora | 33 | 33 | - | 33 | 33 | - |
| Ural region | 25 | 23 | 8.7 | 23 | 15 | 53.3 |
| Volga region | 31 | 23 | 34.8 | 28 | 27 | 3.7 |
| Other in Russia | - | - | - | 1 | 1 | - |
| Total in Russia | 294 | 275 | 6.9 | 286 | 286 | - |
| Uzbekistan | 248 | 206 | 20.4 | 228 | 216 | 5.6 |
| Other outside Russia | 49 | 36 | 36.1 | 40 | 27 | 48.1 |
| Total outside Russia | 297 | 242 | 22.7 | 268 | 243 | 10.3 |
| **Total consolidated subsidiaries** | **591** | **517** | **14.3** | **554** | **529** | **4.7** |
| Share in equity affiliates | | | | | | |
| in Russia | 1 | 1 | 42.2 | 1 | 2 | (28.6) |
| outside Russia | 11 | 10 | 13.0 | 10 | 10 | 3.3 |
| **Total share in production of equity affiliates** | **12** | **11** | **9.1** | **11** | **12** | **(8.3)** |
| **Total natural and petroleum gas** | **603** | **528** | **14.2** | **565** | **541** | **4.4** |
| | | | | | | |
| **Total daily hydrocarbon production** | **2,419** | **2,339** | **3.4** | **2,380** | **2,347** | **1.4** |
| | | | | | | |
| Including natural gas liquids produced at the gas processing plants | 43 | 41 | 5.3 | 44 | 42 | 3.6 |

[1] Compensation crude oil related to the Group.

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

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (thousands of tonnes) | | | |
| West Siberia | 9,261 | 9,366 | (1.1) | 36,999 | 37,471 | (1.3) |
| Timan-Pechora | 4,005 | 4,088 | (2.0) | 16,099 | 16,124 | (0.2) |
| Ural region | 3,929 | 3,933 | (0.1) | 15,527 | 15,251 | 1.8 |
| Volga region | 2,830 | 2,737 | 3.4 | 11,207 | 10,969 | 2.2 |
| Other in Russia | 400 | 428 | (6.5) | 1,626 | 1,597 | 1.8 |
| Crude oil produced in Russia | 20,425 | 20,552 | (0.6) | 81,458 | 81,412 | 0.1 |
| Iraq[1] | 424 | 417 | 1.7 | 1,616 | 1,514 | 6.7 |
| Other outside Russia | 616 | 534 | 15.4 | 2,110 | 1,901 | 11.0 |
| Crude oil produced outside Russia | 1,040 | 951 | 9.4 | 3,726 | 3,415 | 9.1 |
| **Total crude oil produced by consolidated subsidiaries** | **21,465** | **21,503** | **(0.2)** | **85,184** | **84,827** | **0.4** |
| **Our share in crude oil produced by equity affiliates:** | | | | | | |
| in Russia | 152 | 152 | - | 610 | 633 | (3.6) |
| outside Russia | 441 | 402 | 9.7 | 1,694 | 1,664 | 1.8 |
| **Total crude oil produced** | **22,058** | **22,057** | **-** | **87,488** | **87,124** | **0.4** |

[1] Compensation crude oil related to the Group.

Our main oil producing region is West Siberia where we produced 43.1% of our crude oil in the fourth quarter of 2019 and 43.4% in 2019 (43.6% in the third quarter of 2019 and 44.2% in 2018).

The dynamics of our crude oil production volumes was mainly driven by external limitations due to an agreement of OPEC and some of the non-OPEC countries, including Russia, to cap production levels in order to stabilize the global crude oil market. During the first half of 2018, our production was limited in accordance with the first OPEC+ agreement valid until the end of June 2018. We increased our production in July 2018, when the parameters of the agreement were amended. In December 2018, the OPEC+ countries agreed to decrease crude oil production relative to October 2018 levels until June 2019, which subsequently was prolonged until March 2020. The Group limited production in our traditional regions (West Siberia, Timan-Pechora, and Ural) at the least-productive fields and fields with high water-cuts.

The active development of the priority projects was on track. We produced 6,387 thousand tonnes of crude oil at the V. Filanovsky field in 2019, an increase of 5%, compared to 2018. In November 2019, the third stage of the field was launched.

In 2019, crude oil production at the Yu. Korchagin field increased by 21% year-on-year as a result of drilling programme at the field's second development stage.

The development of the Yaregskoye field and Permian reservoir of the Usinskoye field, including the launch of new steam-generating facilities, led to an increase in the high viscosity crude oil production to 4.9 million tonnes, or by 15%, compared to 2018.

The development of growth projects in West Siberia also continued. The aggregate crude oil and gas condensate production at the V. Vinogradov, Imilorskoye and Pyakyakhinskoye fields in 2019 increased by 17% year-on-year.

In 2019, crude oil production outside Russia increased mainly due to the launch of the second phase of Shah-Deniz project in Azerbaijan in 2018, as well as by an acquisition of a 25% interest in the Marine XII license area in the Republic of Congo (Congo, Brazzaville) in September 2019.

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of cubic meters) | | | |
| West Siberia | 3,202 | 3,070 | 4.3 | 12,492 | 13,001 | (3.9) |
| Timan-Pechora | 519 | 509 | 2.0 | 2,050 | 2,072 | (1.1) |
| Ural region | 387 | 358 | 8.1 | 1,432 | 923 | 55.1 |
| Volga region | 479 | 362 | 32.3 | 1,711 | 1,690 | 1.2 |
| Other in Russia | 6 | 5 | 20.0 | 24 | 26 | (7.7) |
| Gas produced in Russia | 4,593 | 4,304 | 6.7 | 17,709 | 17,712 | - |
| Uzbekistan | 3,875 | 3,225 | 20.2 | 14,130 | 13,262 | 6.5 |
| Other outside Russia | 774 | 562 | 37.7 | 2,478 | 1,834 | 35.1 |
| Gas produced outside Russia | 4,649 | 3,787 | 22.8 | 16,608 | 15,096 | 10.0 |
| **Total gas produced by consolidated subsidiaries** | **9,242** | **8,091** | **14.2** | **34,317** | **32,808** | **4.6** |
| **Our share in gas produced by equity affiliates:** | | | | | | |
| in Russia | 22 | 22 | - | 88 | 92 | (4.3) |
| outside Russia | 168 | 149 | 12.8 | 641 | 643 | (0.3) |
| **Total gas produced** | **9,432** | **8,262** | **14.2** | **35,046** | **33,543** | **4.5** |

In Russia, our major gas production region is West Siberia (Bolshekhetskaya depression), where gas is produced from the Nakhodkinskoe and Pyakyakhinskoe fields. Outside Russia, the main gas production region is Uzbekistan where we have shares in two PSAs. In 2019, LUKOIL Group's gas production was 35.0 billion cubic meters, which was 4.5% higher year-on-year. The main driver of gas production growth was the development of projects in Uzbekistan and Azerbaijan. As a result of the launch of the second stage of the Kandym gas processing plant in April 2018, our international gas production (including our share in affiliates' production) increased by 9.6%. In the fourth quarter of 2019, we started pilot production at the Yuzhno-Messoyakhskoye gas condensate field in West Siberia (Bolshekhetskaya depression) and launched a compressor booster station at the Nakhodkinskoye field.

**West Qurna-2 project**

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

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

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

There are two steps of revenue recognition:

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

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

| (millions of US dollars) | **Costs incurred[1]** | **Remuneration fee** | **Crude oil received** | **Crude oil to be received** |
|---|---|---|---|---|
| Cumulative at 31 December 2018 | 8,597 | 424 | 8,681 | 340 |
| Change in 2019 | 632 | 124 | 561 | 195 |
| **Cumulative at 31 December 2019** | **9,229** | **548** | **9,242** | **535** |

[1] Including prepayments.

The West Qurna-2 project summary is presented below:

| | **Q4 2019** | | **Q3 2019** | | **Change, %** | |
|---|---|---|---|---|---|---|
| | (thousand barrels) | (thousand tonnes) | (thousand barrels) | (thousand tonnes) | | |
| Total production | 37,098 | 5,423 | 37,127 | 5,428 | (0.1) | (0.1) |
| Production related to cost compensation and remuneration | 2,902 | 424 | 2,854 | 417 | 1.7 | 1.7 |
| Shipment of compensation crude oil[1] | 2,779 | 406 | 2,904 | 425 | (4.5) | (4.5) |
| | (millions of rubles) | (millions of US dollars) | (millions of rubles) | (millions of US dollars) | | |
| Cost compensation | 9,077 | 142 | 8,553 | 133 | 6.1 | 6.8 |
| Remuneration fee | 2,035 | 32 | 2,066 | 32 | (1.5) | - |
| | 11,112 | 174 | 10,619 | 165 | 4.6 | 5.5 |
| Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products)[1] | 10,341 | 162 | 10,399 | 161 | (0.6) | 0.6 |
| Extraction expenses | 4,133 | 65 | 3,851 | 60 | 7.3 | 8.3 |
| Depreciation, depletion and amortization | 4,988 | 78 | 4,735 | 73 | 5.3 | 6.8 |
| EBITDA | 2,105 | 33 | 6,679 | 103 | (68.5) | (68.0) |

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

| | **12 months of 2019** | | **2018** | | **Change, %** | |
|---|---|---|---|---|---|---|
| | (thousand barrels) | (thousand tonnes) | (thousand barrels) | (thousand tonnes) | | |
| Total production | 142,684 | 20,860 | 139,430 | 20,385 | 2.3 | 2.3 |
| Production related to cost compensation and remuneration | 11,054 | 1,616 | 10,355 | 1,514 | 6.7 | 6.7 |
| Shipment of compensation crude oil[1] | 9,412 | 1,376 | 12,851 | 1,879 | (26.8) | (26.8) |
| | (millions of rubles) | (millions of US dollars) | (millions of rubles) | (millions of US dollars) | | |
| Cost compensation | 35,836 | 554 | 32,665 | 523 | 9.7 | 5.9 |
| Remuneration fee | 8,023 | 124 | 9,685 | 153 | (17.2) | (19.0) |
| | 43,859 | 678 | 42,350 | 676 | 3.6 | 0.3 |
| Cost of compensation crude oil, received as liability settlement (included in Cost of purchased crude oil, gas and products)[1] | 36,225 | 560 | 52,817 | 839 | (31.4) | (33.3) |
| Extraction expenses | 17,010 | 263 | 17,588 | 280 | (3.3) | (6.1) |
| Depreciation, depletion and amortization | 18,950 | 293 | 15,218 | 246 | 24.5 | 19.1 |
| EBITDA | 21,690 | 334 | 25,430 | 406 | (14.7) | (17.7) |

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

**Refining, marketing and distribution**

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| EBITDA | 82,157 | 116,380 | (29.4) | 371,642 | 282,144 | 31.7 |
| in Russia | 71,584 | 87,693 | (18.4) | 301,136 | 231,831 | 29.9 |
| outside Russia | 10,573 | 28,687 | (63.1) | 70,506 | 50,313 | 40.1 |
| Refining expenses at the Group refineries | 24,636 | 24,942 | (1.2) | 96,543 | 104,987 | (8.0) |
| in Russia | 11,328 | 11,036 | 2.6 | 42,555 | 45,659 | (6.8) |
| outside Russia | 13,308 | 13,906 | (4.3) | 53,988 | 59,328 | (9.0) |
| | | | (rubles per tonne) | | | |
| Refining expenses at the Group refineries | 1,448 | 1,367 | 6.0 | 1,404 | 1,560 | (10.0) |
| in Russia | 1,046 | 951 | 10.1 | 964 | 1,057 | (8.8) |
| outside Russia | 2,153 | 2,096 | 2.7 | 2,195 | 2,459 | (10.7) |
| | | | (US dollars per tonne) | | | |
| Refining expenses at the Group refineries | 22.73 | 21.17 | 7.4 | 21.70 | 24.82 | (12.6) |
| in Russia | 16.42 | 14.72 | 11.5 | 14.90 | 16.80 | (11.3) |
| outside Russia | 33.79 | 32.45 | 4.1 | 33.91 | 39.17 | (13.4) |

In the fourth quarter of 2019, our refining, marketing and distribution EBITDA was 29.4% lower than in the third quarter of 2019.

In Russia, our refining, marketing and distribution EBITDA decreased compared to the third quarter of 2019 largely due to lower benchmark refining margins and throughput volumes at our refineries, seasonally lower results of our retail business and weaker petrochemical results. This was partially offset by higher EBITDA of our energy business and better product slate at our refineries. Outside Russia, our refining, marketing and distribution EBITDA decreased also mainly as a result of lower refining margins and throughput volumes, lower profitability of retail business, as well as accounting specifics of our trading operations. Nevertheless, these negative factors were partially compensated by a positive inventory effect and better product slate at our refineries outside Russia.

In 2019, our refining, marketing and distribution EBITDA was 31.7% higher than in 2018.

Compared to 2018, our refining, marketing and distribution EBITDA in Russia increased despite a decrease in benchmark refining margin largely due to higher throughput volumes, better product slate and positive inventory effect at our refineries, as well as better profitability of our retail business. Outside Russia, our downstream EBITDA increased despite lower benchmark refining margins due to an improvement of trading margins, better product slate and positive inventory effect at our refineries, and the effect of the ruble devaluation.

Moreover, in 2019, our refining, marketing and distribution EBITDA both in and outside Russia was positively affected by the effect of IFRS 16 adoption, which resulted in lower transportation expenses.

### Refining and petrochemicals

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (thousands of tonnes) | | | |
| Refinery throughput at the Group refineries | 17,009 | 18,246 | (6.8) | 68,746 | 67,316 | 2.1 |
| in Russia | 10,828 | 11,610 | (6.7) | 44,154 | 43,189 | 2.2 |
| outside Russia, including | 6,181 | 6,636 | (6.9) | 24,592 | 24,127 | 1.9 |
| crude oil | 5,687 | 6,208 | (8.4) | 22,673 | 21,270 | 6.6 |
| refined products | 494 | 428 | 15.4 | 1,919 | 2,857 | (32.8) |
| Refinery throughput at third party refineries | (513) | 1,742 | (129.4) | 4,460 | 6,547 | (31.9) |
| **Total refinery throughput** | **16,496** | **19,988** | **(17.5)** | **73,206** | **73,863** | **(0.9)** |
| | | | | | | |
| **Production of the Group refineries in Russia[1]** | **10,220** | **11,032** | **(7.4)** | **41,831** | **40,985** | **2.1** |
| diesel fuel | 4,196 | 4,339 | (3.3) | 16,532 | 16,215 | 2.0 |
| motor gasoline | 2,009 | 2,202 | (8.8) | 7,864 | 8,022 | (2.0) |
| fuel oil | 947 | 1,204 | (21.3) | 4,657 | 4,814 | (3.3) |
| jet fuel | 656 | 835 | (21.4) | 2,843 | 2,760 | 3.0 |
| lubricants and components | 242 | 261 | (7.3) | 963 | 961 | 0.2 |
| straight-run gasoline | 623 | 525 | 18.7 | 2,655 | 2,143 | 23.9 |
| vacuum gas oil | 51 | - | - | 332 | 844 | (60.7) |
| bitumen | 216 | 262 | (17.6) | 908 | 793 | 14.5 |
| coke | 292 | 276 | 5.8 | 1,072 | 1,106 | (3.1) |
| bunker fuel | 413 | 450 | (8.2) | 1,546 | 1,591 | (2.8) |
| gas products | 72 | 85 | (15.3) | 317 | 355 | (10.7) |
| petrochemicals | 103 | 98 | 5.1 | 392 | 327 | 19.9 |
| other products | 400 | 495 | (19.2) | 1,750 | 1,054 | 66.0 |
| **Production of the Group refineries outside Russia** | **5,850** | **6,209** | **(5.8)** | **23,250** | **22,789** | **2.0** |
| diesel fuel | 2,695 | 2,807 | (4.0) | 10,570 | 9,619 | 9.9 |
| motor gasoline | 1,309 | 1,384 | (5.4) | 5,065 | 4,545 | 11.4 |
| fuel oil | 473 | 464 | 1.9 | 2,121 | 2,710 | (21.7) |
| jet fuel | 275 | 351 | (21.7) | 1,149 | 1,191 | (3.5) |
| straight-run gasoline | 599 | 663 | (9.7) | 2,285 | 2,073 | 10.2 |
| coke | 23 | 25 | (8.0) | 107 | 206 | (48.1) |
| gas products | 144 | 164 | (12.2) | 588 | 498 | 18.1 |
| petrochemicals | 9 | 14 | (35.7) | 43 | 51 | (15.7) |
| other products | 323 | 337 | (4.2) | 1,322 | 1,896 | (30.3) |
| **Refined products produced by the Group** | **16,070** | **17,241** | **(6.8)** | **65,081** | **63,774** | **2.0** |
| Refined products produced at third party refineries | (483) | 1,641 | (129.4) | 4,215 | 6,414 | (34.3) |
| **Total refined products produced** | **15,587** | **18,882** | **(17.5)** | **69,296** | **70,188** | **(1.3)** |
| | | | | | | |
| Reference: Net of cross-supplies of refined products between the Group refineries | 483 | 380 | 27.1 | 1,561 | 1,589 | (1.8) |
| | | | | | | |
| **Products produced at petrochemical plants and facilities** | **253** | **263** | **(3.8)** | **1,137** | **1,246** | **(8.7)** |
| in Russia | 170 | 170 | - | 790 | 934 | (15.4) |
| outside Russia | 83 | 93 | (10.8) | 347 | 312 | 11.2 |

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

Compared to the third quarter of 2019, refinery throughput at the Group refineries decreased by 6.8%. A decrease was due to scheduled maintenance works at our refineries in Volgograd, Nizhny Novgorod and Italy.

In 2019, refinery throughput at the Group refineries was 68.7 million tonnes, which is 2.1% higher year-on-year. In Russia, an increase of 2.2% was mainly due to higher utilization rate of the Nizhny Novgorod refinery. Outside Russia, the growth of 1.9% was explained by the maintenance at the refinery in Bulgaria in the first quarter of 2018. We continued enhancing the product slate with fuel oil production volumes being 10% lower than in 2018.

In the periods considered, we processed our crude oil at third party refineries in Belarus, Kazakhstan and Canada.

In 2016, a Group company entered into a tolling agreement with a Canadian refinery originally valid through 2019. Subsequently, it was prolonged until 31 August 2022 with modification of certain provisions that changed its substance from a tolling agreement to a financial arrangement. Therefore, from September 2019, we ceased to recognize throughput and production cost related to this arrangement. The Group recognizes interest it earns on the financing provided and administrative fee.

As the treatment of the arrangement was amended in our 2019 annual financial statements, our figures for the fourth quarter of 2019 naturally include adjustments related for September 2019 to the following items: throughput volumes, crude oil and refined product revenue, cost of purchased crude oil, operating expenses, inventories, trade accounts receivable and payable.

In 2019, attributable refined products output related to tolling arrangement amounted to 4.0 million tonnes (1.6 million tonnes in the third quarter of 2019 and 6.2 million tonnes in 2018).

## Marketing and trading

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

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

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

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (thousands of tonnes) | | | |
| **Crude oil purchases** | | | | | | |
| In Russia | 229 | 171 | 33.9 | 756 | 874 | (13.5) |
| For trading internationally | 13,193 | 14,265 | (7.5) | 52,299 | 46,345 | 12.8 |
| For refining internationally | 4,244 | 5,922 | (28.3) | 21,686 | 22,527 | (3.7) |
| Shipment of the West Qurna-2 compensation crude oil | 406 | 425 | (4.5) | 1,376 | 1,879 | (26.8) |
| **Total crude oil purchased** | **18,072** | **20,783** | **(13.0)** | **76,117** | **71,625** | **6.3** |

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (thousands of tonnes) | | | |
| Refined products retail sales | 3,520 | 3,772 | (6.7) | 14,129 | 15,144 | (6.7) |
| Refined products wholesale sales | 25,957 | 27,175 | (4.5) | 106,898 | 108,397 | (1.4) |
| **Total refined products sales** | **29,477** | **30,947** | **(4.8)** | **121,027** | **123,541** | **(2.0)** |
| Refined products purchased in Russia | 235 | 244 | (3.7) | 920 | 1,242 | (25.9) |
| Refined products purchased internationally | 13,233 | 13,057 | 1.3 | 53,274 | 54,728 | (2.7) |
| **Total refined products purchased** | **13,468** | **13,301** | **1.3** | **54,194** | **55,970** | **(3.2)** |
| Petrochemical products purchased in Russia | 12 | 8 | 50.0 | 39 | 34 | 14.7 |
| Petrochemical products purchased internationally | 180 | 216 | (16.7) | 1,049 | 583 | 79.9 |
| **Total petrochemical products purchased** | **192** | **224** | **(14.3)** | **1,088** | **617** | **76.3** |

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Exports of crude oil to Customs Union | 15,966 | 16,664 | (4.2) | 63,879 | 64,015 | (0.2) |
| Exports of crude oil beyond Customs Union | 244,240 | 233,913 | 4.4 | 996,096 | 1,040,747 | (4.3) |
| **Total crude oil exports** | **260,206** | **250,577** | **3.8** | **1,059,975** | **1,104,762** | **(4.1)** |
| | | | (thousands of tonnes) | | | |
| Exports of crude oil to Customs Union | 692 | 747 | (7.4) | 2,716 | 2,745 | (1.1) |
| Exports of crude oil beyond Customs Union | 8,771 | 8,457 | 3.7 | 34,378 | 33,956 | 1.2 |
| **Total crude oil exports** | **9,463** | **9,204** | **2.8** | **37,094** | **36,701** | **1.1** |
| Exports of crude oil through Transneft and other third party infrastructure including: | 7,279 | 7,011 | 3.8 | 28,274 | 27,946 | 1.2 |
| ESPO pipeline | 480 | 299 | 60.5 | 1,738 | 1,240 | 40.2 |
| CPC pipeline | 1,413 | 1,239 | 14.0 | 5,281 | 4,783 | 10.4 |
| Exports of crude oil through the Group's transportation infrastructure | 2,184 | 2,193 | (0.4) | 8,820 | 8,755 | 0.7 |
| **Total crude oil exports** | **9,463** | **9,204** | **2.8** | **37,094** | **36,701** | **1.1** |

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| **Refined and petrochemical products exports** | **150,229** | **151,543** | **(0.9)** | **623,632** | **594,868** | **4.8** |
| | | | (thousands of tonnes) | | | |
| **Refined products exports** | | | | | | |
| diesel fuel | 2,524 | 2,669 | (5.4) | 10,205 | 9,773 | 4.4 |
| gasoline | 214 | 97 | 120.6 | 491 | 232 | 111.6 |
| fuel oil | 574 | 437 | 31.4 | 1,962 | 1,517 | 29.3 |
| jet fuel | 2 | 2 | - | 10 | 49 | (79.6) |
| lubricants and components | 163 | 161 | 1.2 | 629 | 600 | 4.8 |
| gas refinery products | 207 | 182 | 13.7 | 769 | 650 | 18.3 |
| other products | 1,096 | 1,127 | (2.8) | 4,663 | 3,423 | 36.2 |
| **Total refined products exports** | **4,780** | **4,675** | **2.2** | **18,729** | **16,244** | **15.3** |
| **Total petrochemicals exports** | **62** | **54** | **14.8** | **302** | **338** | **(10.7)** |

The volume of our crude oil exports from Russia increased by 2.8% compared to the third quarter of 2019, and increased by 1.1% compared to 2018. In the fourth quarter and the twelve months of 2019, we exported 46.3% and 45.5% of our domestic crude oil production (44.8% in the third quarter of 2019 and 45.1% in 2018), respectively. Our export volumes included 54 thousand tonnes in the fourth quarter of 2019 and 171 thousand tonnes in 2019 of crude oil purchased from our affiliates and third parties (43 thousand tonnes in the third quarter of 2019 and 185 thousand tonnes in 2018).

The volume of our refined products exports increased by 2.2% compared to the third quarter of 2019 following seasonal decrease in domestic demand, and increased by 15.3% compared to 2018 against the background of relatively low volumes of export in 2018 due to high domestic demand for our products.

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

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

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

In the fourth quarter and the twelve months of 2019, we sold 2.5 million tonnes and 9.9 million tonnes of motor fuels via our domestic retail network, which was 7.2% less compared to the third quarter of 2019 due to seasonality factor, and 9.1% less compared to 2018 due to high demand for our products in the previous year. Outside Russia, retail sales decreased by 5.4% compared to the third quarter of 2019 due to seasonality factor, and did not change significantly compared to 2018.

We also supply jet fuel to airports and bunker fuel to sea and river ports in and outside Russia. In 2019, our jet fuel deliveries without trading amounted to 3.4 million tonnes, and bunkering volume was 4.3 million tonnes.

**Power generation.** We established a vertically integrated chain from generation to transportation and sale of power and heat for third party customers (commercial generation) and own consumption. We own commercial generation facilities in the Southern regions of European Russia, Romania and Italy. We also own renewable energy capacity in Russia and abroad. In the fourth quarter and the twelve months of 2019, our total output of commercial electrical energy was 4.9 billion kWh and 18.3 billion kWh (4.2 billion kWh in the third quarter of 2019 and 19.9 billion kWh in 2018), and our total output of commercial heat energy was approximately 3.4 million Gcal and 10.1 million Gcal (0.8 million Gcal in the third quarter of 2019 and 11.0 million Gcal in 2018), respectively.

## Financial results

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | (millions of rubles) | | | | | |
| **Revenues** | | | | | | |
| Sales (including excise and export tariffs) | 1,912,439 | 1,952,322 | (2.0) | 7,841,246 | 8,035,889 | (2.4) |
| **Costs and other deductions** | | | | | | |
| Operating expenses | (115,565) | (119,286) | (3.1) | (457,710) | (464,467) | (1.5) |
| Cost of purchased crude oil, gas and products | (1,060,155) | (1,050,010) | 1.0 | (4,308,073) | (4,534,244) | (5.0) |
| Transportation expenses | (74,195) | (67,349) | 10.2 | (278,798) | (270,153) | 3.2 |
| Selling, general and administrative expenses | (52,974) | (45,638) | 16.1 | (197,172) | (192,433) | 2.5 |
| Depreciation, depletion and amortization | (101,030) | (104,504) | (3.3) | (415,094) | (343,085) | 21.0 |
| Taxes other than income taxes | (219,676) | (233,001) | (5.7) | (928,190) | (899,383) | 3.2 |
| Excise and export tariffs | (104,534) | (108,573) | (3.7) | (425,763) | (556,827) | (23.5) |
| Exploration expenses | (7,180) | (660) | >100 | (9,348) | (3,582) | >100 |
| **Profit from operating activities** | **177,130** | **223,301** | **(20.7)** | **821,098** | **771,715** | **6.4** |
| Finance income | 6,131 | 6,944 | (11.7) | 25,134 | 19,530 | 28.7 |
| Finance costs | (10,774) | (10,872) | (0.9) | (44,356) | (38,298) | 15.8 |
| Equity share in income of affiliates | 1,628 | 5,496 | (70.4) | 18,246 | 25,243 | (27.7) |
| Foreign exchange gain (loss) | 45 | (4,630) | - | 923 | 33,763 | (97.3) |
| Other (expenses) income | (23,888) | 6,529 | - | (27,691) | (38,934) | (28.9) |
| **Profit before income taxes** | **150,272** | **226,768** | **(33.7)** | **793,354** | **773,019** | **2.6** |
| Current income taxes | (25,605) | (36,954) | (30.7) | (144,615) | (137,062) | 5.5 |
| Deferred income taxes | (4,924) | 1,073 | - | (6,518) | (14,855) | (56.1) |
| **Total income tax expense** | **(30,529)** | **(35,881)** | **(14.9)** | **(151,133)** | **(151,917)** | **(0.5)** |
| **Profit for the year** | **119,743** | **190,887** | **(37.3)** | **642,221** | **621,102** | **3.4** |
| Profit for the year attributable to non-controlling interests | (433) | (500) | (13.4) | (2,043) | (1,928) | 6.0 |
| **Profit for the year attributable to PJSC LUKOIL shareholders** | **119,310** | **190,387** | **(37.3)** | **640,178** | **619,174** | **3.4** |
| Earnings per share of common stock attributable to PJSC LUKOIL shareholders (in Russian rubles): | | | | | | |
| Basic | 184.71 | 294.10 | (37.2) | 963.28 | 874.47 | 10.2 |
| Diluted | 178.22 | 285.01 | (37.5) | 934.73 | 865.19 | 8.0 |

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

**Sales revenues**

| Sales breakdown | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Crude oil | | | | | | |
| Export and sales on international markets other than Customs Union | 644,015 | 627,510 | 2.6 | 2,575,571 | 2,559,578 | 0.6 |
| Export and sales to Customs Union | 16,221 | 16,897 | (4.0) | 64,890 | 64,228 | 1.0 |
| Domestic sales | 7,815 | 1,115 | >100 | 22,528 | 47,508 | (52.6) |
| | **668,051** | **645,522** | **3.5** | **2,662,989** | **2,671,314** | **(0.3)** |
| Cost compensation and remuneration at the West Qurna-2 project | 11,112 | 10,619 | 4.6 | 43,859 | 42,350 | 3.6 |
| | **679,163** | **656,141** | **3.5** | **2,706,848** | **2,713,664** | **(0.3)** |
| Refined products[1] | | | | | | |
| Export and sales on international markets | | | | | | |
| Wholesale | 810,817 | 840,030 | (3.5) | 3,403,202 | 3,612,291 | (5.8) |
| Retail | 84,349 | 90,417 | (6.7) | 345,162 | 349,493 | (1.2) |
| Domestic sales | | | | | | |
| Wholesale | 108,596 | 122,877 | (11.6) | 443,667 | 439,327 | 1.0 |
| Retail | 120,340 | 129,894 | (7.4) | 480,048 | 498,765 | (3.8) |
| | **1,124,102** | **1,183,218** | **(5.0)** | **4,672,079** | **4,899,876** | **(4.6)** |
| Petrochemicals | | | | | | |
| Export and sales on international markets | 14,915 | 20,863 | (28.5) | 91,687 | 67,682 | 35.5 |
| Domestic sales | 8,139 | 10,379 | (21.6) | 40,971 | 46,085 | (11.1) |
| | **23,054** | **31,242** | **(26.2)** | **132,658** | **113,767** | **16.6** |
| Gas | | | | | | |
| Sales on international markets | 36,993 | 32,790 | 12.8 | 138,997 | 112,990 | 23.0 |
| Domestic sales | 8,681 | 7,685 | 13.0 | 32,490 | 33,352 | (2.6) |
| | **45,674** | **40,475** | **12.8** | **171,487** | **146,342** | **17.2** |
| Sales of energy and related services | | | | | | |
| Sales on international markets | 2,952 | 4,451 | (33.7) | 14,604 | 15,600 | (6.4) |
| Domestic sales | 14,443 | 10,483 | 37.8 | 53,276 | 54,353 | (2.0) |
| | **17,395** | **14,934** | **16.5** | **67,880** | **69,953** | **(3.0)** |
| Other | | | | | | |
| Export and sales on international markets | 12,899 | 14,908 | (13.5) | 48,024 | 46,160 | 4.0 |
| Domestic sales | 10,152 | 11,404 | (11.0) | 42,270 | 46,127 | (8.4) |
| | **23,051** | **26,312** | **(12.4)** | **90,294** | **92,287** | **(2.2)** |
| **Total sales** | **1,912,439** | **1,952,322** | **(2.0)** | **7,841,246** | **8,035,889** | **(2.4)** |

[1] Including revenue from gas refined products sales.

| Sales volumes | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (thousands of tonnes) | | | |
| Crude oil | | | | | | |
| Export and sales on international markets other than Customs Union | 21,788 | 21,125 | 3.1 | 84,281 | 78,914 | 6.8 |
| Export and sales to Customs Union | 702 | 758 | (7.4) | 2,753 | 2,754 | - |
| Domestic sales | 348 | 52 | >100 | 947 | 2,061 | (54.1) |
| | **22,838** | **21,935** | **4.1** | **87,981** | **83,729** | **5.1** |
| Crude oil volumes related to cost compensation and remuneration at the West Qurna-2 project | 424 | 417 | 1.7 | 1,616 | 1,514 | 6.7 |
| | **23,262** | **22,352** | **4.1** | **89,597** | **85,243** | **5.1** |
| Refined products[1] | | | | | | |
| Export and sales on international markets | | | | | | |
| Wholesale | 22,422 | 23,172 | (3.2) | 92,392 | 93,676 | (1.4) |
| Retail | 1,046 | 1,106 | (5.4) | 4,194 | 4,217 | (0.5) |
| Domestic sales | | | | | | |
| Wholesale | 3,535 | 4,003 | (11.7) | 14,506 | 14,721 | (1.5) |
| Retail | 2,474 | 2,666 | (7.2) | 9,935 | 10,927 | (9.1) |
| | **29,477** | **30,947** | **(4.8)** | **121,027** | **123,541** | **(2.0)** |
| Petrochemicals | | | | | | |
| Export and sales on international markets | 276 | 384 | (28.1) | 1,547 | 1,004 | 54.1 |
| Domestic sales | 146 | 184 | (20.7) | 699 | 754 | (7.3) |
| | **422** | **568** | **(25.7)** | **2,246** | **1,758** | **27.8** |
| | | | (millions of cubic meters) | | | |
| Gas | | | | | | |
| Sales on international markets | 4,388 | 3,717 | 18.1 | 15,785 | 14,173 | 11.4 |
| Domestic sales | 3,389 | 3,079 | 10.1 | 12,942 | 13,723 | (5.7) |
| | **7,777** | **6,796** | **14.4** | **28,727** | **27,896** | **3.0** |

[1] Including volumes of gas refined products sales.

| Realized average sales prices | | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|---|
| Average realized price on international markets | | | | | | | |
| Crude oil (beyond Customs Union)[1] | (RUB/barrel) | 4,033 | 4,052 | (0.5) | 4,169 | 4,425 | (5.8) |
| Crude oil (Customs Union) | (RUB/barrel) | 3,152 | 3,041 | 3.7 | 3,216 | 3,182 | 1.1 |
| Refined products | | | | | | | |
| Wholesale | (RUB/tonne) | 36,162 | 36,252 | (0.2) | 36,834 | 38,562 | (4.5) |
| Retail | (RUB/tonne) | 80,640 | 81,751 | (1.4) | 82,299 | 82,877 | (0.7) |
| Petrochemicals | (RUB/tonne) | 54,040 | 54,331 | (0.5) | 59,268 | 67,412 | (12.1) |
| Gas (excluding royalty) | (RUB/1,000 $m^3$) | 8,430 | 8,822 | (4.4) | 8,806 | 7,972 | 10.5 |
| | | | | | | | |
| Crude oil (beyond Customs Union)[1] | ($/barrel) | 63.29 | 62.75 | 0.8 | 64.40 | 70.56 | (8.7) |
| Crude oil (Customs Union) | ($/barrel) | 49.47 | 47.09 | 5.1 | 49.67 | 50.74 | (2.1) |
| Refined products | | | | | | | |
| Wholesale | ($/tonne) | 568 | 561 | 1.1 | 569 | 615 | (7.5) |
| Retail | ($/tonne) | 1,266 | 1,266 | - | 1,271 | 1,322 | (3.8) |
| Petrochemicals | ($/tonne) | 848 | 841 | 0.8 | 916 | 1,075 | (14.8) |
| Gas (excluding royalty) | ($/1,000 $m^3$) | 132 | 137 | (3.2) | 136 | 127 | 7.0 |
| | | | | | | | |
| Average realized price within Russia | | | | | | | |
| Crude oil | (RUB/barrel) | 3,064 | 2,925 | 4.7 | 3,245 | 3,145 | 3.2 |
| Refined products | | | | | | | |
| Wholesale | (RUB/tonne) | 30,720 | 30,696 | 0.1 | 30,585 | 29,844 | 2.5 |
| Retail | (RUB/tonne) | 48,642 | 48,722 | (0.2) | 48,319 | 45,645 | 5.9 |
| Petrochemicals | (RUB/tonne) | 55,747 | 56,408 | (1.2) | 58,614 | 61,121 | (4.1) |
| Gas[2] | (RUB/1,000 $m^3$) | 2,562 | 2,496 | 2.6 | 2,510 | 2,430 | 3.3 |

[1] Excluding cost compensation and remuneration at the West Qurna-2 project.

[2] The price does not include cost of transportation by Unified Gas Supply System of Gazprom, as most of our gas production in Russia is sold ex-field.

Compared to the third quarter of 2019, our revenues decreased by 2.0% driven mainly by a decrease in refined products output and trading volumes.

Compared to 2018, our revenues decreased by 2.4%, largely as a result of a decrease in hydrocarbon prices and refined products trading volumes, that was partially offset by the effect of the ruble devaluation on our revenues denominated in the US dollars, as well as higher gas sales and petrochemical products trading volumes.

*Sales of crude oil*

Compared to the third quarter of 2019, our international crude oil sales revenue increased by 2.6% due to trading volume increase. Our domestic sales revenue increased owing to higher sales volume as a result of a decrease in throughput at our refineries in Russia due to maintenance works.

In 2019, our international crude oil sales revenue did not change significantly compared to 2018. A decrease in crude oil prices was offset by an increase in trading volumes. At the same time, our domestic sales volumes decreased by 54.1% due to an increase in refinery throughput and our sales revenue decreased consequently.

*Sales of refined products*

| **Sales breakdown** | **Q4 2019** | **Q3 2019** | **Change, %** | **12 months of 2019** | **12 months of 2018** | **Change, %** |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| **Wholesale outside Russia** | **810,817** | **840,030** | **(3.5)** | **3,403,202** | **3,612,291** | **(5.8)** |
| diesel fuel | 398,753 | 401,518 | (0.7) | 1,637,550 | 1,608,595 | 1.8 |
| motor gasoline | 149,404 | 175,469 | (14.9) | 637,327 | 746,274 | (14.6) |
| fuel oil | 134,541 | 118,781 | 13.3 | 521,882 | 534,155 | (2.3) |
| jet fuel | 8,812 | 31,040 | (71.6) | 97,202 | 126,840 | (23.4) |
| lubricants and components | 15,230 | 16,330 | (6.7) | 65,726 | 73,300 | (10.3) |
| gas products | 15,024 | 11,915 | 26.1 | 53,515 | 57,274 | (6.6) |
| others | 89,053 | 84,977 | 4.8 | 390,000 | 465,853 | (16.3) |
| **Retail outside Russia** | **84,349** | **90,417** | **(6.7)** | **345,162** | **349,493** | **(1.2)** |
| **Wholesale in Russia** | **108,596** | **122,877** | **(11.6)** | **443,667** | **439,327** | **1.0** |
| diesel fuel | 32,730 | 28,864 | 13.4 | 116,906 | 99,090 | 18.0 |
| motor gasoline | 12,114 | 15,886 | (23.7) | 48,539 | 50,254 | (3.4) |
| fuel oil | 4,610 | 8,820 | (47.7) | 33,124 | 44,070 | (24.8) |
| jet fuel | 31,333 | 37,708 | (16.9) | 128,672 | 120,042 | 7.2 |
| lubricants and components | 5,429 | 7,200 | (24.6) | 25,265 | 26,236 | (3.7) |
| gas products | 2,665 | 2,675 | (0.4) | 10,903 | 14,839 | (26.5) |
| others | 19,715 | 21,724 | (9.2) | 80,258 | 84,796 | (5.4) |
| **Retail in Russia** | **120,340** | **129,894** | **(7.4)** | **480,048** | **498,765** | **(3.8)** |
| **Total refined products sales** | **1,124,102** | **1,183,218** | **(5.0)** | **4,672,079** | **4,899,876** | **(4.6)** |

| Sales volumes | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (thousands of tonnes) | | | |
| **Wholesale outside Russia** | **22,422** | **23,172** | **(3.2)** | **92,392** | **93,676** | **(1.4)** |
| diesel fuel | 9,637 | 9,759 | (1.3) | 39,002 | 36,455 | 7.0 |
| motor gasoline | 3,538 | 4,160 | (15.0) | 15,015 | 16,806 | (10.7) |
| fuel oil | 5,203 | 4,840 | 7.5 | 20,121 | 20,733 | (3.0) |
| jet fuel | 207 | 748 | (72.3) | 2,323 | 2,846 | (18.4) |
| lubricants and components | 228 | 258 | (11.6) | 997 | 1,147 | (13.1) |
| gas products | 521 | 475 | 9.7 | 1,902 | 1,720 | 10.6 |
| others | 3,088 | 2,932 | 5.3 | 13,032 | 13,969 | (6.7) |
| **Retail outside Russia** | **1,046** | **1,106** | **(5.4)** | **4,194** | **4,217** | **(0.5)** |
| diesel fuel | 707 | 738 | (4.2) | 2,814 | 2,831 | (0.6) |
| motor gasoline | 294 | 317 | (7.3) | 1,195 | 1,202 | (0.6) |
| gas products | 45 | 51 | (11.8) | 185 | 184 | 0.5 |
| **Wholesale in Russia** | **3,535** | **4,003** | **(11.7)** | **14,506** | **14,721** | **(1.5)** |
| diesel fuel | 758 | 691 | 9.7 | 2,733 | 2,396 | 14.1 |
| motor gasoline | 310 | 392 | (20.9) | 1,257 | 1,242 | 1.2 |
| fuel oil | 423 | 602 | (29.7) | 2,184 | 2,746 | (20.5) |
| jet fuel | 753 | 919 | (18.1) | 3,138 | 2,936 | 6.9 |
| lubricants and components | 86 | 100 | (14.0) | 361 | 359 | 0.6 |
| gas products | 137 | 170 | (19.4) | 648 | 756 | (14.3) |
| others | 1,068 | 1,129 | (5.4) | 4,185 | 4,286 | (2.4) |
| **Retail in Russia** | **2,474** | **2,666** | **(7.2)** | **9,935** | **10,927** | **(9.1)** |
| diesel fuel | 938 | 981 | (4.4) | 3,715 | 4,128 | (10.0) |
| motor gasoline | 1,516 | 1,674 | (9.4) | 6,161 | 6,734 | (8.5) |
| gas products | 20 | 11 | 81.8 | 59 | 65 | (9.2) |
| **Total refined products volumes** | **29,477** | **30,947** | **(4.8)** | **121,027** | **123,541** | **(2.0)** |

The fourth quarter vs. the third quarter of 2019

- Our revenue from the wholesale of refined products outside Russia decreased by 3.5% due to a decrease in trading volumes.
- International retail revenue decreased by 6.7% due to a seasonal decrease in sales volumes.
- Revenue from the wholesale and retail sales of refined products on the domestic market decreased by 11.6% and 7.4%, respectively, as a result of a decrease in sales volumes due to a seasonal decline in domestic demand.

2019 vs. 2018

- Our revenue from the wholesale of refined products outside Russia decreased by 5.8% that was mainly due to a decrease in sales volumes and prices in dollar terms that was partially offset by the effect of the ruble devaluation.
- Our international retail revenue decreased by 1.2% mainly as a result of a decrease in sales volumes and our realized prices.
- Despite a decrease in sales volumes, our revenue from the wholesale of refined products on the domestic market increased by 1.0% as a result of growth of our realized prices.
- Our revenue from refined products retail sales in Russia decreased by 3.8%, as a result of a decrease in sales volumes against a background of high demand for our products in 2018, that was partially offset by an increase in our realized prices.

*Sales of petrochemical products*

Compared to the third quarter of 2019, our revenue from sales of petrochemical products decreased by 26.2%, as a result of a decrease in trading volumes and average realized sales prices both in and outside Russia.

Compared to 2018, our revenue from sales of petrochemical products increased by 16.6%, as a result of growth of trading volumes outside Russia. At the same time, our average realized sales prices decreased.

*Sales of gas*

Compared to the third quarter of 2019, our revenue from gas sales increased by 12.8%, as a result of an increase in gas production outside Russia.

Our sales of gas increased by 17.2%, compared to 2018. This increase related mostly to our operations outside Russia and was a result of natural gas production growth in Uzbekistan. Higher gas prices also contributed to an increase in our gas sales revenue.

*Sales of energy and related services*

Compared to the third quarter of 2019, our revenue from sales of energy and related services increased by 16.5% mainly due to seasonal factor in Russia.

Compared to 2018, our revenue from sales of energy and related services decreased by 3.0%.

*Other sales*

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

In the fourth quarter of 2019, revenue from other sales decreased by 12.4%, compared to the third quarter of 2019, largely as a result of seasonal decrease in non-petrol revenue of our retail network.

Compared to 2018, revenue from other sales decreased by 2.2%. This was largely a result of a discontinuing of a non-core car sales business in Russia.

Moreover, other sales revenue for the third quarter and the twelve months of 2019 included 2.2 billion RUB (approximately €30 million) of loss compensation in relation to energy supplies in Sicily, Italy in 2016.

### Operating expenses

Operating expenses include the following:

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Hydrocarbon extraction expenses[1] | 49,877 | 49,577 | 0.6 | 193,857 | 196,227 | (1.2) |
| Extraction expenses at the West Qurna-2 field | 4,133 | 3,851 | 7.3 | 17,010 | 17,588 | (3.3) |
| Own refining expenses | 24,636 | 24,942 | (1.2) | 96,543 | 104,987 | (8.0) |
| Refining expenses at third-party refineries | (1,516) | 4,523 | - | 7,175 | 8,020 | (10.5) |
| Expenses for crude oil transportation to refineries | 13,268 | 13,570 | (2.2) | 52,884 | 50,264 | 5.2 |
| Power generation and distribution expenses | 8,517 | 7,310 | 16.5 | 30,432 | 30,045 | 1.3 |
| Petrochemical expenses | 3,379 | 2,904 | 16.4 | 12,463 | 12,075 | 3.2 |
| Other operating expenses | 13,271 | 12,609 | 5.3 | 47,346 | 45,261 | 4.6 |
| **Total operating expenses** | **115,565** | **119,286** | **(3.1)** | **457,710** | **464,467** | **(1.5)** |

[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 33 “Segment information” to our consolidated financial statements. Expenditures in the segment reporting are grouped depending on the segment to which a particular company belongs and do not include adjustments related to elimination of intra-group service margin. Operating expenses for the purposes of this analysis are grouped based on the nature of the costs incurred.

*Hydrocarbon extraction expenses*

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Hydrocarbon extraction expenses[1] | 49,877 | 49,577 | 0.6 | 193,857 | 196,227 | (1.2) |
| in Russia | 43,285 | 42,970 | 0.7 | 170,590 | 175,131 | (2.6) |
| outside Russia[1] | 6,592 | 6,607 | (0.2) | 23,267 | 21,096 | 10.3 |
| | | | (rubles per BOE) | | | |
| Hydrocarbon extraction expenses[1] | 233 | 239 | (2.6) | 232 | 238 | (2.5) |
| in Russia | 239 | 239 | 0.2 | 237 | 244 | (2.7) |
| outside Russia[1] | 200 | 245 | (18.1) | 200 | 199 | 0.3 |

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

Compared to the previous quarter, per BOE hydrocarbon extraction expenses and our total extraction expenses in Russia did not change significantly. Our extraction expenses outside Russia were also flat compared to the third quarter of 2019, while our per BOE hydrocarbon extraction expenses decreased by 18.1%, mainly as a result of an increase in gas production outside Russia.

In Russia, hydrocarbon extraction expenses decreased by 2.6% compared to 2018. A decrease in workover operations and overhauls was partially offset by higher electricity costs. A decrease in our extraction expenses was also driven by the adoption of IFRS 16. In 2019, our domestic per BOE hydrocarbon extraction expenses decreased by 2.7%.

In 2019, outside Russia, our hydrocarbon extraction expenses increased by 10.3% as a result of substantial gas production growth in Uzbekistan and Azerbaijan, maintenance works in Kazakhstan, as well as the ruble devaluation. Despite the ruble devaluation, our per BOE hydrocarbon extraction expenses outside Russia did not change due to an increase in gas share in our production structure.

*Own refining expenses*

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Refining expenses at the Group refineries | 24,636 | 24,942 | (1.2) | 96,543 | 104,987 | (8.0) |
| in Russia | 11,328 | 11,036 | 2.6 | 42,555 | 45,659 | (6.8) |
| outside Russia | 13,308 | 13,906 | (4.3) | 53,988 | 59,328 | (9.0) |
| | | | (rubles per tonne) | | | |
| Refining expenses at the Group refineries | 1,448 | 1,367 | 6.0 | 1,404 | 1,560 | (10.0) |
| in Russia | 1,046 | 951 | 10.1 | 964 | 1,057 | (8.8) |
| outside Russia | 2,153 | 2,096 | 2.7 | 2,195 | 2,459 | (10.7) |

Compared to the third quarter of 2019, refining expenses at our domestic refineries increased by 2.6%, mainly due to an increase in electricity and fuel costs, maintenance works, as well as an increase in consumption of purchased additives. Outside Russia, our expenses decreased by 4.3% largely due to lower refinery throughput as a result of scheduled maintenance works at the refinery in Italy.

Compared to 2018, expenses at our domestic refineries decreased by 6.8%, mainly due to a decrease in consumption of purchased additives in gasoline production, despite higher throughput volumes. Outside Russia, our expenses decreased by 9.0% due to a decline in fuel, electricity and maintenance costs, despite higher throughput volumes.

*Refining expenses at third-party refineries*

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

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

In August 2019, the agreement was extended till 2022 with modification of certain provisions. As a result, the agreement is now treated as a financing arrangement with recognizing only interest on financing provided and administrative fee in the profit or loss statement. Thus, we do not recognize the tolling fee starting from September 2019.

In the fourth quarter of 2019, this tolling fee was a negative amount of 1.7 billion RUB as a result of a change of arrangement from September 2019, compared to 4.4 billion RUB in the previous quarter.

In 2019, tolling fee amounted to 6.6 billion RUB compared to 7.4 billion RUB in 2018.

*Expenses for crude oil transportation to refineries*

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

Compared to the third quarter of 2019, our expenses for crude oil transportation to refineries decreased by 2.2% due to changes in structure of crude oil supplies to the Group refineries.

Compared to 2018, our expenses for crude oil transportation to refineries increased by 5.2% mainly due to an increase in volumes of supplies of own crude oil and tariffs.

*Power generation and distribution expenses*

Compared to the third quarter of 2019 and the twelve months of 2018, power generation and distribution expenses increased by 16.5% and by 1.3%, respectively. The increase compared to the third quarter of 2019 was due to seasonality.

*Petrochemical expenses*

Our petrochemical expenses increased by 16.4% quarter-on-quarter as a result of an increase in maintenance costs at our petrochemical plants in Russia.

Our petrochemical expenses increased by 3.2% year-on-year as a result of an increase in production volumes against the background of suspension of production at petrochemical facilities at our Bulgarian refinery in 2018.

**Cost of purchased crude oil, gas and products**

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

| | **Q4 2019** | **Q3 2019** | **Change, %** | **12 months of 2019** | **12 months of 2018** | **Change, %** |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Cost of purchased crude oil in Russia | 5,292 | 3,846 | 37.6 | 18,123 | 21,458 | (15.5) |
| Cost of purchased crude oil outside Russia | 507,554 | 586,976 | (13.5) | 2,229,352 | 2,213,464 | 0.7 |
| Compensation crude oil related to West Qurna-2 project | 10,341 | 10,399 | (0.6) | 36,225 | 52,817 | (31.4) |
| **Cost of purchased crude oil** | **523,187** | **601,221** | **(13.0)** | **2,283,700** | **2,287,739** | **(0.2)** |
| Cost of purchased refined products in Russia | 9,100 | 10,101 | (9.9) | 37,146 | 50,176 | (26.0) |
| Cost of purchased refined products outside Russia | 470,717 | 466,206 | 1.0 | 1,930,711 | 2,067,726 | (6.6) |
| **Cost of purchased refined products** | **479,817** | **476,307** | **0.7** | **1,967,857** | **2,117,902** | **(7.1)** |
| Other purchases | 15,606 | 15,871 | (1.7) | 82,157 | 60,898 | 34.9 |
| Net loss/(gain) from hedging of trading operations | 28,418 | (11,370) | - | 61,333 | (21,908) | - |
| Change in crude oil and petroleum products inventory | 13,127 | (32,019) | - | (86,974) | 89,613 | - |
| **Total cost of purchased crude oil, gas and products** | **1,060,155** | **1,050,010** | **1.0** | **4,308,073** | **4,534,244** | **(5.0)** |

Compared to the third quarter of 2019, cost of purchased crude oil, gas and products increased by 1.0%.

Compared to 2018, cost of purchased crude oil, gas and products decreased by 5.0% largely as a result of a decrease in hydrocarbon prices.

### Transportation expenses

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Crude oil transportation expenses | 25,133 | 23,633 | 6.3 | 98,406 | 95,913 | 2.6 |
| in Russia | 11,922 | 10,261 | 16.2 | 46,946 | 46,881 | 0.1 |
| outside Russia | 13,211 | 13,372 | (1.2) | 51,460 | 49,032 | 5.0 |
| Refined products transportation expenses | 43,873 | 38,942 | 12.7 | 162,648 | 160,972 | 1.0 |
| in Russia | 23,018 | 22,429 | 2.6 | 89,842 | 90,293 | (0.5) |
| outside Russia | 20,855 | 16,513 | 26.3 | 72,806 | 70,679 | 3.0 |
| Other transportation expenses | 5,189 | 4,774 | 8.7 | 17,744 | 13,268 | 33.7 |
| in Russia | 456 | 736 | (38.0) | 2,200 | 2,696 | (18.4) |
| outside Russia | 4,733 | 4,038 | 17.2 | 15,544 | 10,572 | 47.0 |
| **Total transportation expenses** | **74,195** | **67,349** | **10.2** | **278,798** | **270,153** | **3.2** |

Compared to the third quarter of 2019, our expenses for transportation of crude oil and refined products increased by 6.3% and 12.7%, respectively. Outside Russia, our expenses for transportation of crude oil did not change significantly, while our expenses for transportation of refined products increased by 26.3% due to higher freight rates. In Russia, our expenses for transportation of crude oil increased due to higher sales volumes and changes in delivery directions. Our expenses for transportation of refined products also increased due to changes in delivery directions and an increase in export sales volumes that was partially offset by a decrease in domestic sales volumes.

Compared to 2018, our expenses for transportation of crude oil and refined products increased by 2.6% and 1.0%, respectively. Outside Russia, our expenses increased mainly as a result of the ruble devaluation and higher freight rates that was partially offset by the effect of IFRS 16 adoption. In Russia, our transportation expenses did not change significantly. Indexation of tariffs and an increase in export sales volumes were offset by a decrease in domestic sales volumes and the effect of IFRS 16 adoption.

Compared to 2018, the dynamics of other transportation expenses outside Russia was due to one-off adjustments of the fourth quarter of 2018, related to the Group's PSA projects in Uzbekistan.

### Selling, general and administrative expenses

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Labor costs included in selling, general and administrative expenses | 15,909 | 17,957 | (11.4) | 68,380 | 62,959 | 8.6 |
| Other selling, general and administrative expenses | 25,454 | 20,686 | 23.0 | 88,086 | 99,123 | (11.1) |
| Share-based compensation | 7,841 | 7,841 | - | 31,366 | 31,300 | 0.2 |
| Expenses (income) on allowance for expected credit losses | 3,770 | (846) | - | 9,340 | (949) | - |
| **Total selling, general and administrative expenses** | **52,974** | **45,638** | **16.1** | **197,172** | **192,433** | **2.5** |

Compared to the third quarter of 2019, an increase in selling, general and administrative expenses was largely a result of changes in allowances for expected credit losses. A decrease in labor costs was mainly a result of lower expenses for bonuses outside Russia. Other selling, general and administrative expenses increased mainly due to an increase in advertising, consulting and other expenses.

In 2019, our selling, general and administrative expenses increased by 2.5% compared to 2018 mainly as a result of changes in allowance for expected credit losses. Our labor costs increased due to salary indexation and bonus payments. At the same time, the dynamics of our selling, general and administrative expenses was positively impacted by the effect of IFRS 16 adoption.

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

### Depreciation, depletion and amortization

Compared to the third quarter of 2019, our depreciation, depletion and amortization expenses decreased by 3.3%. Positive effect of an increase in proved developed hydrocarbon reserves at Group's certain fields as of the end of 2019 and consequent recalculation of depletion of respective fixed assets for the full year was partially offset by an increase in depletion expenses in Uzbekistan following the growth in gas production volumes.

Compared to 2018, depreciation, depletion and amortization expenses increased by 72 billion RUB, or by 21.0%, mostly as a result of amortization of the right-of-use assets in the amount of 33.0 billion RUB under the newly adopted IFRS 16 and an increase in depletion expenses as a result of higher gas production volumes after launching new production facilities as part of the Kandym project in Uzbekistan.

### Equity share in income of affiliates

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

Our share in income of affiliates decreased by 3.9 billion RUB, or by 70.4%, compared to the third quarter of 2019, and decreased by 7 billion RUB, or by 27.7% compared to 2018 mainly due to a partial impairment of fixed assets of our upstream affiliates.

### Taxes other than income taxes

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| **In Russia** | | | | | | |
| Mineral extraction taxes | 200,682 | 214,115 | (6.3) | 849,445 | 836,820 | 1.5 |
| Tax on additional income | 3,401 | 3,367 | 1.0 | 16,229 | - | - |
| Social security taxes and contributions | 6,163 | 6,798 | (9.3) | 27,308 | 26,506 | 3.0 |
| Property tax | 5,943 | 5,652 | 5.1 | 22,663 | 24,273 | (6.6) |
| Other taxes | 668 | 729 | (8.4) | 2,515 | 2,063 | 21.9 |
| **Total in Russia** | **216,857** | **230,661** | **(6.0)** | **918,160** | **889,662** | **3.2** |
| **International** | | | | | | |
| Mineral extraction taxes | 22 | - | - | 22 | - | - |
| Social security taxes and contributions | 1,797 | 1,317 | 36.4 | 6,109 | 6,025 | 1.4 |
| Property tax | 237 | 222 | 6.8 | 906 | 904 | 0.2 |
| Other taxes | 763 | 801 | (4.7) | 2,993 | 2,792 | 7.2 |
| **Total internationally** | **2,819** | **2,340** | **20.5** | **10,030** | **9,721** | **3.2** |
| **Total taxes other than income taxes** | **219,676** | **233,001** | **(5.7)** | **928,190** | **899,383** | **3.2** |

In the fourth quarter of 2019, our taxes other than income taxes decreased by 5.7% compared to the previous quarter. This was a result of a decrease in mineral extraction tax expense due to inventory effect, as well as due to adjustments of mineral extraction tax expense for prior periods.

An increase in our taxes other than income taxes compared to 2018 by 3.2% was largely driven by a growth in mineral extraction tax expense on the back of an increase in the tax rate by 4.6%, as well as an application of new tax on additional income from the hydrocarbon production.

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Decrease in extraction taxes from application of reduced and zero rates for crude oil production | 30,970 | 31,688 | (2.3) | 127,018 | 133,300 | (4.7) |
| | | | (thousands of tonnes) | | | |
| Volume of crude oil production subject to: | | | | | | |
| zero rates (ultra-high viscosity) | 557 | 577 | (3.5) | 2,157 | 1,630 | 32.3 |
| reduced rates (tax holidays for specific regions and high viscosity oil) | 1,076 | 1,037 | 3.8 | 4,221 | 5,672 | (25.6) |
| reduced rates (low permeability deposits) | 395 | 548 | (27.9) | 1,422 | 517 | 175.0 |
| reduced rates (Tyumen deposits) | 181 | 225 | (19.6) | 725 | 835 | (13.2) |
| reduced rates (depleted fields) | 4,703 | 4,786 | (1.7) | 19,050 | 15,631 | 21.9 |
| reduced rates (other) | 632 | 664 | (4.8) | 2,503 | 2,310 | 8.4 |
| **Total volume of production subject to reduced or zero rates** | **7,544** | **7,837** | **(3.7)** | **30,078** | **26,595** | **13.1** |

From 1 January 2019, the Group also applies special tax regime at certain license areas with reduced mineral extraction tax for crude oil and gas condensate along with newly-implemented TAI. In the fourth quarter and the twelve months of 2019, the total volume of crude oil and gas condensate production subject to TAI amounted to 1,273 thousand tonnes and 4,948 thousand tonnes, respectively. The mineral extraction tax on crude oil and gas condensate produced at the license areas subject to TAI totaled 6,418 million RUB and 25,429 million RUB in the fourth quarter and the twelve months of 2019, respectively.

The Group also applies special tax regime for offshore crude oil production at certain fields and deposits. In the fourth quarter and the twelve months of 2019, volumes of production subject to such regimes amounted to 1,657 thousand tonnes and 6,436 thousand tonnes, respectively (compared to 1,554 thousand tonnes in the third quarter of 2019 and 6,074 thousand tonnes in 2018).

### Excise and export tariffs

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| **In Russia** | | | | | | |
| Excise tax on refined products | 35,499 | 39,133 | (9.3) | 140,659 | 113,479 | 24.0 |
| Excise tax on oil feedstock (excluding damper) | (7,381) | (7,932) | (6.9) | (31,212) | - | - |
| Damper | (12,359) | (17,927) | (31.1) | (57,237) | - | - |
| Crude oil export tariffs | 32,612 | 33,498 | (2.6) | 141,622 | 203,310 | (30.3) |
| Refined products export tariffs | 10,813 | 11,686 | (7.5) | 46,058 | 55,453 | (16.9) |
| **Total in Russia** | **59,184** | **58,458** | **1.2** | **239,890** | **372,242** | **(35.6)** |
| **International** | | | | | | |
| Excise tax and sales taxes on refined products | 45,347 | 50,158 | (9.6) | 186,078 | 184,249 | 1.0 |
| Crude oil export tariffs | 7 | 15 | (53.3) | 51 | 35 | 45.7 |
| Refined products export and import tariffs, net | (4) | (58) | (93.1) | (256) | 301 | (185.0) |
| **Total internationally** | **45,350** | **50,115** | **(9.5)** | **185,873** | **184,585** | **0.7** |
| **Total excise and export tariffs** | **104,534** | **108,573** | **(3.7)** | **425,763** | **556,827** | **(23.5)** |

Compared to the third quarter of 2019, crude oil and refined products export tariffs decreased due to export duty lag effect.

In the fourth quarter of 2019, excise tax on refined products decreased both in Russia and internationally compared to the previous quarter mainly due to a seasonal decrease in sales volumes subject to excise taxes.

In the fourth quarter of 2019, our proceeds from negative excise tax on refinery feedstock decreased to 20 billion RUB from 26 billion RUB in the third quarter of 2019 primarily due to lower damper as a result of a decrease in export netbacks for gasoline.

Compared to 2018, crude oil export tariffs declined mainly as a result of a decrease in export duty rate by 24.7% and increased share of crude oil from fields with special export duty rates in export volumes structure. Refined products export tariffs also decreased, as a result of lower export duty rate, despite higher refined products export volumes.

Compared to 2018, excise tax in Russia increased due to higher excise tax rates and internationally due to an increase in sales volumes subject to excise taxes.

Negative values of international refined products export and import tariffs in 2019 are a result of the compensation of import tariffs in the USA.

### Exploration expenses

In the fourth quarter of 2019, we charged to expense approximately 5.8 billion RUB related to dry exploratory well in Romania.

### Foreign exchange gain (loss)

Foreign exchange gains or losses are mostly related to revaluation of US dollar and euro net monetary position of the Group entities that largely consists of accounts receivables and loans, mostly intra-group, given or received in currencies other than the entities' functional currencies. In the end of 2018, the Company's net monetary position in foreign currencies significantly changed as a result of a change in the structure of intra-group financing. Moreover, starting from 1 January 2019, the Group recognized certain lease liabilities in foreign currencies in accordance with IFRS 16.

In 2019, foreign exchange gain amounted to 0.9 billion RUB, of which 45 million RUB related to the fourth quarter of 2019, compared to a foreign exchange loss of 4.6 billion RUB in the third quarter of 2019 and a gain of 33.8 billion RUB in 2018. Implementation of IFRS 16 resulted in a foreign exchange gain of 7.9 billion RUB in 2019, of which 2.0 billion RUB related to the fourth quarter results.

### Other (expenses) income

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

In the fourth quarter of 2019, the Group recognized an impairment loss for its exploration and production assets in Russia and abroad in the amount of 21.4 billion RUB, as well as for its refining, marketing and distribution assets in Russia and abroad in the amount of 1.3 billion RUB. At the same time, the Group recognized an impairment reversal of 9.7 billion RUB in 2019, which was mainly a result of improvement of economic parameters of our production projects in West Siberia and European part of Russia.

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

### Income taxes

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

Compared to the third quarter of 2019, our total income tax expense decreased by 5 billion RUB, or by 14.9%. At the same time, our profit before income tax decreased by 76 billion RUB, or by 33.7%. In the fourth quarter of 2019, our effective income tax rate was 20.3%, compared to 15.8% in the third quarter of 2019. An increase in our effective income tax rate was a result of tax adjustments related to prior periods in the third quarter of 2019.

Compared to 2018, our total income tax expense did not change significantly. Our profit before income tax increased by 20 billion RUB, or by 2.6%. In 2019, our effective income tax rate was 19.0%, compared to 19.7% in 2018. The decrease in the effective income tax rate in 2019 was also a result of tax adjustments related to prior periods and changes in income tax incentives for certain Russian subsidiaries.

## Non-GAAP items reconciliation

### Reconciliation of profit for the year attributable to PJSC LUKOIL shareholders to EBITDA

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

| | Q4 2019 | Q3 2019 | 12 months of 2019 | 12 months of 2018 |
|---|---|---|---|---|
| | (millions of rubles) | | | |
| **Profit for the year attributable to PJSC LUKOIL shareholders** | **119,310** | **190,387** | **640,178** | **619,174** |
| Add back | | | | |
| Profit for the year attributable to non-controlling interests | 433 | 500 | 2,043 | 1,928 |
| Income tax expense | 30,529 | 35,881 | 151,133 | 151,917 |
| Financial income | (6,131) | (6,944) | (25,134) | (19,530) |
| Financial costs | 10,774 | 10,872 | 44,356 | 38,298 |
| Foreign exchange (gain) loss | (45) | 4,630 | (923) | (33,763) |
| Equity share in income of affiliates | (1,628) | (5,496) | (18,246) | (25,243) |
| Other expenses (income) | 23,888 | (6,529) | 27,691 | 38,934 |
| Depreciation, depletion and amortization | 101,030 | 104,504 | 415,094 | 343,085 |
| **EBITDA** | **278,160** | **327,805** | **1,236,192** | **1,114,800** |
| | | | | |
| **EBITDA by operating segments** | | | | |
| **Exploration and production segment** | | | | |
| Sales (including excise and export tariffs) | 579,500 | 570,432 | 2,364,184 | 2,391,467 |
| Operating expenses | (70,069) | (70,479) | (274,934) | (273,012) |
| Cost of purchased crude oil, gas and products | (10,326) | (14,282) | (40,350) | (58,053) |
| Transportation expenses | (18,846) | (16,925) | (69,589) | (63,713) |
| Selling, general and administrative expenses | (13,303) | (8,585) | (47,964) | (38,559) |
| Taxes other than income taxes | (214,657) | (213,331) | (891,051) | (875,172) |
| Excise and export tariffs | (33,333) | (34,211) | (136,998) | (209,089) |
| Exploration expenses | (7,180) | (661) | (9,348) | (3,582) |
| **EBITDA of Exploration and production segment** | **211,786** | **211,958** | **893,950** | **870,287** |
| | | | | |
| **Refining, marketing and distribution segment** | | | | |
| Sales (including excise and export tariffs) | 1,851,598 | 1,902,350 | 7,624,198 | 7,834,339 |
| Operating expenses | (56,644) | (60,148) | (228,576) | (243,214) |
| Cost of purchased crude oil, gas and products | (1,541,297) | (1,557,851) | (6,362,401) | (6,584,719) |
| Transportation expenses | (61,385) | (55,798) | (229,007) | (218,851) |
| Selling, general and administrative expenses | (31,439) | (30,016) | (121,383) | (127,089) |
| Taxes other than income taxes | (6,242) | (6,607) | (25,323) | (24,480) |
| Excise and export tariffs | (72,434) | (75,550) | (285,866) | (353,842) |
| **EBITDA of Refining, marketing and distribution segment** | **82,157** | **116,380** | **371,642** | **282,144** |
| **EBITDA of Corporate and other segment** | **(13,679)** | **(10,544)** | **(39,962)** | **(36,154)** |
| **Elimination** | **(2,104)** | **10,011** | **10,562** | **(1,477)** |
| **EBITDA** | **278,160** | **327,805** | **1,236,192** | **1,114,800** |

### Reconciliation of Cash provided by operating activities to Free cash flow

| | Q4 2019 | Q3 2019 | 12 months of 2019 | 12 months of 2018 |
|---|---|---|---|---|
| | (millions of rubles) | | | |
| Net cash provided by operating activities | 320,681 | 317,921 | 1,151,844 | 1,006,651 |
| Capital expenditures | (135,937) | (109,062) | (449,975) | (451,526) |
| **Free cash flow** | **184,744** | **208,859** | **701,869** | **555,125** |

## Liquidity and capital resources

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| Net cash provided by operating activities | 320,681 | 317,921 | 0.9 | 1,151,844 | 1,006,651 | 14.4 |
| including decrease (increase) in working capital | 44,960 | 12,796 | >100 | (6,781) | (33,592) | (79.8) |
| Net cash used in investing activities | (157,725) | (143,238) | 10.1 | (510,126) | (420,392) | 21.3 |
| Net cash used in financing activities | (79,980) | (240,489) | (66.7) | (582,344) | (468,549) | 24.3 |

Changes in operating assets and liabilities:

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| (Increase) decrease in accounts receivable | (29,162) | 84,710 | - | (48,023) | 23,877 | - |
| Decrease (increase) in inventory | 10,798 | (17,428) | - | (69,171) | 71,565 | - |
| Increase (decrease) in accounts payable | 54,345 | (37,056) | - | 88,977 | (92,508) | - |
| Increase (decrease) in net taxes other than on income payable | 1,525 | (4,287) | - | 24,053 | (8,460) | - |
| Change in other current assets and liabilities | 7,454 | (13,143) | - | (2,617) | (28,066) | (90.7) |
| **Total decrease (increase) in working capital** | **44,960** | **12,796** | **-** | **(6,781)** | **(33,592)** | **(79.8)** |

### Operating activities

Our primary source of cash flow is funds generated from our operations. Our cash generated from operations did not change significantly compared to the third quarter of 2019, and increased by 14.4% compared to 2018 as a result of higher profitability of our core operations and changes in working capital.

The positive impact of IFRS 16 adoption on our cash provided by operating activities in 2019 amounted to 37.2 billion RUB.

### Investing activities

Our cash used in investing activities increased by 10.1% compared to the previous quarter, and by 21.3% compared to 2018.

Our capital expenditures increased by 27 billion RUB, or by 24.6%, compared to the third quarter of 2019, and did not change significantly compared to 2018.

The adoption of IFRS 16 resulted in a decrease in capital expenditures by 9.5 billion RUB that had a positive impact on our cash used in investing activities in 2019.

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| **Capital expenditures** | | | | | | |
| Exploration and production | | | | | | |
| West Siberia | 35,922 | 37,868 | (5.1) | 141,266 | 129,050 | 9.5 |
| Timan-Pechora | 16,203 | 14,964 | 8.3 | 66,808 | 69,770 | (4.2) |
| Ural region | 10,567 | 9,773 | 8.1 | 37,243 | 35,374 | 5.3 |
| Volga region | 14,542 | 12,767 | 13.9 | 43,798 | 53,481 | (18.1) |
| Other in Russia | 3,700 | 2,367 | 56.3 | 10,778 | 11,429 | (5.7) |
| Total in Russia | 80,934 | 77,739 | 4.1 | 299,893 | 299,104 | 0.3 |
| Iraq | 7,101 | 5,153 | 37.8 | 22,833 | 18,849 | 21.1 |
| Other outside Russia | 14,527 | 7,894 | 84.0 | 42,214 | 45,903 | (8.0) |
| Total outside Russia | 21,628 | 13,047 | 65.8 | 65,047 | 64,752 | 0.5 |
| **Total exploration and production** | **102,562** | **90,786** | **13.0** | **364,940** | **363,856** | **0.3** |
| Refining, marketing and distribution | | | | | | |
| Russia | 26,540 | 13,972 | 90.0 | 62,740 | 65,326 | (4.0) |
| refining | 16,228 | 9,264 | 75.2 | 39,912 | 44,621 | (10.6) |
| retail | 1,634 | 601 | 171.9 | 4,189 | 7,433 | (43.6) |
| other | 8,678 | 4,107 | 111.3 | 18,639 | 13,272 | 40.4 |
| International | 5,356 | 3,551 | 50.8 | 18,400 | 18,616 | (1.2) |
| refining | 2,849 | 2,308 | 23.4 | 12,327 | 12,381 | (0.4) |
| retail | 2,159 | 880 | 145.3 | 4,318 | 4,222 | 2.3 |
| other | 348 | 363 | (4.1) | 1,755 | 2,013 | (12.8) |
| **Total refining, marketing and distribution** | **31,896** | **17,523** | **82.0** | **81,140** | **83,942** | **(3.3)** |
| Corporate and other | 1,479 | 753 | 96.4 | 3,895 | 3,728 | 4.5 |
| **Total capital expenditures** | **135,937** | **109,062** | **24.6** | **449,975** | **451,526** | **(0.3)** |

In Russia, an increase in our upstream capital expenditures in the fourth quarter of 2019 was mainly due to an increase in capital expenditures in Volga region where we continue to develop the Yu. Korchagin and V. Filanovsky fields and prepare to develop the V.Grayfer (Rakushechnoye) field.

An increase in our international capital expenditures quarter-on-quarter was as a result of uneven payments schedule in Uzbekistan.

Compared to the previous quarter, an increase in capital expenditures in refining segment in Russia was primarily due to construction of new facilities at our refineries.

Compared to 2018, the dynamics in our domestic capital expenditures in the exploration and production segment was due to the completion of the next stages of development works at the Yu. Korchagin and V. Filanovsky fields in the Caspian Sea. Higher capital expenditures in West Siberia were a result of an increase in production drilling footage.

A decrease in our domestic capital expenditures in the refining, marketing and distribution segment year-on-year was due to prepayments in 2018 related to the commencement of construction of a delayed coker complex at Nizhny Novgorod refinery.

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

| | Q4 2019 | Q3 2019 | Change, % | 12 months of 2019 | 12 months of 2018 | Change, % |
|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | |
| West Siberia (Yamal) | 5,110 | 4,537 | 12.6 | 21,383 | 22,007 | (2.8) |
| Caspian region (Projects in Russia) | 11,726 | 10,731 | 9.3 | 36,362 | 47,913 | (24.1) |
| Timan-Pechora (Yaregskoye field) | 1,169 | 2,440 | (52.1) | 7,756 | 10,304 | (24.7) |
| Iraq (West Qurna-2 project) | 6,210 | 4,580 | 35.6 | 19,967 | 16,366 | 22.0 |
| Iraq (Block-10) | 891 | 573 | 55.5 | 2,866 | 2,483 | 15.4 |
| Uzbekistan | 3,547 | 744 | >100 | 11,605 | 20,932 | (44.6) |
| **Total** | **28,653** | **23,605** | **21.4** | **99,939** | **120,005** | **(16.7)** |

### Financing activities

In the fourth quarter of 2019, net movements of short-term and long-term debt generated an outflow of 65 billion RUB, compared to an outflow of 13 billion RUB in the third quarter of 2019. In 2019, net movements of short-term and long-term debt generated an outflow of 113 billion RUB, including 38.6 billion RUB related to the newly adopted IFRS 16, compared to an outflow of 208 billion RUB in 2018.

In 2019, we also recognized additional 8.1 billion RUB of interest payments under IFRS 16.

In August 2018, we announced the start of an open market buyback programme to reduce the share capital of the Company. In relation to this programme, as well as a tender offer that took place in July-August 2019, a Group company spent 243,691 million RUB in the nine months of 2019.

On 20 August 2019, the Company announced the completion of the buyback programme. From its start and also taking into account a tender offer, 56.7 million ordinary shares and depositary receipts of the Company were purchased in aggregate.

### Credit rating

Standard & Poor's Ratings Services set the Company's issuer credit rating to BBB.

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

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

### Debt maturity

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

| | Total | 2020 | 2021 | 2022 | 2023 | 2024 | After |
|---|---|---|---|---|---|---|---|
| | | | (millions of rubles) | | | | |
| Short term debt | 16,162 | 16,162 | - | - | - | - | - |
| Long-term bank loans and borrowings | 117,864 | 24,294 | 22,177 | 17,092 | 12,943 | 12,881 | 28,477 |
| 6.125% Non-convertible US dollar bonds, maturing 2020 | 61,866 | 61,866 | - | - | - | - | - |
| 6.656% Non-convertible US dollar bonds, maturing 2022 | 30,905 | - | - | 30,905 | - | - | - |
| 4.563% Non-convertible US dollar bonds, maturing 2023 | 92,769 | - | - | - | 92,769 | - | - |
| 4.750% Non-convertible US dollar bonds, maturing 2026 | 61,786 | - | - | - | - | - | 61,786 |
| Lease obligation[1] | 171,880 | 27,978 | 21,977 | 13,417 | 13,335 | 13,543 | 81,630 |
| **Total** | **553,232** | **130,300** | **44,154** | **61,414** | **119,047** | **26,424** | **171,893** |

[1] Discounted amounts. Undiscounted cash flows are presented in Note 36 «Capital and risk management» to our consolidated financial statements.

## Litigation and claims

The Group is involved in various claims and legal proceedings arising in the normal course of business. While these claims may seek substantial damages against the Group and are subject to uncertainty inherent in any litigation, management does not believe that the ultimate resolution of such matters will have a material adverse impact on the Group's operating results or financial condition. See Note 30 "Commitments and contingencies" to our consolidated financial statements for detailed information on claims and legal proceedings involving the Group.

## Critical accounting policies

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

## Other information

### Sectoral sanctions against the Russian companies

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

From January 2018 (based on acts adopted in August–October 2017), the US expanded abovementioned sanctions to include certain categories of international oil projects initiated on or after 29 January 2018 in any part of the world, in which companies placed on the Sectoral Sanctions Identifications List subject to Directive 4 (including the Company) have an ownership interest of 33% or more, or ownership of a majority of the voting interests.

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

### Operations in Iraq

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

## Forward-looking statements

Certain statements in this document are not historical facts and are "forward-looking." We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of our plans, objectives or goals, including those related to products or services
- statements of future economic performance
- statements of assumptions underlying such statements.

Forward looking statements that may be made by us from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios. Words such as "believes," "anticipates," "expects," "estimates," "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include:

- inflation, interest rate and exchange rate fluctuations
- the price of oil
- the effects of, and changes in, Russian government policy
- the effects of competition in the geographic and business areas in which we conduct operations
- the effects of changes in laws, regulations, taxation or accounting standards or practices
- our ability to increase market share for our products and control expenses
- acquisitions or divestitures
- technological changes
- our success at managing the risks of the aforementioned factors.

*This list of important factors is not exhaustive. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made, and, subject to any continuing obligations under the Listing Rules of the U.K. Listing Authority, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.*

# Reference Information

## About the Company

Public Joint Stock Company "Oil Company 'LUKOIL'" (hereinafter, the "Company") was established in accordance with Decree No. 1403 of the President of the Russian Federation On Specific Features of the Privatization and Transformation into Joint Stock Companies of State Enterprises and Industrial and Research-Industrial Associations in the Oil and Oil-Refining Industries and Oil Product Supply, dated November 17, 1992 and Directive No. 299 of the Council of Ministers – Government of the Russian Federation On the Establishment of Open Joint Stock Company "Oil company "LUKoil," dated April 5, 1993, for the purpose of industrial, economic, financial, and investment activity.

PJSC LUKOIL is the corporate center of LUKOIL Group (hereinafter, the "Group") which coordinates the operations of the Group entities. It focuses on coordination and management of subsidiaries in terms of organizational set-up, investments and financial operations.

## Legal address and head office

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## Business Ethics Commission

Tel.: +7 495 627 8259
Email: ethics@lukoil.com

## Lukoil Stock Consulting Center

PJSC LUKOIL
11, Sretensky Blvd, Moscow, 101000, Russia
Tel.: +7 495 780 1943, +7 800 200 9402
Email: fkc@lukoil.com

## Registrar

LLC Registrator "Garant"
6, Krasnopresnenskaya Embankment, Moscow, 123100, Russia
Tel.: +7 495 221 3112, +7 800 500 2947
Fax: +7 495 646 9236
Email: mail@reggarant.ru

## Depositary in the depositary receipt program

Citibank, N.A.
Russian office: 6, Gasheka St., Moscow, 125047, Russia
UK office: GB E14 5LB, London, 25 Canada Square
US offices: 10013, New York, NY, 388 Greenwich Street; NJ 07310, Jersey City, NJ, 480 Washington Boulevard, 30th Floor
Tel.: +7 495 642 7644
Email: michael.klochkov@citi.com, drdividends@citi.com

## Auditor

JSC KPMG (Joint Stock Company KPMG)
16, Olimpiyskiy Ave., Bld. 5, 3d floor, premises 1, office 24e, Moscow, 129110, Russia
Tel.: +7 495 937 4477
Fax: +7 495 937 4499
Email: moscow@kpmg.ru

## Self-Regulatory Organization of Auditors

Russian Union of Auditors (Association)
8, Petrovskiy Side St., Bld. 2, Moscow, 107031, Russia
Tel.: +7 495 694 0156
Fax: +7 495 694 0108

## Business proposals

Postal address: 11, Sretensky Blvd, Moscow, 101000, Russia

Fax: +7 495 625 7016, +7 495 627 4999

Business proposals are to be made in writing on the official letterhead and sent by mail or fax. Business proposals submitted by email will not be considered.

## About the Report

PJSC LUKOIL Annual Report (hereinafter, the "Report") presents key information on LUKOIL Group's overall performance in 2019 by business line, as well as corporate governance and corporate responsibility. The Report complies with the requirements of the Russian securities market regulations, recommendations of the Corporate Governance Code, Disclosure and Transparency Rules of the UK Financial Conduct Authority, and is based on the Group's consolidated financial statements under IFRS.

## The Company's other reports

- Analyst Databook (operating and financial statistics, Excel version), LUKOIL Group Sustainability Report (information on the Company's environmental efforts, industrial safety and social responsibility)

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Reports are available on the Company's website in the Investors section.

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You can order a free printed version of this Annual Report via request on IR@lukoil.com

## Feedback

You are welcome to send any comments and/or suggestions as regards the Group's reports to our IR email ir@lukoil.com. Feedback from the shareholders and other stakeholders helps us improve information transparency and enhance the reporting quality.

## Forward-looking statements

- Some of the statements made in this Report are not statements of fact, but rather represent forward-looking statements. These statements include, specifically:
  - Plans and forecasts relating to income, profits (losses), earnings (losses) per share, dividends, capital structure, other financial indicators and ratios
  - The plans, goals and objectives of PJSC LUKOIL, including those related to products and services
  - Future economic indicators
  - The prerequisites on which the statements are based
- Words such as "believes," "expects," "assumes," "plans," "intends," "anticipates" and others are used in those cases when we are talking about forward-looking statements. However, the proposed options for solving the problems included in the statements are neither singular nor exclusive
- Forward-looking statements inherently imply certain unavoidable risks and ambiguous issues, both general and specific. There is a risk that the plans, expectations, forecasts, and some of the forward-looking statements will not be realized. Due to a number of different factors, the actual results may differ materially from the plans, goals, expectations, assessments and intentions expressed in such statements

## Conversion factors

Percentage changes in operating results for 2019 presented in million tonnes are based on respective figures in thousand tonnes.

Oil resources and production include oil, gas condensate and natural gas liquids.

The average RUB/USD exchange rate for 2019 (RUB 64.7 per USD) is used for converting figures in rubles into US dollars, unless otherwise indicated.

1 barrel of oil equivalent = 6 thousand cubic feet of gas.

## Other information

The segment split used in the Report is in line with the information in the Group's IFRS consolidated financial statements.

Largest international oil & gas companies include Royal Dutch Shell, Total, Chevron and ExxonMobil.

Production metrics for joint projects in Russia, as well as for international projects, are included in total production of LUKOIL Group in proportion to the Company's share.

Due to rounding, some totals may not correspond with the sum of the separate figures.