



ANNUAL REPORT

EFFICIENT ENERGY



LUKOIL IS ONE OF THE LARGEST PUBLICLY TRADED, VERTICALLY INTEGRATED OIL AND GAS COMPANIES IN THE WORLD. WE EMPLOY OVER 100,000 PEOPLE WHO JOIN THEIR EFFORTS AND EXPERTISE TO PROVIDE ENERGY FOR THE GROWING NEEDS OF THE POPULATION OF OUR PLANET. EACH DAY WE IMPROVE THE QUALITY OF LIFE FOR MILLIONS OF CONSUMERS IN OVER 100 COUNTRIES AROUND THE GLOBE THROUGH THE SUPPLY OF OUR PRODUCTS, POWER AND HEAT.

TABLE OF CONTENTS

ABOUT THE COMPANY

- 4** Key Events
- 6** Development of Priority Projects
- 8** Climate Change
- 10** Letter from the President
- 14** Business Model
- 16** Exploration and Production
- 26** Refining, Marketing and Distribution
- 36** Corporate Responsibility
- 38** Key Performance Indicators
- 40** Corporate Governance
- 42** Executive Bodies
- 44** Letter from the Vice Chairman of the Board of Directors

BOARD OF DIRECTORS REPORT

- 46** Financial Performance
- 47** Exploration and Production
- 47** Macroeconomic Overview
- 47** Exploration and Production Segment Financial Highlights
- 48** Reserves
- 49** Licenses
- 50** Exploration
- 52** Development and Production
- 54** Growth Projects
- 58** Technologies
- 60** Digitalization
- 61** Refining, Marketing and Distribution
- 61** Macroeconomic Overview
- 61** Refining, Marketing and Distribution Financial Highlights
- 62** Oil Refining
- 64** Lubricant Production and Marketing
- 65** Gas Processing
- 66** Petrochemicals
- 67** Power Generation
- 69** Wholesale and Trading
- 72** Premium Sales Channels

CORPORATE RESPONSIBILITY

- 75** Health and Safety
- 78** Environmental Protection
- 83** Energy Efficiency
- 84** Personnel
- 89** Contribution to Society and Government Relations

CORPORATE GOVERNANCE

- 92** Corporate Governance Structure
- 95** General Shareholders Meeting
- 97** Board of Directors
- 113** President and Management Committee
- 119** Remuneration System for Members of the Company's Governance Bodies
- 122** Performance Assessment System
- 123** Risk Management and Internal Control System
- 129** Audit Commission
- 129** Internal Audit
- 131** External Audit
- 132** Sustainability Management System
- 134** Business Ethics
- 137** Information Security
- 138** Subsidiary Management System
- 139** Share Capital
- 142** Dividends
- 144** Information Openness and Transparency
- 146** Key Entities within the Group

APPENDICES

- Appendix 1.** Corporate Governance Code Compliance Report
- Appendix 2.** Risks
- Appendix 3.** Major and Interested Party Transaction
- Appendix 4.** Transaction with PJSC LUKOIL Ordinary Shares by Members of the Board of Directors and Management Committee of PJSC LUKOIL
- Appendix 5.** Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations

BY IMPROVING EFFICIENCY

IN PRODUCTION

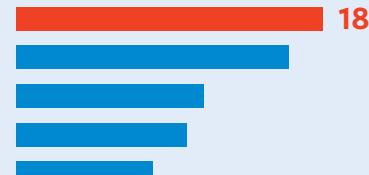
Decrease in per barrel lifting costs and per meter drilling costs in Russia vs. 2018

by 3%



STRONG COMPETITIVE ADVANTAGES

Hydrocarbon reserves life, years



EFFICIENT ENERGY

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

WE ACHIEVE RECORD-BREAKING FINANCIAL PERFORMANCE

IN REFINING

Lower fuel oil output
vs. 2018

by 10%



IN DISTRIBUTION

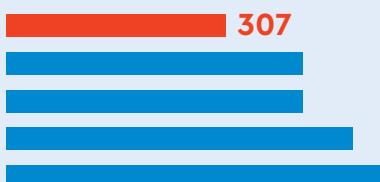
Higher gross profit from sales of
non-fuel goods and services
vs. 2018

by 8%

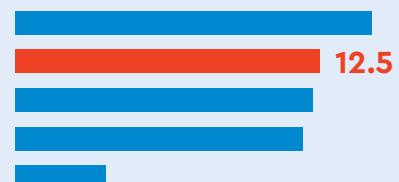
Free cash flow
+26% vs. 2018

702
RUB billion

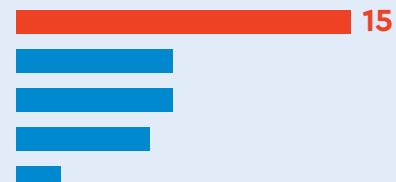
Scope 1 greenhouse gas
emissions to revenue in 2019,
tonnes of CO₂ equivalent/USD



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



ROACE in 2019
%



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



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

KEY EVENTS IN 2019 AND DEVELOPMENT OF OUR CAPITALS

Capitals	
	<h2>FINANCIAL</h2> <p>We use our own cash flow as well as borrowed funds to finance business development for continuous value creation</p> <p>For more details see page 46.</p>
	<h2>OPERATIONAL</h2> <p>We continuously improve production capacities to facilitate the conversion of hydrocarbon resources into high value-added products</p> <p>For more details see page 47.</p>
	<h2>INTELLECTUAL</h2> <p>State-of-the-art development technologies, patents, business process automation and digitalization constitute our competitive advantages</p> <p>For more details see page 58.</p>
	<h2>NATURAL</h2> <p>Our business relies on natural resources: hydrocarbons, water, air, and land</p> <p>For more details see page 78.</p>
	<h2>HUMAN</h2> <p>We invest in developing the skills and talent of over 100,000 of our professional employees to ensure efficient business growth and asset management</p> <p>For more details see page 84.</p>
	<h2>SOCIAL</h2> <p>Our commitment to sustainability, significant contributions to the development of the regions where we operate, and our reputation create a favorable environment for our business</p> <p>For more details see page 89.</p>

Key Events of 2019

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

CAPEX
450
RUB billion

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

Dividend per share¹
542
RUB

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

Continued working on selective projects at Nizhny Novgorod and Volgograd refineries

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

Launched the lubricants plant in Kazakhstan

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

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

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

Continued with digital pilot projects at our refineries

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

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

Implemented environmental projects in refining and distribution entities

Reduced contaminated land area and air pollutant emissions

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

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

Delivered training to 78 thousand employees

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

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

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

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

Supported 785 social and cultural projects in our regions of operation

¹ Total dividend per share recommended by the Board of Directors for 2019.

DEVELOPMENT OF PRIORITY PROJECTS



1 West Siberia

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



2 Timan-Pechora

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



3 The Baltic Sea

Put on stream the D41 field



4 Bashkortostan, Orenburg and Saratov Regions

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



5 The Republic of the Congo

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



6 UAE

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



7 Iraq

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

>30

COUNTRIES

>60

RUSSIAN REGIONS



8 Nizhny Novgorod

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



9 Volgograd

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

THE CASPIAN SEA

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

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

RUSSIA

9
1013
14

KAZAKHSTAN

AZERBAIJAN

12

CASPIAN SEA



9 V. Filanovsky field

Launch of Phase 3



10 V.I. Grayfer field

Facilities construction



11 Yu. Korchagin field

Phase 2 development

12 Shah Deniz (Azerbaijan)

Phase 2 development

13 Zhenis (Kazakhstan)

Signed a contract for exploration and production

14 I-P-2 block (Kazakhstan)

Signed Heads of Agreement



CLIMATE CHANGE

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



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

VAGIT ALEKPEROV

President, Chairman of the Management Committee of PJSC LUKOIL

MANAGEMENT

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

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

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



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

RISKS AND OPPORTUNITIES

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

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



For more details, see Appendix 2: Risks

DISCLOSURE

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

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

TARGETS AND PROGRESS

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

SCOPE 1 GREENHOUSE GAS EMISSIONS REDUCTION IN RUSSIA, %

Base target¹

ACTUAL 2016–2019



¹ Scope 1 greenhouse gas emissions reduction in Russia, 2016–2020

EFFICIENT APG USE

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

ENERGY EFFICIENCY

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

RENEWABLE POWER GENERATION

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

LUKOIL has a large portfolio of renewable power generation assets (four hydroelectric power plants in Russia and solar and wind power generation facilities in Russia, Romania and Bulgaria), accounting for 6% of total commercial power generated by the Group in 2019. The Company estimates that power generation from renewable sources prevents emission of over 500 thousand tonnes of CO₂ equivalent per year.

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



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



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



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



LETTER FROM THE PRESIDENT (CHAIRMAN OF THE MANAGEMENT COMMITTEE)

Dear Shareholders,

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

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

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

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

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

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

**ROACE IN 2019**
in line with strategic target

15%

EBITDA IN 2019
+11%

1.2

RUB trillion

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

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

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

Despite external limitations, we managed to exceed our hydrocarbon

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



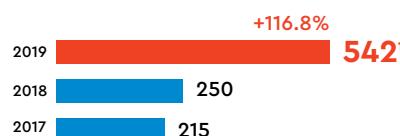
Vagit Alekperov

President, Chairman
of the Management Committee
of PJSC LUKOIL

Hydrocarbon production, thousand boe per day



Dividend per share, RUB



¹ Total dividend per share recommended by the Board of Directors for 2019.

BUSINESS MODEL

EXPLORATION AND PRODUCTION

EXPLORATION

- Unlocking resource potential and building up commercial reserves

DEVELOPMENT

- Field development and construction of supporting infrastructure

REFINING

OIL REFINING

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

GAS PROCESSING

- Efficient use of associated petroleum gas at five gas processing plants and production facilities within oil refineries

MARKETING AND DISTRIBUTION

INTERNATIONAL TRADING

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

RETAIL SALES

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

PRODUCTION

- Drilling and hydrocarbon production

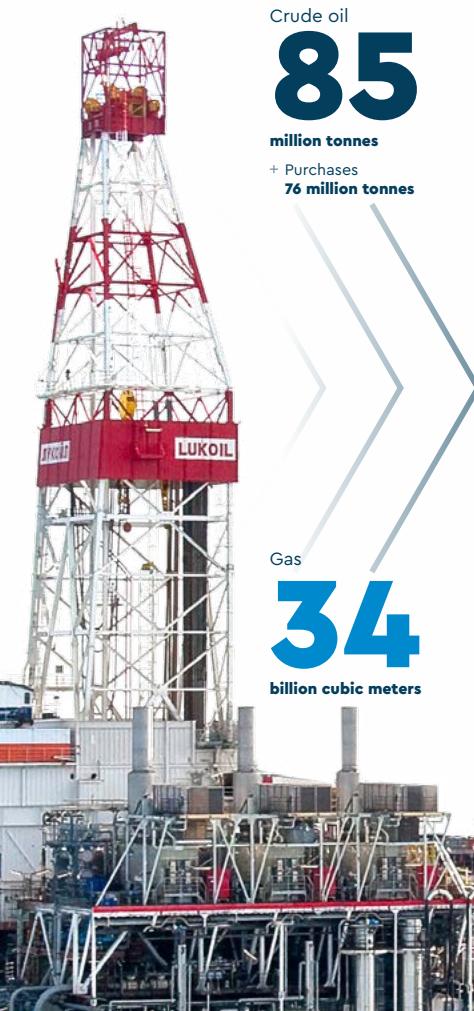
PETROCHEMICALS

- Deep conversion of hydrocarbon feedstock into complex petrochemicals at four plants and production facilities within oil refineries

OUR BUSINESS MODEL IS BASED ON THE PRINCIPLE OF MAXIMUM VERTICAL INTEGRATION IN ORDER TO CREATE ADDED VALUE AND FURTHER REINFORCE THE HIGH RESILIENCE OF OUR BUSINESS TO THE CHANGING MACROECONOMIC ENVIRONMENT THROUGH RISK DIVERSIFICATION

Exploration and Production

14 countries
83% of total production –
in Russia



Feedstock



Feedstock



Electricity and heat generation

8
facilities

Water energy

4
hydroelectric power plants

Solar energy

3
solar power plants

Wind energy

1
wind power plant



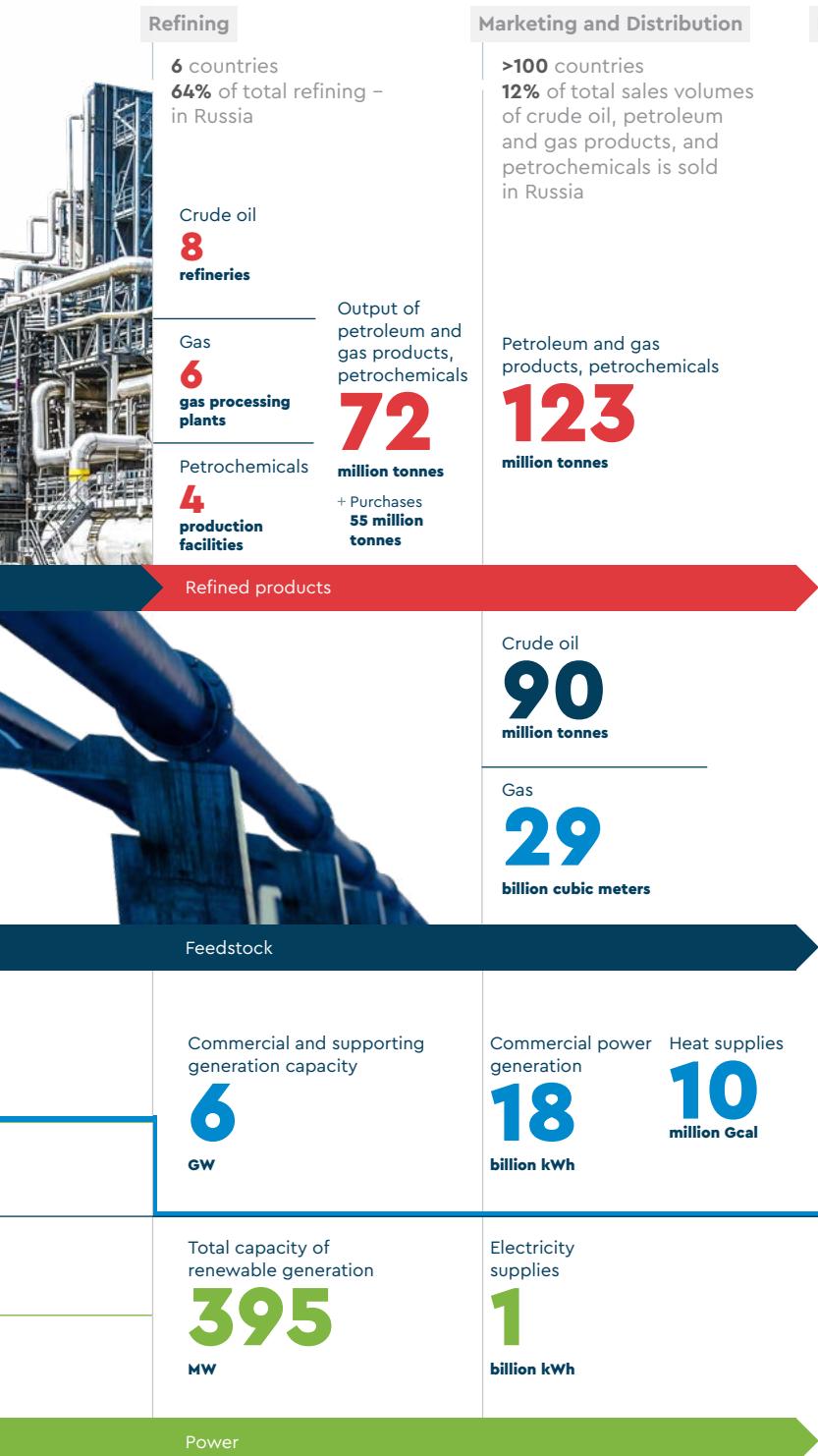
POWER GENERATION

POWER GENERATION

- Heat energy and electric power generation using natural gas, efficient use of associated petroleum gas, supplies of our own production facilities by low-cost energy, access to end consumers

RENEWABLES

- Electric power generated from sunlight, wind and water



SHAREHOLDERS

542 RUB
dividend per share¹

244 RUB billion
share buyback

EMPLOYEES

259 thousand person-courses
employee training per year

17 RUB billion
social programs for employees²

STATE

1.5 RUB trillion
taxes and duties³

SOCIETY

9 RUB billion
charity expenses⁴

ENVIRONMENT

35.9 RUB billion
environmental spending

CUSTOMERS

- Oil and gas**
Urals light sour crude oil, light sweet crude oil: Siberian Light oil, Varandey Blend, ESPO Blend, CPC Blend; marketable gas
- Motor fuel**
Gasoline with octane grades from 92 to 100, diesel fuel, premium fuels
- Lubricants and bitumen**
Over 800 lubricants types with various performance properties, bitumen
- Bunker and jet fuel**
Fuels for marine and river bunkering, as well as jet fuel for aircraft refueling
- Petrochemical products**
Pyrolysis products, organic chemicals, fuel fractions and polymers
- Power**
Electricity and heat, renewable energy

¹ Total dividend per share recommended by the Board of Directors for 2019.

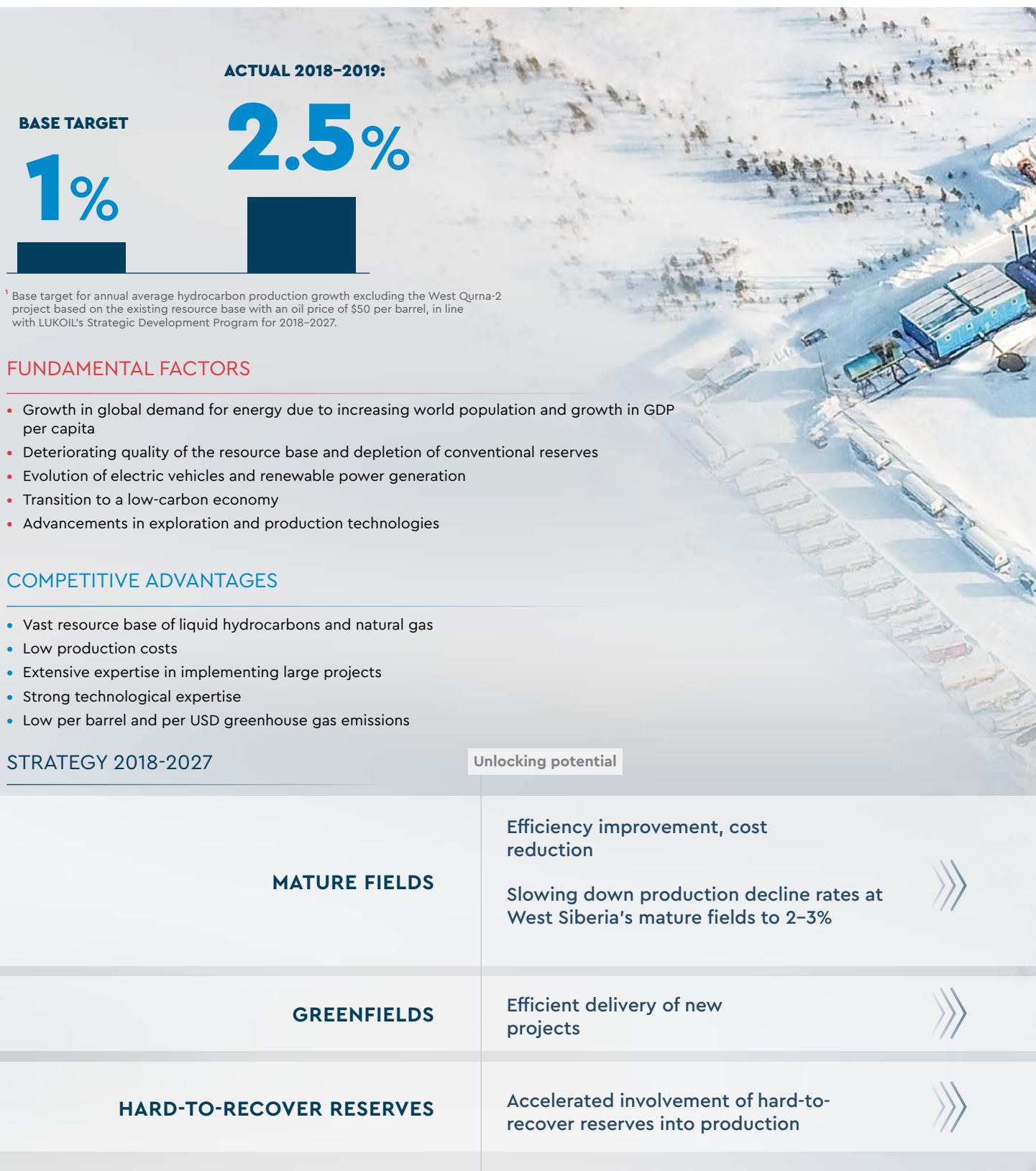
² Including employees' families and non-working retirees.

³ Excluding VAT.

⁴ Including expenses on agreements with Russian regions and municipal entities.

EXPLORATION AND PRODUCTION STRATEGY

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





Performance in 2018–2019

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

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

Scaling up technologies

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

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

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

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

EXPLORATION AND PRODUCTION

》 2019 RESULTS

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

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

In Timan-Pechora, the development of the Yaregskoye field and the Permian reservoir of the Usinskoye field, including the launch of new steam generating facilities, enabled a 14.5% year-on-year growth in high-viscosity oil production, to 4.9 million tonnes.

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

Expanding our asset portfolio

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

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

Improving efficiency and managing production in core regions

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

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

Enhancing the technological edge

Active work continued on involving complex reserves into production. The share of horizontal wells in the total number of wells commissioned in 2019 grew by 4 percentage points to 36%.

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

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

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

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

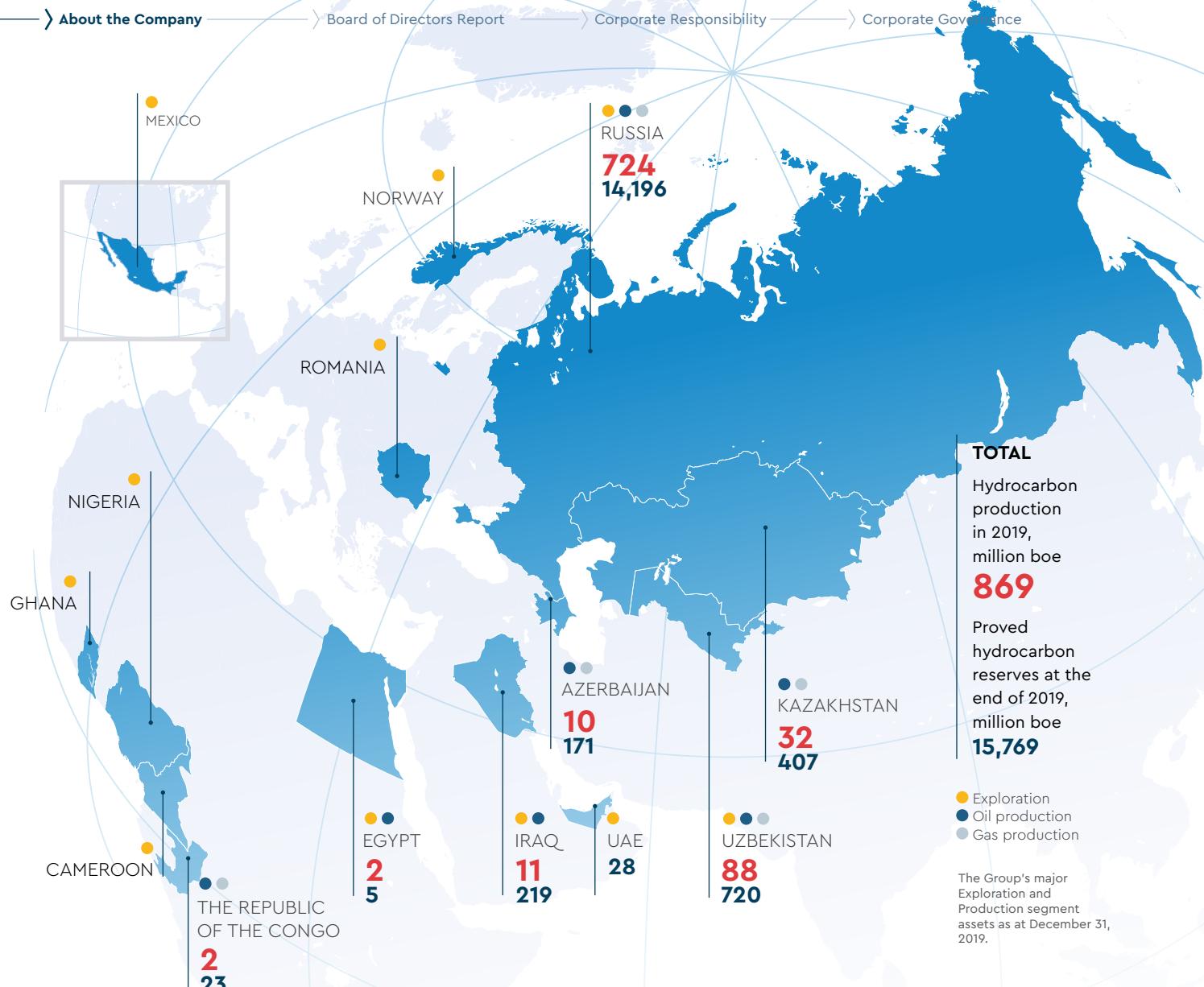
》 2020 AND MID-TERM PRIORITIES

- Exploration works near existing fields and in promising regions to support reserve replacement
- Focus on growth projects: increase in high-viscosity and tight oil production; development of new fields in the Caspian and Baltic seas; implementation of new production plans at mature fields under the TAI; maintaining production at plateau at previously commissioned large fields. Slowing down production decline rates at mature fields
- Implementation of efficiency improvement programs and building up technological expertise in complex reserves development
- Scaling and rolling out of successfully piloted technologies, digitalization

NUMBER OF INTEGRATED FIELD MODELS AS AT DECEMBER 31, 2019

+55%

45



EXPLORATION AND PRODUCTION EBITDA IN 2019

+2.7%

894
RUB billion

HYDROCARBON PRODUCTION GROWTH VS 2018

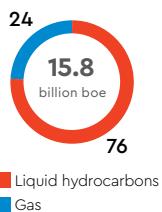
1.4%

SHARE OF HIGH-MARGIN PROJECTS IN TOTAL PRODUCTION IN 2019

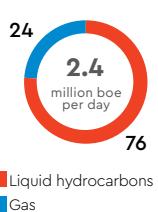
+6 p.p.

32%

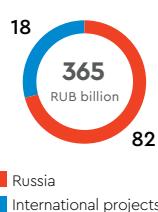
Proved hydrocarbon reserves as at December 31, 2019
%



Hydrocarbon production in 2019
%



Exploration and Production CAPEX in 2019
%



Average headcount in Exploration and Production in 2019
%



IMPROVING PRODUCTION EFFICIENCY WHILE REDUCING PER BARREL COSTS

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

INTELLIGENT FIELD

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

CUMULATIVE INCREMENTAL HYDROCARBON PRODUCTION

>7
million boe

NEURAL NETWORKS

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

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

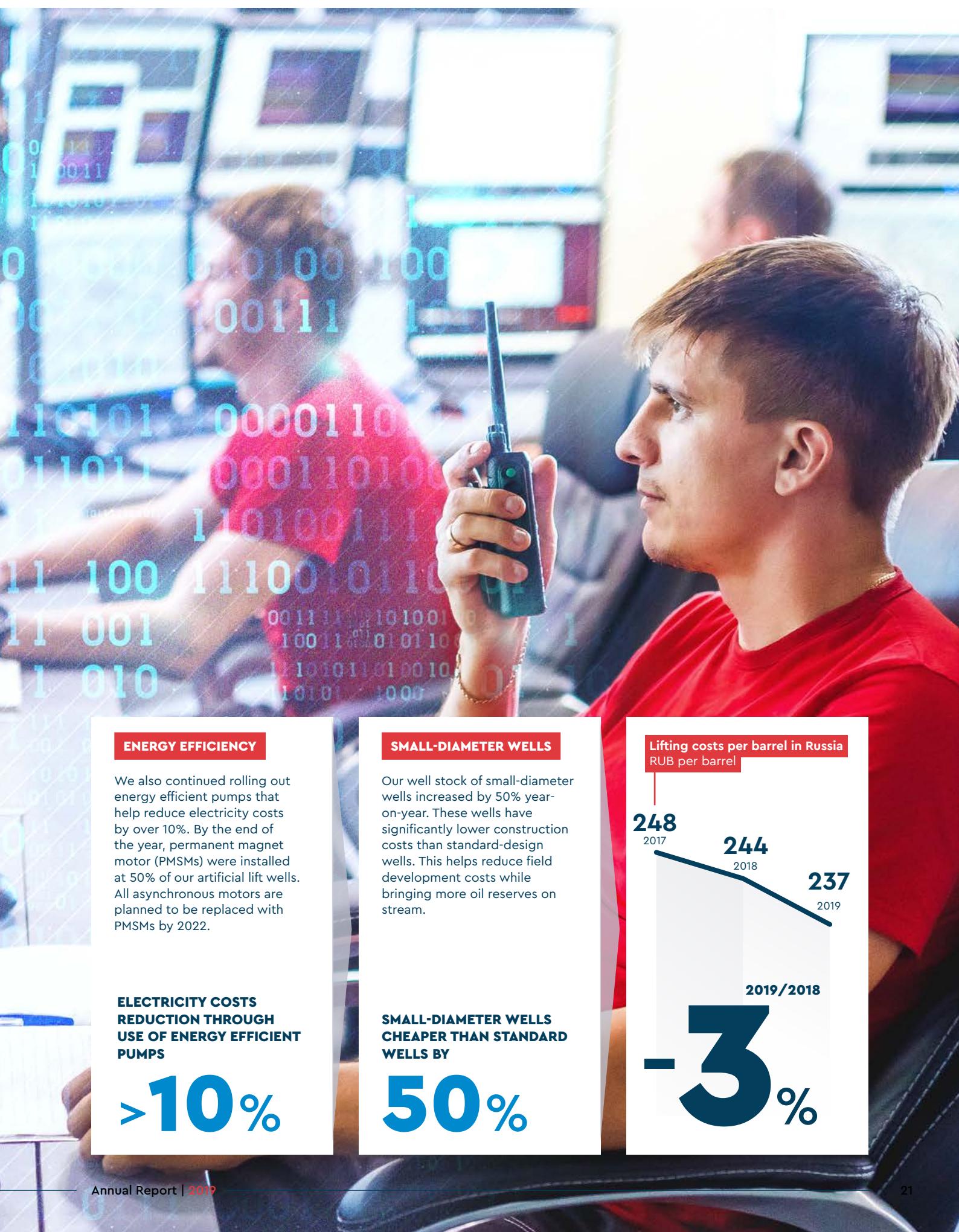
There are plans to scale up this technology.

THREE-STRING WELLS

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

THREE-STRING WELLS CHEAPER THAN STANDARD WELLS BY

20%



→》 EXPANDING OUR PRESENCE IN THE CASPIAN

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

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

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

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

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





RUSSIA

V. Filanovsky field

Maintaining production at design capacity

2019 OIL PRODUCTION

+5%

6.4
million tonnes

Yu. Korchagin field

Phase 2 drilling program under way

2019 OIL PRODUCTION

+21%

1.0
million tonnes

V.I. Grayfer field

Field construction work ongoing

ICE-RESISTANT FIXED PLATFORM CONSTRUCTION PROGRESS

30%

KAZAKHSTAN

Zhenis block

(LUKOIL's share – 50%)

Signed a contract for exploration and production

I-P-2 block

Signed Heads of Agreement

AZERBAIJAN

Shah Deniz

(LUKOIL'S share – 10%)

Phase 2 development

→» ACCELERATING INVOLVEMENT OF HARD-TO-RECOVER RESERVES INTO PRODUCTION

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

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

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

**High-viscosity oil****Yaregskoye field**

Steam-generating capacities expansion

2019 OIL PRODUCTION

+32%

2.2

million tonnes

Permian reservoir at the Usinskoye field

Commissioning new wells, building better understanding of geology

2019 OIL PRODUCTION

+4%

2.7

million tonnes

Low-permeability reservoirs**Imilorskoye field**

Using multi-zone hydraulic fracturing (MZHF)

2019 OIL PRODUCTION

+44%

1.1

million tonnes

V. Vinogradov field

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

OIL PRODUCTION IN 2019

+29%

0.5

million tonnes

REFINING, MARKETING, AND DISTRIBUTION STRATEGY

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

FUNDAMENTAL FACTORS

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

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

COMPETITIVE ADVANTAGES

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

STRATEGY 2018-2027

EXISTING REFINERIES POST A LARGE-SCALE UPGRADE PROGRAM



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

ORGANIC GROWTH PROJECTS

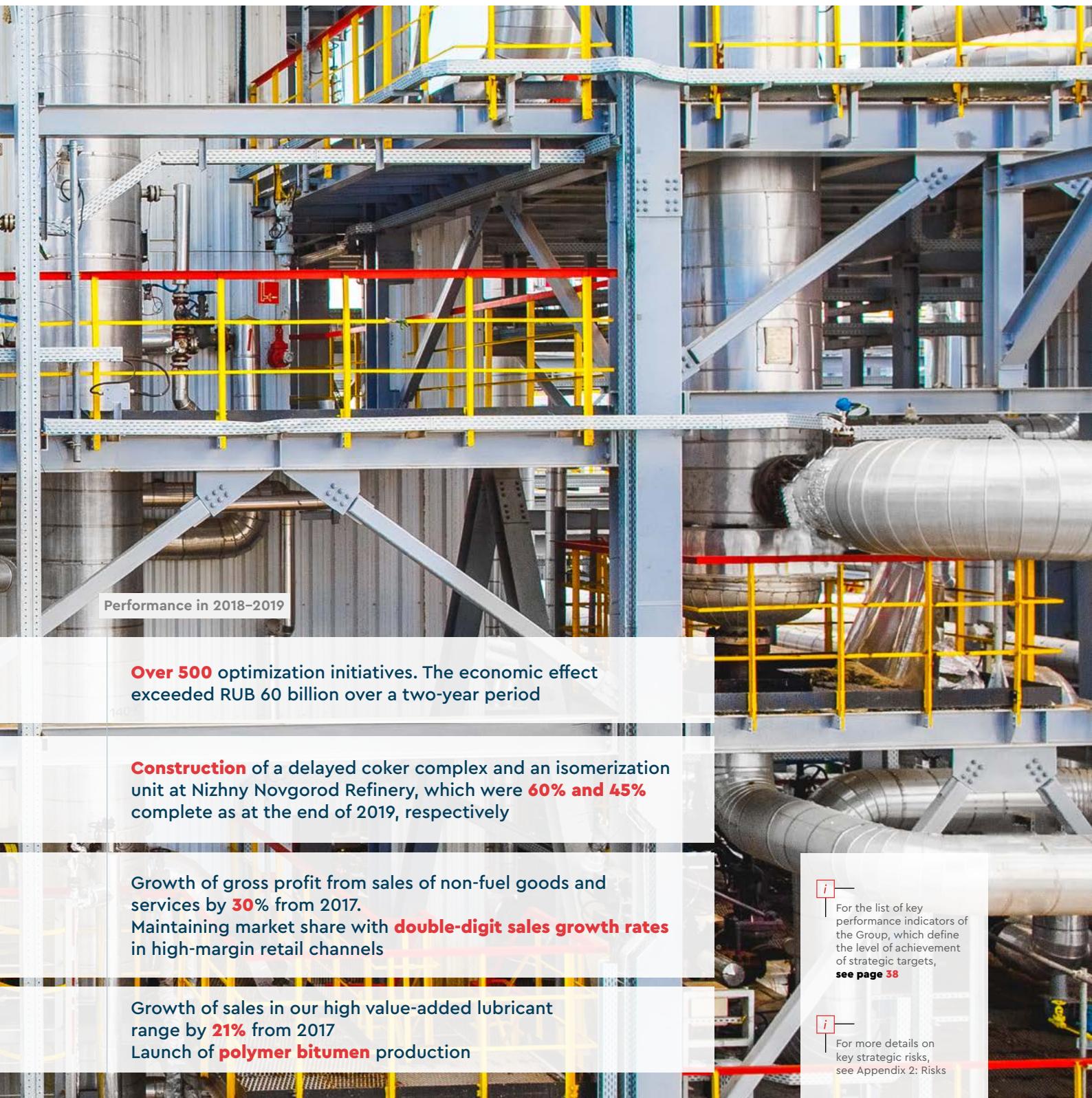
Selective projects at our Russian refineries to enhance our petroleum product slate

FILLING STATION NETWORK AIRCRAFT REFUELING AND MARINE BUNKERING

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

ORGANIC GROWTH PROJECTS: LUBRICANTS, BITUMENS

Growth in high-margin segments



REFINING, MARKETING AND DISTRIBUTION

》 2019 RESULTS

Improved petroleum product slate

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

We continued to work on selective projects in Russia to improve the product slate. In particular, construction of a delayed coker complex continued at the Nizhny Novgorod Refinery. Its launch is scheduled for 2021 and will considerably reduce the fuel oil output at this refinery. Construction of an isomerization unit also continued at the Nizhny Novgorod Refinery, which will result in higher output of motor gasoline.

Efficiency improvements at the refineries

We have been continuously working on reducing costs and streamlining our processes. All our refineries have annually-updated three-year roadmaps to improve their operational efficiency. The roadmaps provide for a range of capex-free operational improvements and quick win investments.

Efficiency improvements in logistics

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

Improving sales efficiency and developing premium sales channels

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

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

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

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

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

》 2020 AND MID-TERM PRIORITIES

- Improving the product slate through streamlined processes utilization, stronger inter-plant integration and construction of a delayed coker complex and an isomerization unit at the Nizhny Novgorod Refinery
- Delivering on our roadmaps for refinery efficiency improvement
- Upgrading and increasing the efficiency of our retail network; delivering on focused growth in the non-fuel segment
- Retaining our high market share in aircraft refueling and marine bunkering
- Ensuring focused growth and launching new products in the lubricants and bitumen segments
- Continue with the digitalization program implementation

HIGH-MARGIN BUNKER FUEL RETAIL SALES IN 2019

+3%

1.5
million tonnes

SALES IN OUR HIGH VALUE-ADDED LUBRICANT RANGE IN 2019

+8%

64
thousand tonnes

RUSSIA

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

● Gas processing

- Korobkovsky GPP
- Lokosovsky GPP
- Perm Refinery and gas processing facilities
- Stavrolen
- Usinsky GPP

● Petrochemicals

- Saratovorgsintez
- Stavrolen

● Power generation

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

● Lubricants

- Perm Refinery
- Volgograd Refinery

1 AUSTRIA	11 MOLDOVA
2 AZERBAIJAN	12 NETHERLANDS
3 BELARUS	13 ROMANIA
4 BELGIUM	14 SERBIA
5 BULGARIA	15 USA
6 GEORGIA	16 UZBEKISTAN
7 SPAIN	17 TURKEY
8 ITALY	18 FINLAND
9 LUXEMBOURG	19 CROATIA
10 MACEDONIA	20 MONTENEGRO

The Group's major Refining, Marketing and Distribution production assets as at December 31, 2019.

L – LUKOIL



- Oil refining
- Gas processing
- Petrochemicals
- Distribution
- Power generation
- Transshipment
- Aircraft refueling
- Lubricant

REFINING, MARKETING AND DISTRIBUTION EBITDA IN 2019

+32%

372
RUB billion

REFINING THROUGHPUT IN 2019

+2.1%

68.7
million tonnes

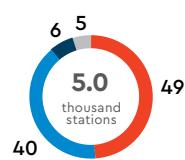
REDUCTION OF FUEL OIL OUTPUT IN 2019

-9.9%

746
thousand tonnes

Retail network¹ as at December 31, 2019

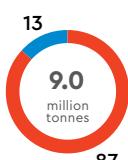
%



- Russia
- Europe
- FSU
- USA

Sales of premium ECTO-branded fuels in 2019

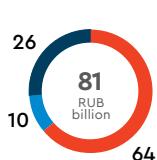
%



- Russia
- International projects

Refining, Marketing and Distribution CAPEX in 2019

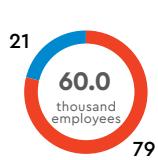
%



- Oil refining
- Retail network
- Other

Average headcount in Refining, Marketing and Distribution in 2019

%



- Russia
- International projects

¹ Including owned, leased and franchised stations.

»» HIGHLY READY FOR MARPOL

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

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





SELECTIVE PROJECTS AT REFINERIES

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

Delayed coker complex at Nizhny Novgorod Refinery

CONSTRUCTION PROGRESS AS OF THE END OF 2019

60%

2.1

million tonnes

NEW PRODUCT DEVELOPMENT

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

REFINING DEPTH IMPROVEMENT

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

High-sulfur fuel oil output

14%

2016

10%

2019

<4%

2022

→» DRIVING MARGINS IN RETAIL

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





NON-FUEL GOODS AND SERVICES

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

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

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

vs. 2018

8%

BRANDED FUEL

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

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

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

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

+3 p.p.

79%

SALES OF PREMIUM ECTO 100 MOTOR GASOLINE IN 2019

+16%

129
thousand tonnes

» DEVELOPING BITUMENS AND LUBRICANTS SEGMENTS

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

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





BITUMENS

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

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

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

GROWTH OF BITUMEN SALES TO ROAD CONSTRUCTION COMPANIES

vs. 2018

50%

BITUMEN SALES IN 2019

+15%

911

thousand tonnes

LUBRICANTS

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

GROWTH OF SALES IN OUR HIGH VALUE-ADDED LUBRICANT RANGE

vs. 2018

8.5%

HIGH RESPONSIBILITY

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

» PRINCIPLES

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

LUKOIL'S AVERAGE HEADCOUNT IN 2019

101
thousand employees



2019 RESULTS

Sustainable development system management

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

Reducing our environmental impact

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

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

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

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

Ensuring industrial safety

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

Digitalization in corporate training

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

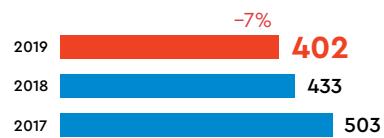
2020 AND MID-TERM PRIORITIES

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

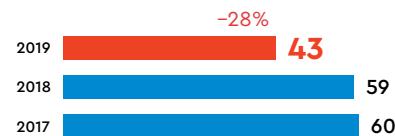
Lost-time accident frequency rate (LTAFR)



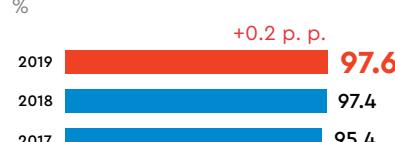
Air pollution emissions by the Group's Russian entities thousand tonnes



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



Efficient APG use across the Group %

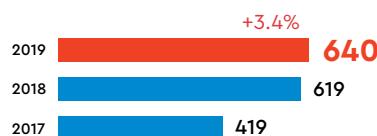


KEY PERFORMANCE INDICATORS

Financial performance

Profit

RUB billion

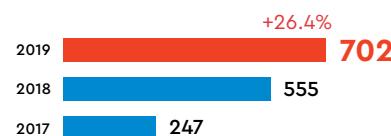


Key financial result

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

Free cash flow

RUB billion



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

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

ROACE

%



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

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

OPTIMAL BALANCE

Capital expenditures

RUB billion

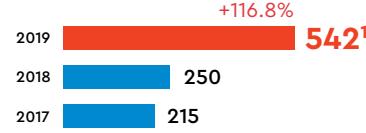


Investment into maintenance and growth of the Company's business operations

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

Dividend per share

RUB



Cash distributions to shareholders in line with the Dividend Policy

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

FINANCIAL STABILITY

Net debt / EBITDA

2019 0.03

2018 0.04

2017 0.34

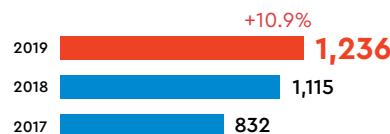
Reflects the level of debt burden

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

¹ Dividend amount recommended by the Board of Directors.

EBITDA

RUB billion



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

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

Operational performance

Exploration and Production segment

Hydrocarbon production¹

million boe per day



Key operational indicator

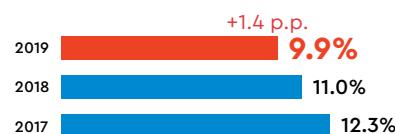
¹ Excluding the West Qurna-2 project.

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

Refining, Marketing and Distribution segment

Fuel oil output

% of refining throughput



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

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

High corporate responsibility

Efficient APG use

%



Influences direct emissions into the atmosphere and is used to calculate the HSE Compliance KPI. In addition, wastewater discharge and waste disposal rates are also used to calculate this KPI

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

Lost-time accident frequency rate (LTAFR)



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

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

KPI – key performance indicators of the Group, which define the level of achievement of strategic targets.

Incentive KPI – is factored in when calculating the annual bonus payable to top managers.

CORPORATE GOVERNANCE

GENERAL SHAREHOLDERS MEETING

The General Shareholders Meeting is the Company's supreme governance body. The Annual General Shareholders Meeting is held every year in the form of joint attendance. An Extraordinary Shareholders Meeting was also held in 2019, in the form of absentee voting.

BOARD OF DIRECTORS

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

CHANGES IN THE BOARD OF DIRECTORS

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

BOARD OF DIRECTORS COMPOSITION



VALERY GRAYFER

1929–2020

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

RAVIL MAGANOV

Born in 1954

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

VAGIT ALEKPEROV

Born in 1950

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

VICTOR BLAZHEEV

Born in 1961

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

TOBY TRISTER GATI

Born in 1946

- Independent Director
- Member of the Strategy, Investment and Sustainability Committee

PAVEL TEPLUKHIN

Born in 1964

- Independent Director
- Member of the Audit Committee

% Executive directors
% Non-executive directors
% Independent directors

Share in the Company's charter capital as at December 31, 2019. The composition of the Board of Directors as at December 31, 2019.

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

² As at December 31, 2019, the aggregate percentage of shares in PJSC LUKOIL which Mr. Fedun directly and/or indirectly owns, and/or is a beneficiary of, was 9.07%.



ROGER MUNNINGS

Born in 1950

- Independent Director
- Chairman of the HR and Compensation Committee



SERGEY SHATALOV

Born in 1950

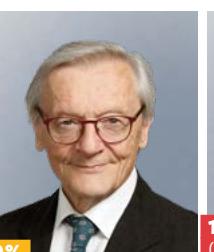
- Independent Director
- Chairman of the Strategy, Investment and Sustainability Committee
- Member of the Audit Committee



LYUBOV KHOBA

Born in 1957

- Non-Executive Director



WOLFGANG SCHÜSSEL

Born in 1945

- Independent Director
- Member of the HR and Compensation Committee

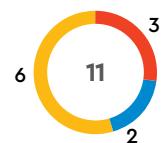


LEONID FEDUN

Born in 1956

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

Director status



■ Executive directors²
■ Non-executive directors
■ Independent directors³

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

2019	58	201
2018	58	19.2

■ Full
■ Partial
■ None

i For more details on the Board of Directors, [see page 97](#).

Composition of the Board of Directors' Committees



STRATEGY, INVESTMENT AND SUSTAINABILITY COMMITTEE



AUDIT COMMITTEE



HR AND COMPENSATION COMMITTEE

INDEPENDENT DIRECTORS

55%

SHARE OF WOMEN ON THE BOARD OF DIRECTORS

18%

FULL COMPLIANCE WITH THE CODE

73.4%

GOVERNANCE STRUCTURE



• External Auditor

• Corporate Secretary
 • Head of Internal Audit Service

BOARD COMMITTEES:

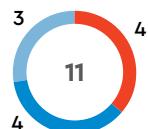
- Audit Committee
- Strategy, Investment and Sustainability Committee
- HR and Compensation Committee

SPECIFIC COMMITTEES:

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

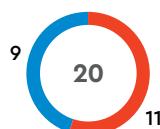
i For more details on the corporate governance structure, [see page 92](#)

Length of service on the Board of Directors

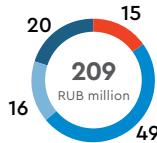


■ Over 7 years
■ 1 to 7 years
■ Less than 1 year

Board meetings in 2019



■ In absentia
■ In person

Directors' remuneration⁴ in 2019

■ Bonuses
■ Remunerations
■ Salaries
■ Other payments

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

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

³ Recognized as independent directors as defined in the Listing Rules of the Moscow Exchange and recommendations set out in the Corporate Governance Code. Victor Blazhev was determined to be independent by the Resolution of the Board of Directors of PJSC LUKOIL (Minutes No. 11 dated June 20, 2019).

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

EXECUTIVE BODIES

PRESIDENT

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

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

MANAGEMENT COMMITTEE

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

MANAGEMENT COMMITTEE COMPOSITION



2.99%
(27.39%)

VAGIT ALEKPEROV

Born in 1950

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



0.46%

RAVIL MAGANOV

Born in 1954

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

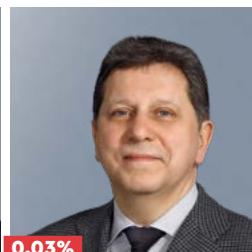


0.37%

ALEXANDER MATYTSYN

Born in 1961

- First Vice President (Economics and Finance)

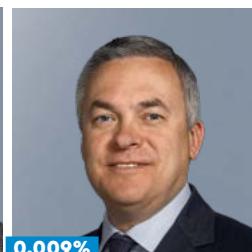


0.03%

VADIM VOROBYEV

Born in 1961

- First Vice President (Refining, Marketing and Distribution)

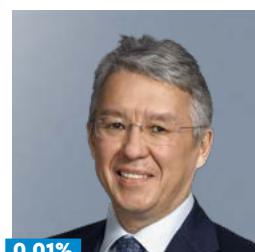


0.009%

OLEG PASHAEV

Born in 1967

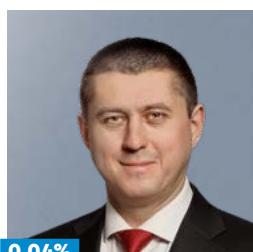
- Senior Vice President for Sales and Supplies



0.01%
AZAT SHAMSUAROV

Born in 1963

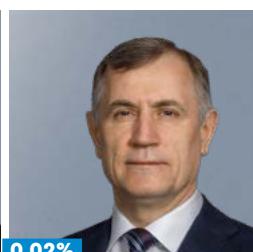
- Senior Vice President for Oil and Gas Production



0.04%
DENIS DOLGOV

Born in 1974

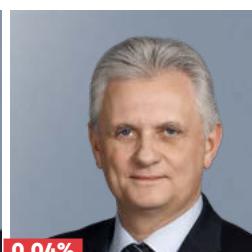
- Vice President for Power Generation



0.02%
ILYA MANDRIK

Born in 1960

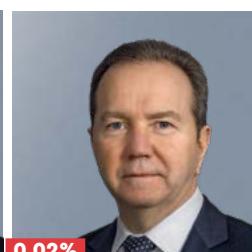
- Vice President for Exploration and Development



0.04%
IVAN MASLYAEV

Born in 1958

- Vice President – General Counsel



0.02%
ANATOLY MOSKALENKO

Born in 1959

- Vice President for Human Resources Management and Social Policy

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

Length of service on the Management Committee and share in the Company's charter capital as at December 31, 2019.

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

MEETINGS IN 2019

28

MATTERS DISCUSSED IN 2019

149

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



0.001%

**VYACHESLAV
VERKHOV**

Born in 1972

- Chief Accountant of PJSC LUKOIL



0.006%

**DENIS
ROGACHEV**

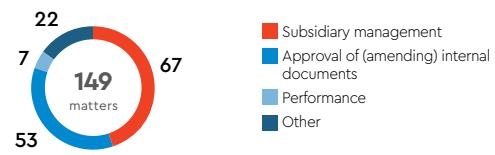
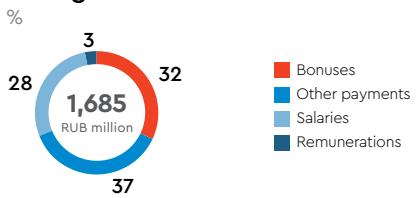
Born in 1977

- Vice President for Procurement

Length of service on the Management Committee



Matters discussed by the Management Committee in 2019

Payments¹ to the members of the Management Committee in 2019

¹ Including the remuneration of the President of PJSC LUKOIL.



0.02%

**GENNADY
FEDOTOV**

Born in 1970

- Vice President for Economics and Planning



0.01%

**EVGENY
KHAYKIN**

Born in 1964

- Vice President – Chief of Staff of PJSC LUKOIL

CHANGES TO THE MANAGEMENT COMMITTEE:

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



For more details on the Management Committee, [see page 113](#)

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



LETTER FROM THE VICE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Shareholders,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Ravid Maganov

Vice Chairman of the Board of Directors



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

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

SERGEY SHATALOV

Chairman of the Strategy, Investment and Sustainability Committee



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

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

VICTOR BLAZHEEV

Chairman of the Audit Committee



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

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

ROGER MUNNINGS

Chairman of the HR and Compensation Committee

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

FINANCIAL PERFORMANCE

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

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

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

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

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

IFRS consolidated financial results,
RUB billion

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

EBITDA structure in 2019,
RUB billion

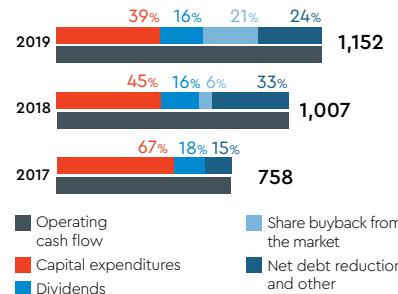
EBITDA	1,236
Exploration and Production in Russia	729
Exploration and Production outside Russia	165
Refining, Marketing and Distribution in Russia	301
Refining, Marketing and Distribution outside Russia	71
Corporate and other	-30

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

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

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

Cash sources and uses,
RUB billion



For more details on the financial performance of LUKOIL Group, see Appendix 5: Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations

EXPLORATION AND PRODUCTION

MACROECONOMIC OVERVIEW

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

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

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

Russian oil exporter's revenue breakdown

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

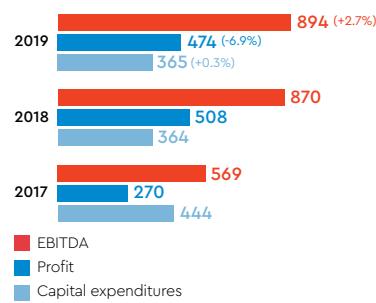
EXPLORATION AND PRODUCTION SEGMENT FINANCIAL HIGHLIGHTS

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

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

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

Exploration and Production segment performance, RUB billion



RESERVES

LUKOIL Group has proved hydrocarbon reserves in eight countries. The majority of the proved reserves are conventional, providing the Company a significant competitive advantage that ensures lower development and production costs per barrel. Moreover, LUKOIL is one of the leading international and Russian companies in terms of proved liquid hydrocarbon reserves life and volume.

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

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

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

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

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

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

Hydrocarbon reserves as at December 31¹, million boe

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

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

LICENSES

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

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

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

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

The remaining 10% of the Company's licenses grant the right to prospect, explore, and appraise hydrocarbon deposits, with an average remaining validity of about three years.

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

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

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

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

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

EXPLORATION

2019 RESULTS

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

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

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

2020 PRIORITIES

- Further exploration at existing fields

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

Exploration drilling in 2019, %



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

EXPLORATION COSTS IN 2019

30.5

RUB BILLION

Exploration

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

¹ Across subsidiaries, including non-cash items.

Key exploration projects in 2019

West Siberia

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

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

Volga region (onshore)

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

Caspian Sea

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

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

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

International projects

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

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

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

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

DEVELOPMENT AND PRODUCTION

2019 RESULTS

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

LUKOIL Group produces oil and gas in seven countries. Our core operations are concentrated in four federal districts of the Russian Federation, specifically in the North-Western Federal District (the Nenets Autonomous Area, the Komi Republic and the Kaliningrad Region), the Volga Federal District (the Perm Territory and the Republic of Tatarstan), the Urals Federal District (the Yamal-Nenets Autonomous Area and the Khanty-Mansi Autonomous Area – Yugra) and in the Southern Federal District (the Volgograd Region, the Astrakhan Region and the Republic of Kalmykia).

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

2020 PRIORITIES

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

Crude oil

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

In 2017–2019, the volume and dynamics of LUKOIL Group's daily oil production were mainly influenced by external production limitations under the agreement between Russia and OPEC, which has changed twice during this period: in mid-2018 and at the beginning of 2019.

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

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

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

Hydrocarbon production, thousand boe per day

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

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

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

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

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

Gas

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

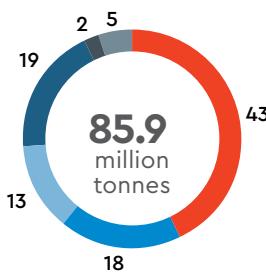
Overall 2019 gas production in Russia remained flat year-on-year at 17.8 billion cubic meters. Gas production from our international projects increased by 9.6% to 17.2 billion cubic meters and provided 49.2% of LUKOIL's total gas production, up by 2.3 percentage points year-on-year.

Production drilling in 2019, %



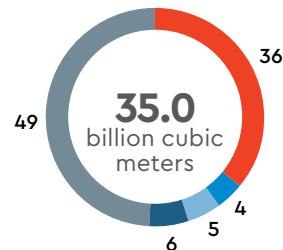
■ West Siberia
■ Urals

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



■ Volga
■ Timan-Pechora

Gas production structure in 2019, %



■ Other
■ International projects

GROWTH PROJECTS

With its vast resource base, LUKOIL is especially focused on developing new projects to ramp up production. The new projects include both greenfield developments and boosting recovery at mature fields through advanced technologies, increased production drilling and a higher number of EOR operations.

North Caspian

LUKOIL has pioneered the development of the Russian sector of the Caspian Sea bed, with its efforts resulting in the discovery of nine fields in the region with combined initial recoverable reserves of 1 billion tonnes of reference fuel (7 billion barrels of oil equivalent).

V. Filanovsky field

The V. Filanovsky field, discovered in 2005, is the largest oil field in the Russian sector of the Caspian Sea bed. The field has a unique geology, with highly permeable collectors yielding record-high initial flow rates.

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

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

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

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

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

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

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

Yu. Korchagin field

The Yu. Korchagin field was discovered in 2000 and became the first field in the Caspian put on stream by LUKOIL. Production commenced in 2010. The field is developed in two phases. Phase 1 infrastructure comprises an ice-resistant fixed platform with drilling facilities, a living quarters platform, and an offshore transshipment facility which was used to ship all crude oil output prior to the infrastructure launch at the V. Filanovsky field.

We continued with the additional drilling program within Phase 1 field development in 2019, which included drilling and bringing online three sidetracks.

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

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

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

V.I. Grayfer field (formerly Rakushechnoye)

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

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

The Baltic Sea

LUKOIL has unparalleled expertise in Baltic Sea operations. Our first offshore field, the Kravtsovskoye, was put on stream in the Baltic in 2004. New fields in the Baltic Sea were discovered in 2015, opening up new prospects for the region's development.

D41 field

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

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

D33 field

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

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

Bolsheketskaya Depression (northern part of West Siberia)

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

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

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

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

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

Pyakyakhinskoye field

The Pyakyakhinskoye field has a challenging geology complicated by gas caps and oil rims. Therefore its core assets are developed through horizontal drilling and multi-hole wells. The oil reservoir development method of using both multi-hole production wells and horizontal injection wells is unique for Russia and protected by the Company's patent.

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

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

Timan-Pechora

The Timan-Pechora oil and gas province has strong potential for high-viscosity oil production growth. High-viscosity crude oil accounts for 6.3% of the Group's proved hydrocarbon reserves, which are predominantly located in the Yaregskoye and Usinskoye fields. The development of these reserves has been stimulated by special tax rates.

Yaregskoye field

The Group's largest source of high-viscosity oil is located at the Yaregskoye field, which is comprised of two main producing structures: the Yaregskoye structure, developed by underground mining techniques and thermal steam treatment methods; and the Lyalet structure, where

oil is produced using steam-assisted gravity drainage (SAGD) technology. In 2019, the field's output grew by 32.4% to 2,157 thousand tonnes.

At the Yaregskoye structure, our commercial use of underground low-angle upward boreholes of up to 800 meters in length has significantly reduced the scope and cost of mining operations while speeding up reserves development. In 2019, the Company approved a roadmap for further development of the Yaregskoye structure using modular mine shafts, with four development phases, and 204 underground boreholes were commissioned at the field.

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

The 75 MW Yarega power generating center has been operating at the field since 2017, providing the Yaregskoye field production facilities with an independent source of power supply. In 2019, LUKOIL continued to expand its steam-generating facilities by commissioning two steam generators with a combined capacity of 100 tonnes of steam per hour.

Usinskoye field

The Permian reservoir at the Usinskoye field has high-viscosity oil and is developed using thermal recovery methods. In 2019, the reservoir produced 2,743 thousand tonnes of crude oil, up by 3.6% year-on-year, due to the commissioning of 30 production wells, the learning curve in optimized design well drilling, the optimization of cyclic steam injection technology, and efficient tapping of the reserves on the margins of the deposit.

Commissioned in 2016, the 100 MW Usa power generating center operates at the Usinskoye field, providing an independent source of power supply to production facilities and the Denisovskaya Depression fields. In 2019, two steam generators with a combined capacity of 40 tonnes of steam per hour were commissioned at the field.

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

West Siberia (excluding the Bolshekhetskaya Depression)

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

Imilorskoye field

The Imilorskoye field has considerable geological potential, and its close proximity to existing, well-developed infrastructure supported the field's preparation for commercial development within a brief period of about three years. The classification of over 70% of the field's in-place reserves as hard-to-recover (with a permeability of less than 2 millidarcy) was substantiated, making the project eligible for special tax rates. Considering the field's complex multilayer structure, a wide range of advanced well construction and completion technologies are applied in its development.

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

V. Vinogradov field

The V. Vinogradov field is located within two license areas, Bolshoy and Olkhovsky. Consisting mostly of low-permeability reservoirs, the field has a complex geology and is therefore developed using unique technologies while receiving special tax rates to stimulate its development. In 2019, crude oil production grew by 29.2% to 454 thousand tonnes while 33 production wells were commissioned.

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

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

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

The regime covers four groups of license areas.

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

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

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

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

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

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

International projects

Uzbekistan

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

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

gas condensate and marketable sulfur. The plant consists of the first and second process lines, external power and water supply facilities, a gas production and gathering system and an export gas pipeline, as well as a field camp, a fire station and other facilities.

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

Expanding our international portfolio of hydrocarbon producing assets

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

The Republic of the Congo

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

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

The United Arab Emirates

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

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

TECHNOLOGIES

LUKOIL has been actively developing and deploying advanced technologies to maximize hydrocarbon recovery and streamline its operations and technological solutions. These efforts help improve our operational efficiency, reduce costs, bring new reserves into production, increase oil recovery ratios and develop new products. We have been pursuing our R&D program, which is focused on innovative development through the deployment of cutting-edge technologies and solutions. Using the latest technologies has a major positive effect on our oil recovery and production rates as well as on the commercial development of high-viscosity, tight, and hard-to-recover oil reserves at mature fields.

Hi-tech drilling

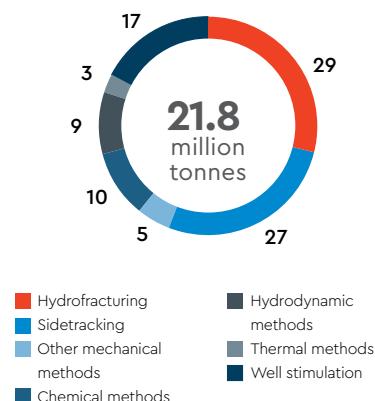
In 2019, across the Group's fields in Russia we commissioned 356 horizontal wells with an average daily flow rate of 46 tonnes, 146 of which are MZHF wells. Horizontal wells accounted for 36% of total wells put into operation across the Group's Russian assets in 2019, up by 4 percentage points year-on-year.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

Enhanced oil recovery

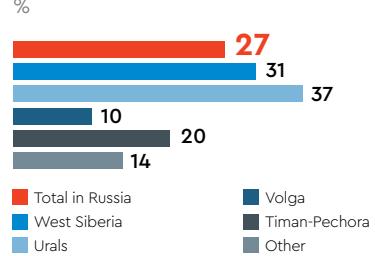
In 2019, 27% of LUKOIL's oil in Russia was produced through enhanced oil recovery (EOR) projects implemented during the reporting year or in previous years. LUKOIL uses physical, chemical, hydrodynamic, and thermal techniques to stimulate productive formations. EOR methods were used at 9.1 thousand wells in 2019. Physical methods were the biggest contributor to the Group's incremental production growth (13.2 million tonnes).

Sidetracking is a highly efficient EOR method, and the Group continued to rely heavily on this technique in 2019. LUKOIL drilled a total of 278 sidetracks in Russia in 2019, up by 32.4% year-on-year, which brought incremental 2019 production to 5.8 million tonnes of crude, including production from sidetracks drilled in previous years. The high efficiency of this technique is primarily due to robust R&D mini-projects based on hydrodynamic modeling and more accurate forecasting of geology and reserves structure where sidetracks are drilled.

Incremental production from EOR technologies¹ in Russia in 2019, %



Share of incremental production from EOR technologies in each region's total production¹ in Russia in 2019, %



¹ Including carry-overs.

Small-diameter wells

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

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

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

Lighter three-string wells

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

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

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

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

Hard-to-recover reserves

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

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

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

At the V. Vinogradov field, using batch drilling for horizontal wells in 2019 drove commercial drilling speed up by 8% year-on-year. The field was the first in Russia to successfully test and adopt a horizontal drilling technique using a unique method for completing horizontal boreholes reaching over 2 thousand meters and with up to 16 fracturing ports. Crude oil output from the field grew by 29.2% in 2019.

High-viscosity oil

LUKOIL actively applies advanced technologies to recover high-viscosity oil. Most of our expertise in recovering high-viscosity oil reserves comes from Timan-Pechora, where the Group develops the Yaregskoye field and the Permian reservoir of the Usinskoye field. In 2019, we produced 4.9 million tonnes of high-viscosity oil, up by 14.5% year-on-year. Thermal EOR techniques are used in production.

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

Research and development

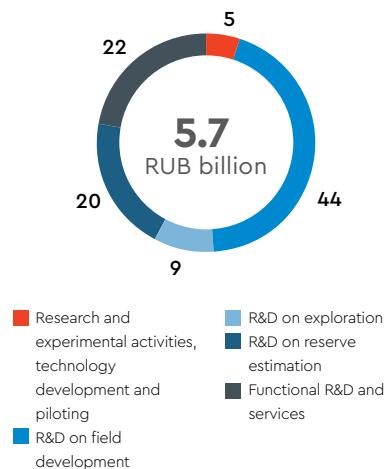
LUKOIL's Research and Development (R&D) Program is focused on methodological support and the Company's innovative development through deploying cutting-edge technologies and solutions, as well as adopting international best practices and lessons learned in developing hard-to-recover reserves.

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

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

- VolgogradNIPIneft is the Group's general designer for the construction of offshore oil and gas fields
- KogalymNIPIneft is a leading research and project center in Russia, engaged in well construction design and is responsible for the R&D support of LUKOIL's operations in West Siberia
- PermNIPIneft provides R&D support for the Group in the Urals and Timan-Pechora, specializing in high-viscosity oil production technology
- LUKOIL-Nizhegorodniinefteprojekt is the Group's general designer in the Refining, Marketing and Distribution business segment

R&D cost breakdown in 2019, %



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

DIGITALIZATION

Technological advances and business process automation are increasingly driven by digital data which offers considerable competitive advantages in a dynamic external environment.

In 2018, the Board of Directors approved the IT Strategy of LUKOIL Group, a functional program focused on digitizing the Company's business processes to improve efficiency. The IT Strategy forms an essential part of our long-term Strategic Development Program for 2018–2027 and includes close to 100 initiatives.

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

Digitalization in the Exploration and Production business segment

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

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

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

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

Adoption of the intelligent field concept is an important digital project for LUKOIL.

Intelligent field

The intelligent field concept (LIFE-Field) integrates field management processes based on automated computer systems and high-tech data collection systems. The concept covers the entire project development cycle from prospecting and exploration through to decommissioning, and includes integrated modeling, integrated planning, integrated operations center, and other modules. The concept has strong potential for operational process optimization aimed at boosting production and cutting costs. The key source of this optimization is identifying bottlenecks and developing methods of their efficient elimination. Specifically, enhancing alignment between geological modeling and modeling of the field's infrastructure enables considerable savings.

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

The intelligent field concept can also be highly effective when applied at an early stage of field development. The V. Filanovsky field is an example where an integrated model was used to efficiently adjust the existing solutions for placing and designing production wells at the implementation stage. As a result, the field was ramped up to design capacity in a record time of less than two years.

Intelligent field technology has been used at the Yu. Korchagin field in the Caspian Sea since 2015. Based

on the results of the technology, since 2018 we have applied a state-of-the-art electric system to support the existing hydraulic intelligent completion systems. The new solution enables more flexible flow control across individual well zones, including the ability to quickly stop potential gas leaks from the field's gas cap.

Digitalization in the Refining, Marketing and Distribution business segment

Digital programs in the Refining, Marketing and Distribution business segment primarily aim to enhance equipment efficiency and reliability, improve control over the environmental impact of operations, and provide better customer service.

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

Digitalization in the Corporate business segment

Digital programs for the Corporate business segment mainly focus on accelerating and improving management decision making processes while increasing workforce productivity, automating HR management and organizational development processes, and reducing the risk of external and internal cyberattacks.

REFINING, MARKETING AND DISTRIBUTION

MACROECONOMIC OVERVIEW

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

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

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

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

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

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

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

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

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

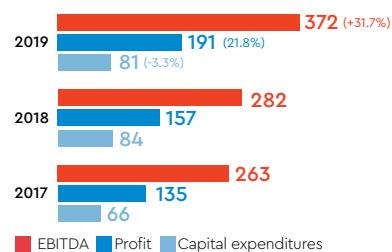
REFINING, MARKETING AND DISTRIBUTION SEGMENT FINANCIAL HIGHLIGHTS

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

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

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

Refining, Marketing and Distribution segment performance, RUB billion



OIL REFINING

2019 RESULTS

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

LUKOIL Group owns four refineries in Russia (in Perm, Volgograd, Nizhny Novgorod and Ukhta), three refineries in Europe (Italy, Romania and Bulgaria) and has a 45% interest in a refinery in the Netherlands. The aggregate capacity of these refineries is 83.2 million tonnes.

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

Refineries in Russia

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

Construction of the delayed coker complex at the Nizhny Novgorod Refinery continued in 2019. The facility's annual feedstock capacity is 2.1 million tonnes. The complex will use heavy residues from the refining process as feedstock and produce

mainly diesel fuel, straight-run gasoline and gas fractions, as well as heavy products such as vacuum gas oil and coke. The launch of the delayed coker complex and related optimization measures will increase the light product yield at the Nizhny Novgorod Refinery by more than 10 percentage points. The increased secondary refining capacity and optimized refinery utilization will help reduce fuel oil output by 2.7 million tonnes per year. In 2019, installation of intra-site pipelines and process piping began, with most of the equipment already delivered to the site. The project was 60% complete at the end of 2019.

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

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

2020 PRIORITIES

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

In the reporting year, LUKOIL continued increasing its refining depth through the use of alternative feedstock and higher utilization of secondary processes, including strengthening its inter-plant integration. Specifically, cross-supplies between the Group's refineries amounted to 1.6 million tonnes in 2019.

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

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

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

Refineries in Europe

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

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

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

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

Refinery throughput and production of petroleum products at LUKOIL Group refineries

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

LUBRICANT PRODUCTION AND MARKETING

» 2019 RESULTS

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

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

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

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

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

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

» 2020 PRIORITIES

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

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

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

Lubricant production and blending, thousand tonnes

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

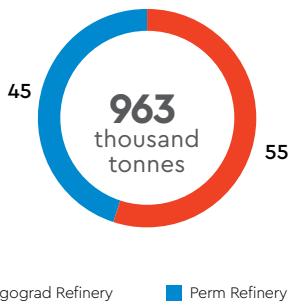
and specialized vehicle manufacturers: IVECO, MAN, CNH Industrial, Ford and others.

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

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

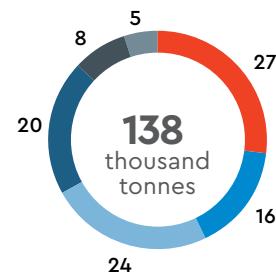
to be opened in 2020 to develop new and reformulated products.

Full cycle lubricant production in 2019, %



■ Volgograd Refinery ■ Perm Refinery

Lubricant blending in 2019, %



■ Russia, Tyumen
■ Finland
■ Turkey
■ Romania
■ Austria
■ Kazakhstan

GAS PROCESSING

2019 RESULTS

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

LUKOIL Group processes gas and natural gas liquids at three gas processing plants (GPPs) in West Siberia, Timan-Pechora and Volga regions, as well as at its Perm Refinery and Stavrolen petrochemical complex in the Stavropol Territory. The Group's GPPs process the APG produced by LUKOIL into liquid hydrocarbons and marketable gas.

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

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

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

2020 PRIORITIES

- Maximize synergy from vertical integration by increasing our associated petroleum gas (APG) use, growing our output of liquid hydrocarbons and marketable gas, and providing feedstock to our power generating assets

Gas processing and treatment in Russia, million cubic meters

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

PETROCHEMICALS

2019 RESULTS

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

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

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

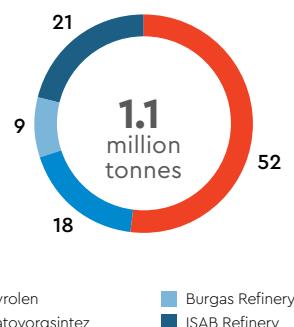
2020 PRIORITIES

- Further work on projects of petrochemical facilities development

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

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

Petrochemicals output in 2019, %



Petrochemicals output, %

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

POWER GENERATION

2019 RESULTS

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

LUKOIL's power generation segment is a fully vertically integrated chain, from generation to transmission and distribution of heat and power to external consumers (commercial power generation) and for its own needs (supporting power generation). Our aggregate power generation capacity, excluding the West Qurna-2 project, is 6.4 GW, with commercial power generation accounting for 71% of the total, and supporting power generation for the remaining 29%. The power generating facilities in our asset portfolio help strengthen our vertical integration and ensure higher efficient APG use rates while reducing electricity costs at our production facilities.

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

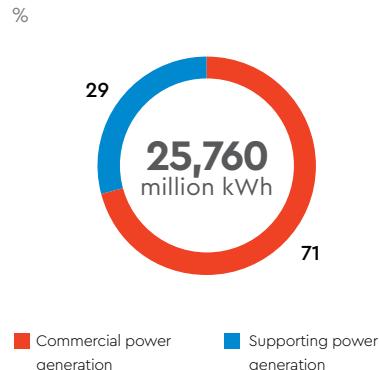
2020 PRIORITIES

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

Commercial power generation

LUKOIL's main commercial heat and power generating facilities are located in the south of the European part of Russia, accounting for 93% of electricity generation in the Astrakhan Region and 60% in the Krasnodar Territory. Our commercial electricity generation in 2019 totaled 18.3 billion kWh, while heat supplies totaled 10.1 million Gcal.

Electric power generation in 2019, %



Commercial electricity output and commercial heat supplies

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

Renewable power generation

Renewable power generating facilities also contribute to commercial power generation. The Group's core assets comprise four hydroelectric power plants (HPPs) located in Russia with a combined capacity of 291 MW and a combined output of 868 million kWh in 2019.

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

48 MW of hydroelectric installed capacity post-renovation.

The project will extend the operation of Belorechensk HPP by at least 40 years, increasing the efficiency and reliability of its green electricity generation.

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

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

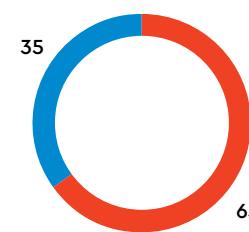
LUKOIL also owns the 84 MW Land Power wind power plant in Romania. The annual output of the plant totaled 218 million kWh in 2019.

Supporting power generation

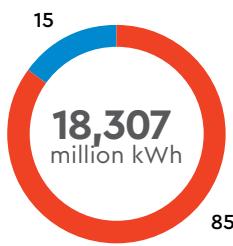
Development of in-house electricity generation at fields and plants helps the Group reduce its electricity costs and achieve higher efficient APG use, for example as a fuel for gas power plants.

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

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



Commercial power generation in 2019, %



■ Russia

■ Outside Russia

Commercial heat supplies in 2019, %



■ Russia

■ Outside Russia

WHOLESALE AND TRADING

2019 RESULTS

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

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

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

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

2020 PRIORITIES

- Diversify sales markets

The combined sales of crude oil, petroleum products, gas products, and petrochemicals totaled 212.9 million tonnes in 2019, up by 1.1% year-on-year primarily due to increased oil trading volumes.

Crude oil

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

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

Oil supplies and sales,
million tonnes

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

Petroleum products

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

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

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

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

Gas

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

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

Sales of petroleum products and gas products, million tonnes

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

Exports of petroleum products and gas products, million tonnes

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

Gas sales, million cubic meters

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

LUKOIL's transportation infrastructure and dedicated supply channels

Our priority when selling crude oil and petroleum products is efficient logistics and maximum utilization of our transportation infrastructure to reduce transportation costs and optimize routes. LUKOIL Group owns three crude oil and petroleum products transshipment terminals in Russia (Varandey in Timan-Pechora on the Barents Sea, one in the port of Svetly in the Kaliningrad Region, and one in the port of Vysotsk on the Baltic Sea), and a terminal in the port of Barcelona in Spain, with a combined capacity of 36 million tonnes of oil and petroleum products per year. LUKOIL also uses its own floating oil storage unit in the Caspian Sea for oil transshipment.

In 2019, transshipment via LUKOIL's own infrastructure in Russia was up by 5.9% year-on-year and totaled 22.1 million tonnes of crude oil and petroleum products.

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

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

LUKOIL also holds a 12.5% stake in the Caspian Pipeline Consortium (CPC). LUKOIL's oil exports via the CPC increased by 10.4% in 2019 to 5.3 million tonnes due to production growth at the Caspian Sea fields. The CPC's oil quality bank ensures that LUKOIL's selling prices reflect the high quality of its crude.

In 2019, LUKOIL exported 1.7 million tonnes of crude oil via the East Siberia – Pacific Ocean (ESPO) pipeline, up by 40.2% year-on-year. This route enables transporting our light oil from West Siberia with a corresponding premium for its quality as compared to conventional Urals crude exports to the west. Average ESPO premium to Urals was USD 6.3 per barrel in 2019.

In December 2017, LUKOIL began supplying the diesel fuel produced at its Volgograd Refinery to the port of Novorossiysk via Transneft's new petroleum product pipeline, Volgograd Refinery – Tinguta – Tikhoretsk – Novorossiysk (the South project). The pipeline capacity is 8.7 million tonnes per year. LUKOIL transported 4.8 million tonnes through the pipeline in 2019, up by 21% year-on-year.

In June 2017, LUKOIL began transportation of the motor gasoline produced at its Nizhny Novgorod Refinery to the Moscow Region via Transneft's petroleum product pipeline. The pipeline capacity is 3 million tonnes per year. LUKOIL transported 1.1 million tonnes through the pipeline in 2019, up by 10.9% year-on-year.

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

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

Trading

LUKOIL performs its trading operations in all regions of the world through its subsidiary, LITASCO. LITASCO's main functions include maximizing sales efficiency for LUKOIL's crude oil and petroleum products and boosting profits through trading third-party volumes.

To maximize the efficiency of its trading operations, LITASCO builds long-term relations with major refineries in South-East Asia, the USA, Canada and other countries, and supplies the Group's refineries in Europe. Crude oil and petroleum products produced by LUKOIL Group accounted for one third of LITASCO's total trading volumes in 2019, while trading third-party crude oil and petroleum products accounted for the remaining two thirds.

PREMIUM SALES CHANNELS

» 2019 RESULTS

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

» 2020 PRIORITIES

- Increase the efficiency of our retail network
- Expand our non-fuel business
- Increase sales volumes of premium ECTO-branded fuels
- Retain our high market share in aircraft refueling and marine bunkering
- Focused growth and launch of new premium products in our lubricants and bitumen segments

Retail sales

LUKOIL sells the bulk of its petroleum products in the retail market via its well-diversified retail network of 5,044 filling stations located in 19 countries.

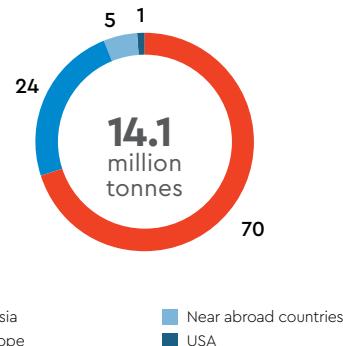
In 2019, our total retail sales volumes of petroleum products amounted to 14.1 million tonnes, of which 9.9 million tonnes was sold in Russia and 4.2 million tonnes sold abroad.

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

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

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

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



Retail sales of petroleum products

	2017	2018	2019	Change 2019/2018, %
Number of filling stations¹ as at December 31	5,258	5,168	5,044	-2.4
Russia	2,609	2,556	2,469	-3.4
Outside Russia	2,649	2,612	2,575	-1.4
Total retail sales volumes, thousand tonnes	14,238	15,144	14,129	-6.7
Russia	10,083	10,927	9,935	-9.1
Outside Russia	4,155	4,217	4,194	-0.5
Average daily sales volumes at LUKOIL's filling stations, tonnes per day	10.0	10.7	10.0	-6.0
Russia	12.8	13.8	12.7	-8.3
Outside Russia	6.6	6.8	6.8	-0.1

Branded fuel

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

were 9 million tonnes. The share of ECTO fuels in total domestic retail sales grew to 79%, or 3 percentage points year-on-year. Sales of premium ECTO 100 motor gasoline were launched in 2017. LUKOIL's retail

network of filling stations has fully replaced ECTO Sport (Euro-5 AI-98) with the new, improved, higher performance ECTO 100 fuel. In 2019, ECTO 100 gasoline sales were up by 16% to 129 thousand tonnes.

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

Non-fuel goods and services

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

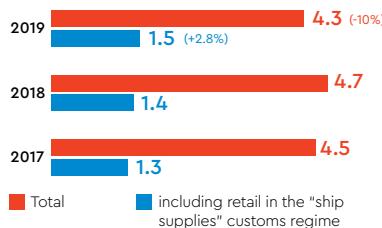
The higher profitability of our Russian filling stations in 2019 was driven by increased food sales and higher sales of café products.

LUKOIL plans to continue focusing on accelerated growth and efficiency improvements in retail sales of non-fuel goods and services to better cover the operating costs of filling stations. In 2019, the gross profit from non-fuel sales covered 42% of the expenses of our Russian filling stations, compared to 39% in 2018 and 33% in 2017.

Marine bunkering

LUKOIL is one of the largest suppliers of bunker fuels, with bunkering operations in 25 ports across six Russian regions. LUKOIL also carries out its overseas operations in Bulgarian and Romanian ports. We operate mainly in ports on the Baltic Sea, the Barents Sea and the Black Sea, and on inland waterways.

Bunker fuel sales, million tonnes



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

Low-sulfur bunker fuel

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

Aircraft fueling

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

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

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

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



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

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

Bitumens

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

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

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

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

Bitumen sales volumes, million tonnes



CORPORATE RESPONSIBILITY

Since its incorporation, LUKOIL has conducted its business in a sustainable way, seeking to strike a balance between environmental sustainability and social and economic development. Our approach to sustainable development is based on aligning LUKOIL's interests and plans with the United Nations Global Compact, universal human values, global trends, and national and regional development priorities. This means that economic, environmental and social goals and objectives are integrated into our corporate decision-making system.



For more details on the sustainability management system, see the Sustainability Management System section, [page 132](#)

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

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

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

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



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



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

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

MOTIVATION SYSTEM AND HSE PERFORMANCE

To strengthen accountability, HSE Compliance was added to LUKOIL Group's set of key performance indicators (KPIs). The metrics for assessing this KPI include:

- Zero fatalities caused by employer action, including among contractor employees
- Compliance of the HSE Management System with the requirements of international standards
- Accident frequency rate (LTAFR)

- Per unit air pollutant emissions
- Per unit polluted wastewater discharge into surface water bodies
- Ratio of annual waste disposal volume to new waste generation, and other indicators

HSE compliance assessments at LUKOIL are used in the incentive system for managers at all levels, as well as for workers and specialists.

HEALTH AND SAFETY

KEY TARGETS OF THE INDUSTRIAL SAFETY PROGRAM

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

Ensuring safe working conditions and compliance with occupational safety regulations are our major priorities. LUKOIL has maintained a consistently high ranking among Russia's largest oil and gas companies for its health and safety performance. In 2019, the number of occupational accidents involving Group employees were down by 10% compared to 2018. As a result, the lost-time accident frequency rate (LTAFR) decreased to 0.19. The main injury causes in 2019 were violations of workplace discipline, insufficient safety supervision, failure to use of personal protective equipment, and violation of traffic rules.

In 2019, two fatalities occurred at Group organizations.

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

2019 RESULTS

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

Work-related injury indicators at LUKOIL Group

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

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

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

2020 PRIORITIES

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

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

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

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

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

Accidents at LUKOIL's production facilities

	2017	2018	2019
Accidents	6	0	2

LEADERSHIP AND SAFETY CULTURE

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

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

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

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

INVOLVEMENT IN HSE LEGISLATIVE INITIATIVES

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

NOTIFICATION SYSTEM

LUKOIL Group has uniform requirements for the notification, recording and analysis procedures for occupational accidents. All injuries at Group facilities, including those involving contractor employees, are promptly reported to all stakeholders, including LUKOIL's structural units and executives, to decide on further rapid response actions. The incoming information is registered in our RISK PB corporate information management system. The findings of the analysis of circumstances and causes following an investigation of each incident are communicated to Group entities and contractors, and additionally discussed both at the Health, Safety and Environment Committee of PJSC LUKOIL and Safety Days with the involvement of trade unions and key contractors. Organizational and technical measures to prevent injuries are developed, implemented and tested. The occupational accident analysis results are included in the annual report to the Management Committee and on the agenda of Board of Directors meetings.

TRAININGS AND DRILLS

Conducting regular drills is our most crucial tool in preventing serious accidents. Our on-site trainings involve both our employees and the employees of our contractors who are present at the site during such trainings. During 2019, 200 drills of different levels were conducted, with 117 of them dedicated to oil and petroleum product spills response. Certification was organized for three professional and 11 volunteer emergency response teams, and for over 570 rescue workers from 17 entities of the Group.

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

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

ASSESSMENT OF WORKING CONDITIONS

LUKOIL carries out special assessment of working conditions annually. Employees exposed to harmful working conditions are compensated depending on the class of working conditions with either increased pay, additional vacation time, or a shorter working week. Such workers accounted for approximately 34% of the average headcount at our Russian entities in 2019.

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



HSE COMPLIANCE FOR CONTRACTORS

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

Contractors are audited for HSE compliance during the prequalification process prior to taking part in competitive tender procedures, and are screened out of the tendering process upon failure to comply

with the established requirements. Contractors must also ensure compliance with requirements by their sub-contractors.

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

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

CORPORATE SUPERVISION AND INDUSTRIAL CONTROL

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

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

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

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

ENVIRONMENTAL PROTECTION

KEY TARGETS OF THE ENVIRONMENTAL SAFETY PROGRAM

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

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

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

2019 RESULTS

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

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

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

2020 PRIORITIES

- Maintain efficient APG use rates across the Group at a level not lower than 95%
- Maintain levels of pollutant emissions and discharges, water consumption, and waste generation as required by applicable standards
- Set further targets to reduce Scope 1 greenhouse gas emissions
- Prepare an inventory of direct and indirect greenhouse gas emission sources under the GHG Protocol standard
- Further efforts under the World Bank's Zero Routine Flaring by 2030 initiative

CLIMATE CHANGE

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

Greenhouse gas emissions

Scope 1 greenhouse gas emissions across the Group were 37.2 million tonnes in 2019. This includes 30.3 million tonnes of CO₂ equivalent Scope 1 greenhouse gas emissions generated by the Group's Russian entities, which is up by 0.9% year-on-year. In 2019, we accounted for additional Scope 1 greenhouse gas emissions in LLC LUKOIL-Komi, coming from the usage of natural gas for our own operational needs purchased from third parties. Net of this factor, total Scope 1 greenhouse gas emissions across the Group's Russian entities were 28.9 million tonnes of CO₂ equivalent, down by 3.6% year-on-year, or by 1.1 million tonnes of CO₂ equivalent.

GHG EMISSIONS DISCLOSURE

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

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

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

Scope 1 greenhouse gas emissions by the Group's Russian entities, million tonnes of CO₂ equivalent

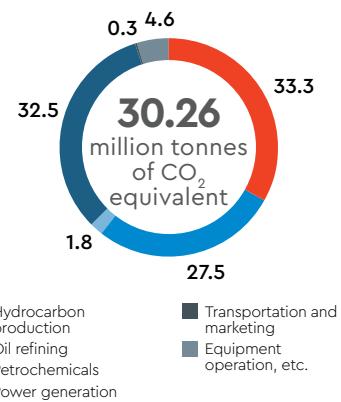


The Company develops alternative power generation projects to reduce its environmental footprint and diversify its business. LUKOIL has a large portfolio of renewable power generation assets, accounting for 6% of the commercial power generated by the Group in 2019.



For more details on renewable energy, see the Power Generation section, [page 68](#).

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

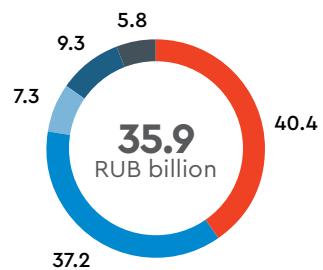


ENVIRONMENTAL SPENDING

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

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

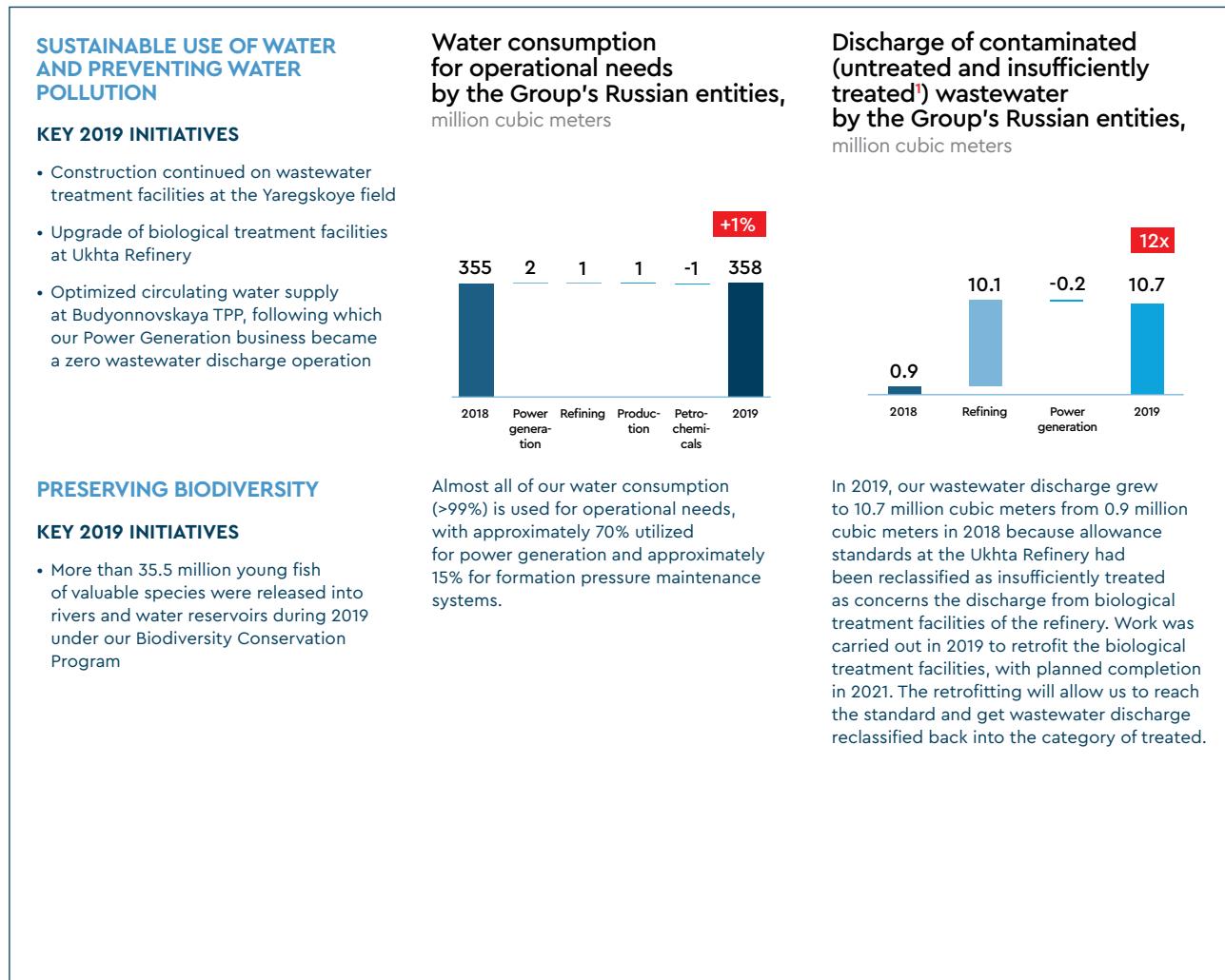
Environmental expenditures (capital and operating) in 2019, %



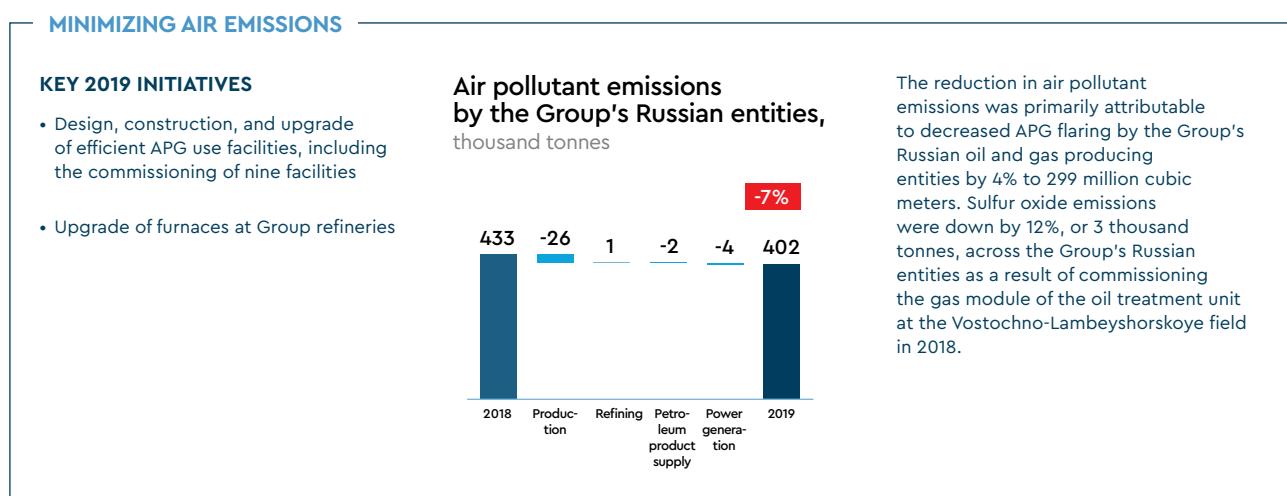
¹ Including the use of corrosion inhibitors, diagnostics, and major repairs of pipelines; spill drills; installation of emergency reservoirs.

THE COMPANY'S KEY ENVIRONMENTAL EFFORTS

WATER



AIR



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

LAND

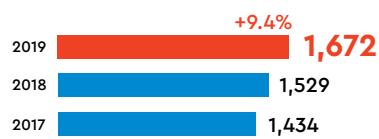
PRODUCTION WASTE DISPOSAL

KEY 2019 INITIATIVES

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

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

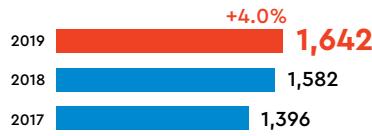
Production waste generation by the Group's Russian entities, thousand tonnes



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



Production waste disposal² and landfill by the Group's Russian entities, thousand tonnes

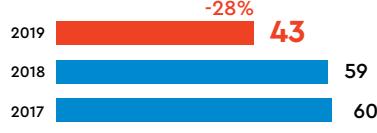


PIPELINE FAILURE REDUCTION AND CONTAMINATED LAND REHABILITATION

KEY 2019 INITIATIVES

- There were no material oil spills³ in 2019
- The volume of spilled crude oil and petroleum products was down by 50% to 0.016 thousand tonnes
- A total of 57 hectares of oil-contaminated land was rehabilitated
- Annually replaced pipelines accounted for 2.4% of the total pipeline length, with pipelines with anti-corrosion coating comprising the majority of replacements, at 63% in 2019. We used more bimetal pipes with longer service life

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



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

² Include production waste use, disposal, landfill and transfer to specialized organizations.

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

EFFICIENT APG USE

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

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

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

Efficient APG use, %

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

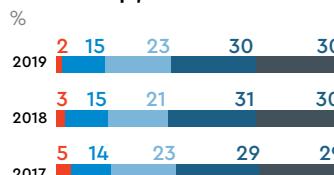
Efficient APG use projects completed in 2019

Region	Field	Facility
Timan-Pechora	Usinskoye field	• Steam-generating units at Phase 2
Urals	Pavlovskoye field, the Dorokhovskaya cluster of fields	• Process units of gas compressor stations • Gas pipeline • Switching the boiler house to gas
Volga region	Yu. Korchagin field	• Ice-resistant fixed platform retrofitting
West Siberia	Sredne-Nazymskoye field	• Setting up and launch of a mobile initial water separation unit
	Galyanovskoye field	• Oil acceptance and delivery unit with a horizontal flare, multiphase pipeline

History of commissioning efficient APG use facilities

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

Gross APG production across the Group, %



Flaring

Reinjection

Consumption for operational needs¹

Processing at GPPs

Supply to third parties

Year	Efficient APG use across the Group, %	Commissioning of key efficient APG use facilities
2019	97.6	Thermal steam treatment facilities at the Usinskoye field, construction of process facilities in the Urals, ice-resistant fixed platform retrofitting at the Yu. Korchagin field
2018	97.4	Commissioning the gas module of the oil treatment unit at the Vostochno-Lambeyshorskoye field, installation of gas pipelines and combined-cycle gas turbines (CCGT) in the Republic of Komi
2017	95.4	Completion of renovations at the Usinsky GPP, the 75 MW Yarega power generating center, and the gas compression and treatment system at the V. Filanovsky field
2016	92.1	The amine-based gas conditioning unit at the Vostochno-Lambeyshorskoye field
2015	92.0	Export gas pipelines from North Caspian fields

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

ENERGY EFFICIENCY

LUKOIL Group views energy efficiency improvements across all business areas as a strategic priority under its Strategic Development Program for 2018–2027.

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

During the year, we increased the number of artificial lift wells with permanent magnet motors (PMSM) by 31% as part of our program for transitioning to energy efficient pumps. By the end of the year, PMSMs were installed at 50% of our artificial lift wells. All asynchronous motors are planned to be replaced with PMSMs by 2022. Our fleet of energy efficient reservoir pressure maintenance pumps grew by 30% in 2019. In 2019, the cost savings effect from these initiatives was over 12% of attributable electricity costs.

Results of increasing energy efficiency initiatives across LUKOIL Group

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

Energy consumption of PJSC LUKOIL, by type

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

In the Refining, Marketing and Distribution segment, our energy efficiency program includes heat integration of facilities that produce and consume heat, as well as furnace efficiency upgrades and maximizing efficient industrial gas use.

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

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

MANAGING ELECTRIC POWER DEMAND

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

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

PERSONNEL

2019 RESULTS

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

A strong and stable corporate culture and corporate values are at the heart of LUKOIL Group's HR policy. All elements of the HR Policy are structured to ensure maximum flexibility for the Group and the ability not only to adapt promptly and efficiently to social, political and economic changes, but also pro-actively initiate and successfully implement changes and innovations.

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

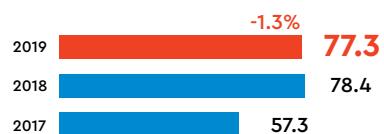
2020 PRIORITIES

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

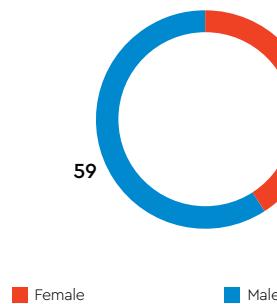
LUKOIL's talent management strategy is aligned with its Strategic Development Program and the staffing demands of its business segments based on planning and budgeting processes that enable the workforce to be efficiently reallocated through insourcing as well as flexible recruitment, professional training,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

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

Revenue per employee, RUB million



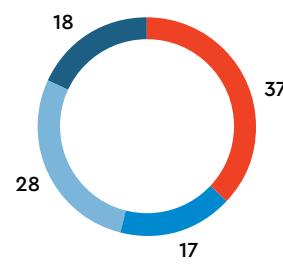
Personnel by gender as at December 31, 2019, %



Male

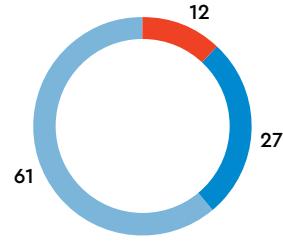
Female

Personnel by age as at December 31, 2019, %



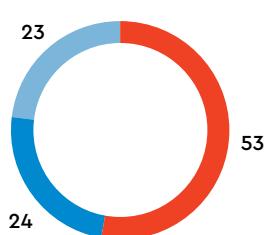
Under 35
36 to 40 years
41 to 50 years
51 years and older

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



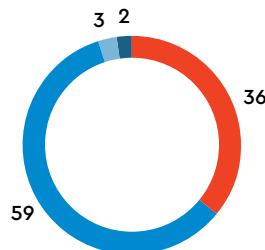
Managers
Specialists
Workers and other personnel

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



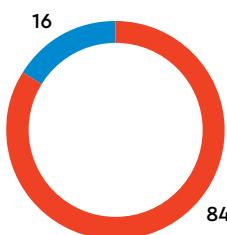
■ Higher
■ Secondary vocational
■ Primary vocational, secondary, below secondary

Personnel by segment as at December 31, 2019, %



■ Exploration and Production
■ Refining, Marketing and Distribution
■ Corporate
■ Other business

Personnel by geography as at December 31, 2019, %



■ Russian entities
■ Foreign entities

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

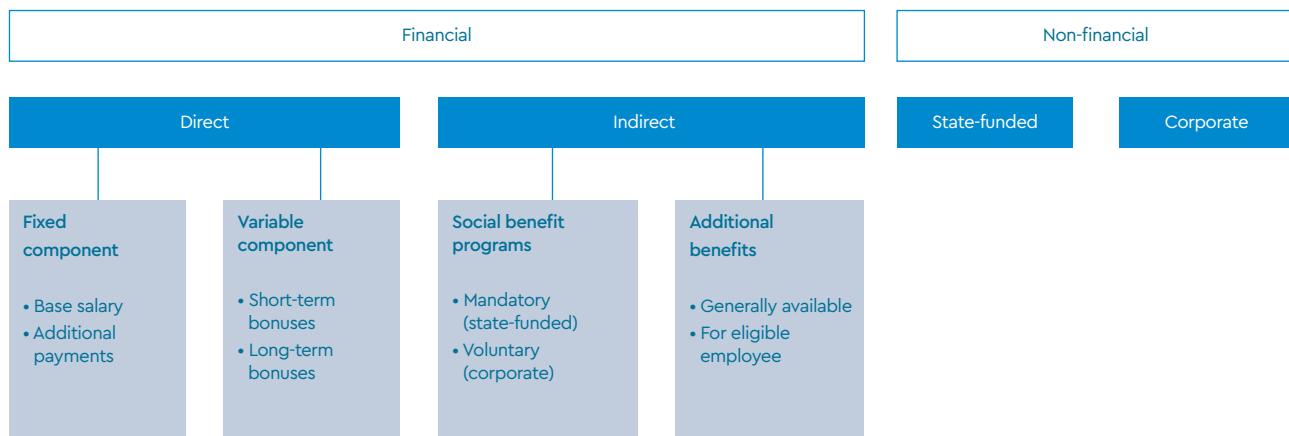
389 employees – ministerial awards, and 1,966 employees – Company awards.

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

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

Motivation system

Total remuneration



Staff performance assessments are carried out annually and are designed to motivate employees to improve their productivity and performance, strengthen their accountability, and encourage initiative. Performance assessments

are carried out by employees' immediate supervisors based on self-assessment and an expert assessment, if applicable. Both specialists and managers are assessed. Employees are informed of the upcoming assessment objectives, deadlines,

criteria, procedures and results. The assessment results are forwarded to managers to calculate proficiency ratios that are used to determine bonuses.

EMPLOYMENT SATISFACTION

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

occupational risks related to stress and social and psychological adaptation.

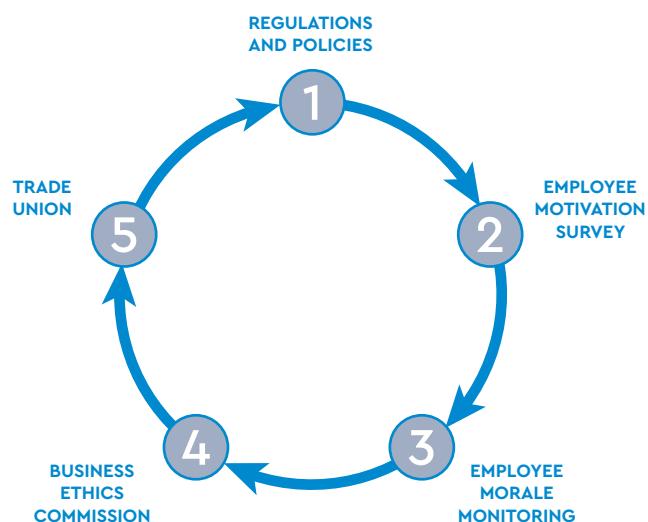
Positive workplace atmosphere attributes include:

- Human rights are observed
- Positive team environment maintained

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

Employee development system.

The Company has a continuous training system in place to provide its personnel with all the necessary knowledge and skills. By training our employees, we successfully address challenges associated with new business activities and maintain our competitive edge, which results in improved employee performance and lower costs. Employee development is based on annual professional development plans.



DIGITALIZATION IN CORPORATE TRAINING

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

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

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

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

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

We also deployed a Corporate Knowledge Management System (covering over 12 thousand employees) to improve operational efficiency and drive innovation from within the Group. This framework helps to capture and disseminate best practices, ensure effective communications, and jointly explore and address common operational problems.

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

EDUCATIONAL PROGRAMS FOR ENGINEERS

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

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

Diversification.

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

To facilitate employment opportunities for people with disabilities, we have local regulations in place on job quotas for disabled persons. The quota is on average 2% to 3% of the Company's average headcount and is set individually for each region of operation. Special working conditions, benefits, and guarantees are provided for disabled employees, including shorter working hours for the same salary and longer annual leave, as well as suitable workplaces with customized equipment and additional fittings.

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

also pursues an extensive social policy offering a variety of guarantees and privileges that all employees of the Group entities are entitled to. Collective bargaining agreements cover 96% of the employees at our Russian entities and 50% of employees at our international entities.

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

Human rights. LUKOIL embraces and respects fundamental human rights and is committed to the fundamental principles of the UN Universal Declaration of Human Rights in its activities. These include employee equality and prohibiting any form of forced or child labor, discrimination, or degrading or humiliating treatment. We comply with the statutory working hours applied in our countries of operation while being committed to promoting the development of our employees, maintaining an effective employee remuneration system, and offering equal pay for equal work. Our commitments under the UN Global Compact apply to all regions and activities of the Company.

We also encourage all organizations we work with to support and respect human rights. When signing agreements with contractors and during their performance of contracted works or services, the relevant units of the Company audit the counterparty's compliance with human rights laws and regulations. If any breaches are identified, we suspend all engagements with the counterparty until these breaches are remedied, or terminate engagement if they are not.

The Company maintains a constructive dialog with government authorities, employers and trade unions on corporate social responsibility and respect for human rights in its regions of operation.

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

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



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



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

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

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

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



For more details on our corporate business ethics, see the Business Ethics section. See [page 134](#)



For more details on business ethics reporting channels, see the Reference Information section. See [page 148](#)

The Company's key principles and approaches to social responsibility are described in the Social Code of PJSC LUKOIL.



The full text of the Social Code of PJSC LUKOIL is available on the Company's website



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

CONTRIBUTION TO SOCIETY AND GOVERNMENT RELATIONS

2019 RESULTS

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

Conscious of our responsibility to all stakeholders in the countries and regions in which we operate, LUKOIL maintains an open line of communication with them, including through our reports and targeted programs, while being mindful of the cultural and historical profile of each community.

The Company outlines the following categories of stakeholders:

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

In selecting charity recipients, we favor civic initiatives aimed at fostering economic growth and social stability in our operating regions. LUKOIL's corporate philanthropy is structured around these values. Significant projects supported by LUKOIL are run through social partnerships with Russian regions.

We also support projects aimed at developing local communities, such as support for vulnerable groups, children, and youth, the conservation and development of cultural and historic heritage sites, funding local cultural, educational and sports organizations, supporting socially significant research and campaigns, and participating in charitable events.

2020 PRIORITIES

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

Social and charitable initiatives are a part of our corporate strategy supporting productive cooperation with regions, the business community and society. Each initiative is tailored to its specific region and leverages the expertise and human capital available in the area. LUKOIL supports numerous social projects in its operating regions every year and helps address the economic issues of local communities while supporting their culture, sports, research, educational, environmental and health initiatives.

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

Charitable expenditures and spending under cooperative agreements with Russian regions and municipalities (31 cooperative agreements) totaled about RUB 9 billion in 2019, with the vast majority of the funds (RUB 7 billion) allocated to the agreements.

The main focus areas include assistance to the indigenous peoples of the North, preservation of cultural and historical heritage, support of healthcare, sports and religious institutions. LUKOIL funds numerous educational programs, including scholarship programs and grants, and supports orphanages and children's educational facilities.

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

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

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

RELATIONS WITH INDIGENOUS MINORITIES OF THE NORTH

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

on the UN World Conference on Indigenous Peoples, and the United Nations Global Compact. We support the rights of indigenous peoples to their land, traditions and cultural heritage, and do not displace indigenous peoples from their lands or territories without their free, prior and informed consent.

We actively cooperate with the representative bodies of indigenous minorities of the North, regional administrations, heads

of municipalities, the Assembly of Indigenous Minorities of the North, and the leading NGOs of the North. Our engagement with indigenous peoples is governed by federal and regional legislation of the Russian Federation, license obligations of LUKOIL Group entities, and federal and regional support programs for the indigenous minorities of the North.

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



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



ENGAGING WITH LOCAL COMMUNITIES IN THE REPUBLIC OF KOMI

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

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

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

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

GOVERNMENT RELATIONS

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

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

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

CORPORATE GOVERNANCE

2019 RESULTS

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

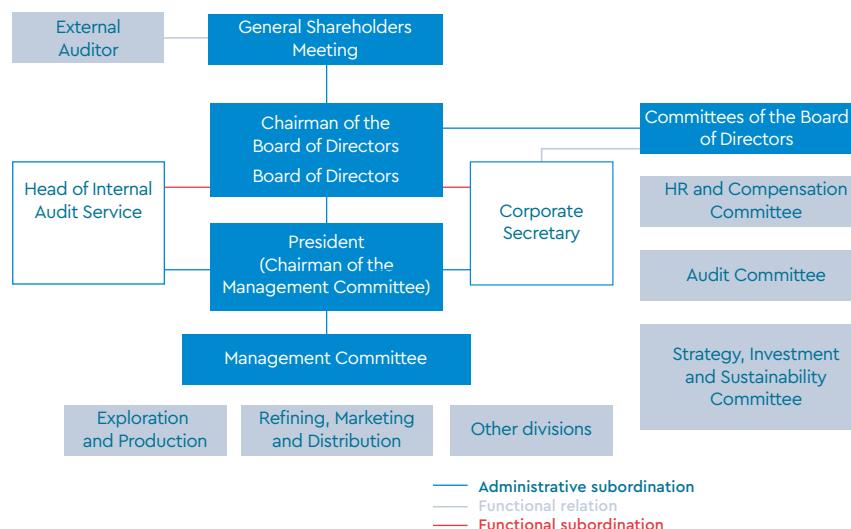
An efficient corporate governance system is a vital tool ensuring sustainable development and successful implementation of the corporate strategy to create shareholder value.

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

PJSC LUKOIL's corporate governance system is based on the following key principles:

- Respect for, and protection of, the rights of shareholders and investors
- Consistent and collegial decision-making
- Active approach and professional skills of members of the Board of Directors
- A stable and transparent dividend policy
- Information openness and transparency
- Zero tolerance for corruption in any form
- Adherence to ethical standards
- Corporate social responsibility

Corporate Governance Structure of PJSC LUKOIL as at December 31, 2019



2020 PRIORITIES

- Develop an Anti-corruption Policy
- Update PJSC LUKOIL's internal documents to incorporate regulatory changes

The internal documents regulating LUKOIL's principles, practices, and specific corporate governance procedures are available on the Company's website



SPECIFIC COMMITTEES:

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

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

Development of the corporate governance system

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

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

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

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

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

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

¹ Code compliance is assessed using guidelines based on comparisons between LUKOIL's practices and detailed Code recommendations. Compliance with a paragraph of the Code is considered as partial if any single detailed recommendation in the paragraph has not been complied with. If none of the detailed recommendations in a paragraph have been complied with, the Company will be considered as noncompliant with the paragraph.

Self-assessment of the corporate governance practices for compliance with the principles and recommendations of the Code¹

Corporate governance principles	Number of principles recommended by the Code	2018				2019	
		Full compliance	Partial compliance	No compliance	Full compliance	Partial compliance	No compliance
Rights and equal opportunities for shareholders in exercising their rights	13	10	2	1	10	3	–
Board of Directors	36	27	8	1	27	8	1
Corporate Secretary of the Company	2	2	–	–	2	–	–
Remuneration system for Directors, executive bodies and other key executives of the Company	10	8	2	–	8	2	–
Risk Management and Internal Control System	6	5	1	–	5	1	–
Company disclosures and information policy	7	6	1	–	6	1	–
Material corporate actions	5	–	5	–	–	5	–
Total score	79	58	19	2	58	20	1
	100%	73.4%	24.1%	2.5%	73.4%	25.3%	1.3%

The Company endeavors to continue developing its corporate governance to improve performance and sharpen its competitive edge. PJSC LUKOIL primarily focuses on implementing

the principles, practices and procedures which are most valued by the investment community and have proved applicable to major companies.



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

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

GENERAL SHAREHOLDERS MEETING

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

- Amendments and addenda to the Company's Charter and approval of its new versions
- Decisions on the number of Board members, election of its members, and early termination of their powers
- Approval of the Company's auditor
- Payment (declaration) of dividends for reporting periods

- Approval of the Company's annual report and annual accounting (financial) statements
- Approval of internal documents governing the activities of the Company's bodies
- Approval of transactions or making decisions for their subsequent approval in cases stipulated by law

The full list of matters falling within the authority of the General Shareholders Meeting is determined by Federal Law No. 208 FZ On Joint Stock Companies dated December 26, 1995.

The procedures for preparing, convening, holding and summarizing the results of the General Shareholders Meeting of PJSC LUKOIL are determined by the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting of PJSC LUKOIL. The procedure for holding the General Shareholders Meeting provides an equal opportunity for all Company shareholders' attendance.

General Shareholders Meetings of PJSC LUKOIL held in 2019

Annual General Shareholders Meeting

June 20, 2019

In person

PJSC LUKOIL 2018 Annual Report and annual accounting (financial) statements were approved, profit for the period was distributed, and the resolution on dividend payouts for 2018 was passed. The Board of Directors and the Audit Commission were elected; decisions on remuneration and compensation of expenses to members of the Board of Directors, and decisions on remuneration of the Audit Commission members were made; the Company's auditor was approved.

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

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

An interested party transaction was approved.

Extraordinary General Shareholders Meeting

December 3, 2019

Absentee voting

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

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

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

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

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

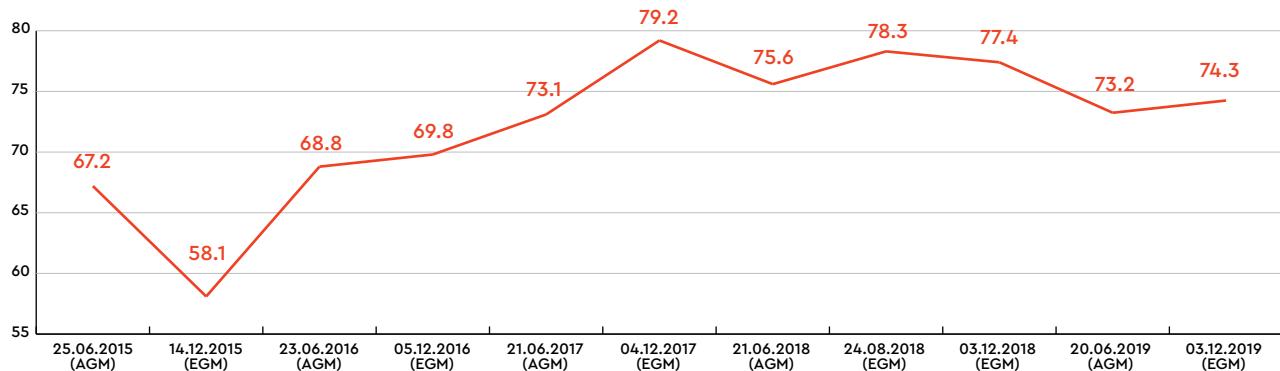
In 2019, two General Shareholders Meetings were held where shareholders demonstrated strong support for each

resolution on the agenda items. Votes in favor on all agenda items² ranged between 95.6% and 99.9%. Holders

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

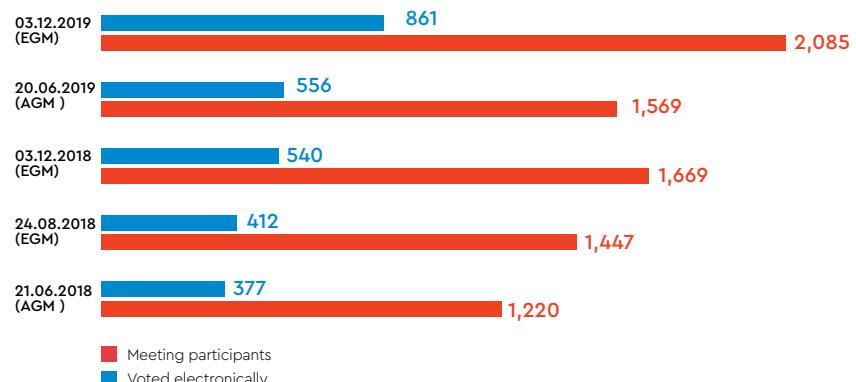
² Percentage of the number of votes by persons attending the General Shareholders Meetings and voting on respective agenda items (excluding the election of PJSC LUKOIL's Board of Directors and Audit Commission).

Quorum at General Shareholders Meetings in 2015–2019



Continued successful use of electronic voting at the meetings held in 2019 enabled shareholders to vote regardless of where their rights were recorded. Electronic voting was available both on the gosuslugi.ru website accessible to the general public and via the Shareholder's Personal Account, a dedicated online resource for LUKOIL shareholders. In 2019, the number of shareholders who used electronic voting services more than doubled versus the Annual General Shareholders Meeting held in 2018.

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



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



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

BOARD OF DIRECTORS

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

The Board's authority and formation process as well as procedures for convening and holding Board meetings are determined by the Charter and Regulations on the Board of Directors of PJSC LUKOIL.

The Board of Directors in particular is responsible for:

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

Consisting of 11 members, the Board of Directors is elected during the General Shareholders Meeting through cumulative voting, whereby nominees with the highest number of votes are elected to the Board of Directors. Director elections must be included in the agenda for the Annual General Shareholders Meeting. Shareholders holding in aggregate at least 2% of the Company's voting

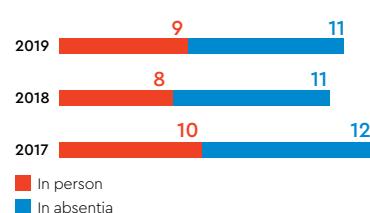
shares may submit their nominations to the Board of Directors within 60 days from the end of the reporting year. The Company's Charter establishes the right of the Board of Directors to include matters on the agenda of the General Shareholders Meeting and/or propose nominees to the Board of Directors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

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

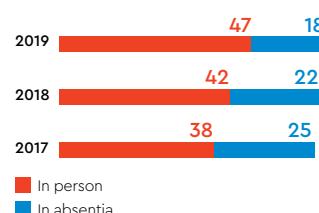
Board of Directors' performance

The Board of Directors held 20 meetings in 2019, comprising nine meetings held in person and 11 meetings held in absentia. Notably, the number of matters discussed at the meetings held in person increased year-on-year. Most of the matters were associated with corporate governance; close attention was also paid to matters of sustainable development. The number of matters related to consent to, or approval of, transactions was reduced. At the same time, the Board of Directors approved all interested party transactions before they were completed.

Meetings



Matters discussed



Matters discussed by the Board of Directors in 2019



Key decisions of the Board of Directors in 2019

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

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

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

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

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

Note. Participation in a meeting held in the form of joint attendance via telephone or a video conference call shall qualify as attendance in person.

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

The Board of Directors' performance assessment

The Board of Directors relies on the assessment procedure to ensure constant improvement of its performance. In December 2019, the Board of Directors amended the Regulations on Performance Assessment of the Board of Directors of Open Joint Stock Company "Oil Company 'LUKOIL'" to improve assessment effectiveness. In 2019, the Board of Directors conducted

a self-assessment of its performance, whereby the members of the Board of Directors were surveyed through questionnaires on the Board's performance as a governance body during their tenure (from the date of election to the Board of Directors in June 2018 and to the date of termination of powers in June 2019).

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

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

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

Criteria groups for the Board of Directors

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

Criteria groups for the Board of Directors' Committees

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

The assessment results are summarized based on the questionnaires filled out by the members of the Board of Directors. As part of the assessment, the Chairman of the Board of Directors discusses the results of relevant Committees' performance assessment with the Committee Chairmen and members, and reports these results at the meeting of the Board of Directors during the discussion of the aggregate annual assessment results. Granular discussion with the members of the Board of Directors serves to analyze matters that require special attention from the Board of Directors, and map out possible solutions.

Based on the latest self-assessment, the Board of Directors achieved positive results in 2018–2019.

Board of Directors' composition

PJSC LUKOIL's Board of Directors consists of highly professional individuals. We believe that our Board of Directors has the optimal number of members and is both well-balanced in the number of independent, executive and non-executive directors, and well-diversified in terms of Directors' professional qualifications and sociocultural diversity.

In 2019, the composition of the Board of Directors changed: Igor Ivanov, Richard Matzke and Ivan Pictet resigned, and Pavel Teplukhin, Sergey Shatalov and Wolfgang Schüssel were nominated by the Board and appointed Directors. As a result, the share of independent directors reached 55%. A high share of independent members ensures impartial consideration of matters while Directors' independent judgements help improve the Board's performance and the Company's corporate governance system as a whole.

As at the end of 2019, the Board of Directors included three executive directors, thus enabling deep integration of the Board and PJSC LUKOIL's executive bodies, and promoting well-informed managerial decision-making.

Board of Directors' membership as at December 31, 2019

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

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

Chairman's role

The Chairman of the Board of Directors plays the key role in ensuring strong performance of the Board of Directors and its Committees. The Chairman of the Board of Directors organizes the Board's work, convenes and chairs meetings, and arranges for keeping the minutes of meetings. The Chairman proposes nominees to the Committees of the Board of Directors based on their professional and personal qualities and taking into consideration Directors' individual proposals on committees setup. The Chairman of the Board of Directors is not a member of any Committee of the Board of Directors.

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

The Chairman is elected from among the members of the Board of Directors as the most experienced and respected director. The Chairman's work is aimed at creating a trust-based and constructive environment

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

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

DIRECTOR OF THE YEAR

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

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

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

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

Key skills of Board members as at December 31, 2019

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

Independent directors

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

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

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

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

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

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

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

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

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

AMONG LEADERS IN BOARD DIVERSITY

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

Diversity in the Board of Directors

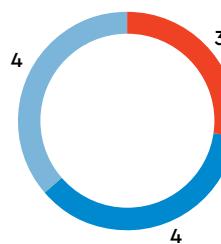
According to the Corporate Governance Code, nominees to Company's governance bodies must have relevant professional qualifications, knowledge, experience, expertise and business skills.

The current version of the Code does not outline recommendations on ensuring a fair representation of gender, age or any other diversity in corporate governance bodies. Therefore, PJSC LUKOIL does not currently have policies or other local regulations formalizing the application of such approaches.

At the same time, we believe that the performance of the Board of Directors is positively affected by the diversity of professional qualifications and sociocultural diversity based on gender, age, nationality, social and economic background, etc. Such diversity provides the Board of Directors with different points of view, helps avoid template and group thinking, brings new ideas to discussions and contributes to well balanced decision making.

The current Board of Directors is sufficiently diversified and balanced.

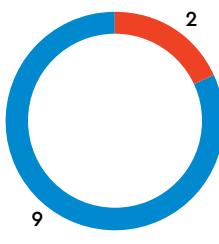
Length of service on the Board of Directors as at December 31, 2019



Less than 1 year

Over 7 years

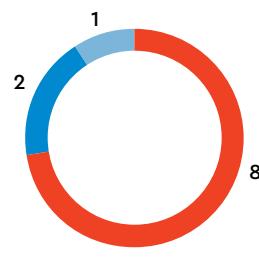
By gender



Female

Male

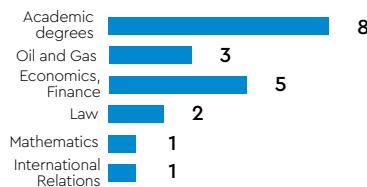
Geography



Russia

USA

Education¹



¹ One Board member has a double degree.

Induction of new members of the Board of Directors

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

Key elements of the program:

- Personal meetings with PJSC LUKOIL's President, the elected Chairman of the Board of Directors, the Corporate Secretary, top management and/or heads of corporate business units
- Familiarization with internal documents
- Familiarization with operations, including on-site visits to the Group's production facilities

The Corporate Secretary runs the induction training program for newly elected Directors of PJSC LUKOIL and coordinates interaction between all involved parties with the assistance and management of the HR and Compensation Committee.

Following their election to the Board of Directors, Pavel Teplukhin, Sergey Shatalov and Wolfgang Schüssel completed an induction training program that included acquaintance with the Company, including meetings with the Company's executives in charge of strategy, finance, investor and shareholder relations, exploration and production, refining, marketing and distribution, and power

generation. During the meetings, the Company executives offered the new Directors information on the Company's strategic goals, operational plans and main performance indicators.

To ensure effective communication with Directors, PJSC LUKOIL uses up-to-date information and technical resources, including dedicated software in the Russian and English languages.

BEST INDEPENDENT DIRECTORS

Two independent members of the Board of Directors, Victor Blazheev and Roger Munnings, were ranked in the "50 Best Independent Directors" category of the 14th "Director of the Year" National Award.

Independent member of PJSC LUKOIL's Board of Directors Roger Munnings won in the special Best Independent Director category of the Top 1000 Russian Managers award set up by the Association of Managers and Kommersant Publishing House. The award marks achievements of independent members of boards of directors who made a significant contribution to developing and improving corporate governance in Russian companies.

Biographies of members of the Board of Directors¹



Valery GRAYFER

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

1929–2020.

Graduated from I.M. Gubkin Moscow Oil Institute in 1952. Candidate of Technical Sciences (PhD). Awarded seven orders, four medals, awarded a Certificate of Honor of the Supreme Soviet of the Tatar ASSR, and a Certificate of Honor from the President of the Russian Federation. Lenin Prize and Russian Government Prize winner. Professor at the Gubkin Russian State University of Oil and Gas. 1985–1992: USSR Deputy Minister of Oil Industry in charge of the Chief Tyumen Production Division for the oil and gas industry. 1992–2010: General Director of OJSC RITEK. 2000–2020: Chairman of the Board of Directors of PJSC LUKOIL.

1996–2020: Member of the Board of Directors of PJSC LUKOIL (formerly OJSC LUKOIL).

Membership in the governance bodies of other organizations:

Chairman of the Board of Directors of LLC RITEK



Ravil MAGANOV

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

Born in 1954.

Graduated from the I.M. Gubkin Moscow Institute of the Petrochemical and Gas Industry in 1977. Distinguished Oil and Gas Specialist of the Russian Federation, Honored Oil Specialist, Honored Fuel and Energy Industry Specialist. Awarded five orders and five medals, awarded a Certificate of Honor from the President of the Russian Federation. Has a Letter of Acknowledgement from the Government of the Russian Federation. Three times winner of the Russian Government Prize in Science and Engineering. Distinguished employee of the Company.

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

Since 1993: Member of the Board of Directors of PJSC LUKOIL (formerly OJSC LUKOIL).

Membership in the governance bodies of other organizations:

Member of the Supervisory Board of LUKOIL INTERNATIONAL GmbH



Vagit ALEKPEROV

- Executive Director
- President
- Chairman of the Management Committee

Born in 1950.

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

- 1968: started to work at oil fields in Azerbaijan and West Siberia.
- 1987–1990: General Director of Production Association Kogalymneftegaz of Glavytumenneftegaz of the USSR Ministry of Oil and Gas.
- 1990–1991: Deputy Minister; First Deputy Minister of the USSR Ministry of Oil and Gas.
- 1992–1993: President of the Oil Concern Langepasuraikogalymneft.
- 1993–2000: Chairman of the Board of Directors of OJSC LUKOIL.
- Since 1993: President of PJSC LUKOIL.

Since 1993: Member of the Board of Directors of PJSC LUKOIL (formerly OJSC LUKOIL).

Membership in the governance bodies of other organizations:

Chairman of the Supervisory Board of LUKOIL INTERNATIONAL GmbH
Chairman of the Community Council of Our Future Fund for Regional Social Programs

Member of the Bureau of the Russian Union of Industrialists and Entrepreneurs

**Victor
BLAZHEEV**

- Independent Director¹
- Chairman of the Audit Committee
- Member of the HR and Compensation Committee

Born in 1961.

Graduated from the evening department of All-Union Extra-Mural Law Institute (AELI) in 1987. Completed a postgraduate program at AELI-Moscow Law Institute, the department of civil litigation, in 1990. Candidate of Law (PhD), Professor. Awarded the titles of the Distinguished Lawyer of the Russian Federation, Honored Worker of Higher Professional Education of the Russian Federation, and Honored Worker of Science and Technology of the Russian Federation. Awarded a Medal of the Order "For Merit to the Fatherland", 2nd class. Since 1999, he has combined his teaching activities with various official administrative positions at Moscow State Law Academy (MSAL).

1999-2001: Dean of the full-time department at MSAL.

2001-2002: Academic Vice President at MSAL.

2002-2007: First Academic Vice President at MSAL.

Since 2009: Member of the Board of Directors of PJSC LUKOIL (formerly OJSC LUKOIL).

Membership in the governance bodies of other organizations:

President of O.E. Kutafin Moscow State Law University (MSAL)

**Toby Gati**

- Independent Director
- Member of the Strategy, Investment and Sustainability Committee

Born in 1946.

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

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

Since 2016: Member of the Board of Directors of PJSC LUKOIL.

Membership in the governance bodies of other organizations:

Member of the U.S.-Russia Business Council (USRBC)

President of TTG Global LLC

**Roger
MUNNINGS**

- Independent Director
- Chairman of the HR and Compensation Committee

Born in 1950.

Graduated from the University of Oxford in 1972 with a Master of Arts degree in Politics, Philosophy and Economics. Fellow of the Institute of Chartered Accountants in England and Wales, made a Commander of the Most Excellent Order of the British Empire (C.B.E.).

1993-2008: Chairman of KPMG's Global Energy and Natural Resources Practice.

- 1996-2008: President and CEO of KPMG Russia and CIS.
- 1998-2008: Member of KPMG's International Council (ultimate governance body).
- Currently a member of the Russian National Council on Corporate Governance and a member of the Expert Council of the Russian Institute of Directors.

Since 2015: Member of the Board of Directors of PJSC LUKOIL.

Membership in the governance bodies of other organizations:

Independent member of the Board of Directors of PJSC Sistema

Chairman of the Russian-British Chamber of Commerce

Independent member of the Board of Directors of PJSC MMC NORILSK NICKEL

**Pavel
TEPLUKHIN**

- Independent Director
- Member of the Audit Committee

Born in 1964.

Graduated with distinction from economics faculty of Lomonosov Moscow State University in 1986, Candidate of Economics (PhD). Graduated from the London School of Economics with a Master of Science degree in Economics in 1993.

- 2008-2015: member of the Supervisory Board of JSC WTC Moscow.
- 2010-2013: Member of the Board of Directors of OJSC VTB.
- 2012-2016: Chief Executive Officer of Deutsche Bank Ltd.
- Since 2017: President of LLC Matrix Advisors.

Since 2019: Member of the Board of Directors of PJSC LUKOIL.

Membership in the governance bodies of other organizations:

Member of the Board of Directors of JSC RUSNANO, Chairman of the Strategy Committee

President of LLC Matrix Advisors

¹ Determined to be independent by the Resolution of the Board of Directors dated June 20, 2019 (Minutes No. 11).



**Leonid
FEDUN**

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

Born in 1956.

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

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

Since 2013: Member of the Board of Directors of PJSC LUKOIL (formerly OJSC LUKOIL).

Membership in the governance bodies of other organizations:

Chairman of the Board of Directors of Football Club Spartak Moscow
Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs



**Lyubov
KHOBA**

- Non-Executive Director

Born in 1957.

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

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

Since 2017: Member of the Board of Directors of PJSC LUKOIL.

Membership in the governance bodies of other organizations:

Chairperson of the Supervisory Board of LUKOIL Accounting and Finance Europe s.r.o.



**Sergey
SHATALOV**

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

Born in 1950.

Graduated from Zhdanov Leningrad State University with a Bachelor's degree in Mathematics in 1972. Defended his doctoral thesis on the methodology of forming and developing the tax system in the Russian Federation in 2003. External Fiscal Policy Advisor at the Ministry of Finance of the Russian Federation. State Counselor of the Russian Federation, 1st class.

- 1990–1993: Member of the Supreme Council of the Russian Federation.
- 1993–1995: Director of the Tax Department of JSC Foreign Investment and Privatization Center.
- 1995–1998: Deputy Minister of Finance of the Russian Federation.
- 1998–2000: Director of the Tax Department of PricewaterhouseCoopers and CISC PricewaterhouseCoopers Audit.
- 2000–January 18, 2016: Deputy Minister of Finance of the Russian Federation.
- 2016–2018: Vice President of Action-MCFER Mediagroup.

Since 2019: Member of the Board of Directors of PJSC LUKOIL.

Membership in the governance bodies of other organizations:

Member of the Board of Directors of LLC Avtotor Holding



**Wolfgang
SCHÜSSEL**

- Independent Director
- Member of the HR and Compensation Committee

Born in 1945.

Graduated from the University of Vienna with a degree in Economics and Law in 1977. Holds a doctoral degree.

- 1989–1995: Austrian Federal Minister of Economic Affairs.
- 1995–1999: Vice Chancellor and Federal Minister of Foreign Affairs of the Republic of Austria.
- 1979–2011: Member of the Austrian National Council.
- 1995–2007: Chairman of the Austrian People's Party.
- 2000–2007: Federal Chancellor of the Republic of Austria.
- 2007–2016: Member of the Board of Trustees of Bertelsmann Foundation.

Since 2019: Member of the Board of Directors of PJSC LUKOIL.

Membership in the governance bodies of other organizations:

Chairman of the Board of Trustees of Konrad Adenauer Stiftung
President of the Foreign Policy and United Nations Association of Austria (UNA-Austria)

Member of the Supervisory Board of RWE AG

Liability insurance of Board members

Pursuant to the Contract (policy) with IPJSC Ingosstrakh on insuring the liability of directors, officers and corporations for 2019–2020, PJSC LUKOIL insures the liability of:

- The sole executive body, members of governance bodies, employees of PJSC LUKOIL and/or its subsidiaries and/or other organizations with an interest of PJSC LUKOIL and/or its subsidiaries whose candidates were elected sole executive body and/or members of the governance bodies of such organizations (Coverage A)

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

The insured amount (liability limit) makes up at least USD 150 million in aggregate for Coverages A, B and C, including legal defense costs. The total insurance premium is up to USD 470 thousand.



The biographies of Igor Ivanov, Richard Matzke and Ivan Pictet, who resigned from the Board of Directors in June 2019, are available in PJSC LUKOIL 2018 Annual Report on the Company's website



Board Committees

LUKOIL's three Board Committees improve the effectiveness of resolutions passed by the Board of Directors and are engaged in the preliminary detailed review of the most essential matters while preparing relevant recommendations:

- Strategy, Investment and Sustainability Committee (SISC)
- Audit Committee (AC)
- HR and Compensation Committee (HRCC)

Committee activities are governed by applicable regulations.



LUKOIL's Board Committee regulations are available in the Board of Directors section of the Company's website



The Committees are fully accountable to the Board of Directors. Committee members are elected from among the Board members, and all independent directors are involved in the work of the Committees in line with both best practice and the requirements of the Listing Rules of Moscow Exchange. This approach fosters objective and well-balanced recommendations. All Committee members have an adequate combination of strong expertise and extensive experience, including hands-on experience.

The Audit Committee and the HR and Compensation Committee are comprised exclusively of independent directors. Independent directors also make up half of the Strategy, Investment and Sustainability Committee,

where two members out of a total four are independent, including the Chairman. The Board believes that the Strategy, Investment and Sustainability Committee also requires independent directors, as they can greatly contribute to the decision-making process when setting strategic goals, identifying PJSC LUKOIL's business priorities, ensuring sustainable development, or making other important decisions that may affect shareholder interests.

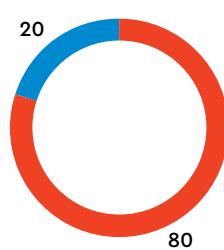
Both LUKOIL employees and third parties may attend Committee meetings upon invitation from a Committee Chairman. However, they may not vote on agenda items.

Secretarial duties of the Board of Directors' Committees are performed by the Corporate Secretary.

More than half of all matters discussed by the Board of Directors were previewed by the Board Committees, ensuring detailed discussions on the most essential matters brought up for the Board's approval.

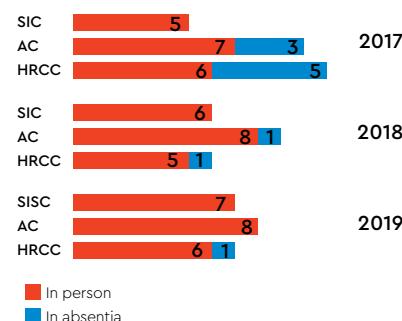
The number of in-person Committee meetings increased in the reporting year, demonstrating the members' more active involvement in their Committee's work.

Committee membership as at December 31, 2019, %



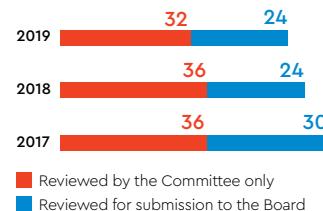
■ Independent directors
■ Executive directors

Committee meetings



The increased number of matters reviewed by Committees only reflects the active work of the Committees and shows that more matters reserved within the Committees' competence require a more detailed review before being submitted to the Board of Directors.

Matters discussed



Strategy, Investment and Sustainability Committee

 In 2019, we focused on matters related to implementing the Strategic Development Program, improving efficiency and optimizing costs.

Within the Company's commitment to the UN Sustainable Development Goals, and given LUKOIL's specific business profile, the Committee has been increasingly focused on reviewing matters related to the climate agenda. In the reporting year the Committee reviewed decarbonization issues and the strategies of international oil and gas companies to adapt to climate change, which is particularly relevant given Russia's ratification of the Paris Climate Agreement in 2019, and the fact that the international investment community has been paying more attention to decarbonization.

We have also considered matters related to the analysis of long-term trends in the hydrocarbon market and their impacts on the Company's strategy, as well as health and safety matters.

It is also worth noting that we have started to pay more attention to non-financial reporting: during the year, the Committee reviewed LUKOIL's Sustainability Report at two of its meetings.

In the context of our sustainability agenda, I would like to highlight the deep involvement of the Independent Committee member Toby Gati in the review of relevant matters. Her knowledge, broad perspectives, active participation and informal approach to dealing with the Committee's tasks are a valuable contribution to our common efforts.

The Board of Directors' increased focus on sustainability prompted the need to expand the Committee's roles and rename it to the Strategy, Investment and Sustainability Committee in spring 2019.

An important highlight of the year was the decision to change the Company's approaches to capital distribution

and improve its dividend policy. The respective decision was taken following a comprehensive review of a number of internal and external factors. A transparent dividend policy is a key factor for any company's investment attractiveness. Crucially, the new policy has already been applied to determining the interim dividend for 2019. 



Chairman of the Strategy, Investment and Sustainability Committee
SERGEY SHATALOV

Committee tasks

Making recommendations to the Board of Directors on:

- Defining the strategic objectives of the Company's business
- Defining the sustainability strategic goals of the Company's business (including industrial safety, environment protection, climate, social responsibility and corporate governance) and implementing them into the Company's Strategic Development Program
- The Company's business priorities
- The dividend policy, dividend per share, and dividend payout procedure
- The distribution of the Company's profit (losses) for the reporting year
- Assessment of the Company's long-term performance
- Involvement in monitoring the progress against the Company's Strategic Development Program
- Reviewing sustainability reporting, including LUKOIL Group Sustainability Report

Key topics covered in 2019

- Current situation in the hydrocarbon market and its impact on the implementation of the Company's long-term strategy
- Development and implementation of the Roadmap for Enhancing the Performance of the Refining and Distribution Business Segment Entities
- Measures to improve technologies of advanced oil refining and gas processing
- Comprehensive program to optimize costs, increase efficiency, reduce accident rates and downtime at oil refining facilities
- The report on cost optimization practices

Committee membership

Name

Independent Directors	Sergey Shatalov (Committee Chairman) Toby Gati
Executive Directors	Ravil Maganov Leonid Fedun



For a list of key decisions made by the Board of Directors based on the Committee's reviews and recommendations, see the Board of Directors section **on page 98**



The Regulations on the Strategy, Investment and Sustainability Committee are available on the Company's website



Audit Committee

 In 2019, we continued to enhance the internal audit system, and improve the effectiveness of the internal control and risk management systems. The Committee has reviewed the results of an external assessment of internal audit at the Company. I am pleased to note that, according to the assessment results, LUKOIL's internal audit broadly complies with the International Professional Practices Framework (IPPF), and meets the expectations of the Company's management. The assessment highlighted the high degree of independence from management as one of the key strengths of LUKOIL's Internal Audit Service.

An important step towards a more efficient corporate governance system was the dissolution of the Company's Audit Commission, a decision supported by the shareholders. This has eliminated the duplication of functions between the Audit Committee of the Board of Directors,

the Internal Audit Service and the Audit Commission.

In the reporting year, the Committee reviewed the opinion of the Internal Audit Service on the performance assessment of LUKOIL Group's internal control, risk management and corporate governance systems. The assessment has confirmed the effectiveness of these systems.

Given the ever-increasing importance of the sustainable development matters, the Committee has paid particular attention to anti-corruption. The Company has in place a set of local regulations at various levels that cover different aspects of its business and touch on anti-corruption and fraud prevention, but lacks a single document that brings together our principles, scope and objectives in this area. Since having an anti-corruption policy in place is a standard international practice for large companies and is recommended by the Corporate

Governance Code, the Committee has prepared its recommendations to the Board of Directors regarding the advisability of developing a separate anti-corruption document. »



Chairman of the Audit Committee
VICTOR BLAZHEEV

Committee tasks

- Reviewing the Company's accounting (financial) statements for completeness, accuracy and reliability
- Making recommendations on the Company's proposed independent auditor and the auditor's remuneration
- Reviewing the independent auditor's opinion and determining the auditor's independence, objectivity and absence of a conflict of interest
- Assessing the internal audit, reviewing the effectiveness of control and audit procedures, and considering proposals for improvement
- Reviewing the Company's internal audit activity plans and budget
- Assessing the effectiveness of the Company's risk management and internal control procedures and reviewing the reliability and performance of both the risk management and internal control system and the corporate governance system
- Making recommendations for the Board's preliminary approval of the Company's Annual Report

Key topics covered in 2019

- Discussion of material accounting issues, including the Company's accounting policy, and material matters that arose during the independent external audit
- External assessment of internal audit at PJSC LUKOIL
- Review of draft consolidated financial statements of PJSC LUKOIL prepared under IFRS
- Information on material litigations and claims related to the operations of LUKOIL or other LUKOIL Group entities
- Review of the most material amendments to accounting reports following the audit results

Committee membership

Independent Directors

Name

Victor Blazheev (Committee Chairman)
Pavel Teplukhin
Sergey Shatalov



For a list of key decisions made by the Board of Directors based on the Committee's previews and recommendations, see the Board of Directors section **on page 98**



The Regulations on the Audit Committee are available on the Company's website



HR and Compensation Committee

In 2019, the composition of LUKOIL's Board of Directors was refreshed by more than one fourth, with the share of independent directors on the Board increasing to 55%. This has enabled the Board to form the Audit Committee and the HR and Compensation Committee entirely of independent directors. Prior to the Annual General Shareholders Meeting that elected the Board of Directors, the Committee assessed the professional qualifications, experience and independence of the candidates to the Board of Directors.

To improve the performance assessment procedure of the Board of Directors conducted on an annual basis, the Committee has prepared recommendations to the Board on amendments to the Regulations on Performance Assessment of the Board of Directors. The Committee has also carried out a preliminary review of matters

concerning the external assessment of the performance of the Board.

Within its remit, the Committee considered matters related to the remuneration of members of the Board of Directors, the President, members of the Management Committee and the Corporate Secretary.

The Committee considered the candidates to the Management Committee and carried out a preliminary performance assessment of the Management Committee members in the corporate year of 2018–2019 against the criteria set out in the Regulations on Management Remuneration and Incentive System of PJSC LUKOIL.

The Committee has regularly heard reports from representatives of the Company's management on HR policy and HR management at LUKOIL Group entities.

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



Chairman of the HR and Compensation Committee
ROGER MUNNINGS

Committee tasks

- Assessing the performance of the Board of Directors, its members and Committees; identifying priority areas to strengthen Board composition
- Communicating with shareholders to prepare recommendations for voting in the election of the Board of Directors
- Making recommendations on staff appointments
- Development and regular reviews of the Company's policy on remunerating members of the Board of Directors and the Management Committee, and the President
- Making recommendations to the Board of Directors on determining the remuneration of the Corporate Secretary
- Pre-assessing the performance of the Management Committee members and the President throughout the year in line with the Company's remuneration policy

Key topics covered in 2019

- Assessment of professional qualifications and independence of all nominees to the Company's Board of Directors. Recommendations to the Company shareholders on voting in the election of the Company's Board of Directors
- Preview of matters concerning external assessment of the Board's performance
- Human resources management across the LUKOIL Group
- The state of the system of preventive measures against violations of employees' rights and interests
- Existing measures to monitor workplace atmosphere and employee motivation level across LUKOIL Group entities

Committee membership	Name
Independent Directors	Roger Munnings (Committee Chairman) Victor Blazhev Wolfgang Schüssel

i For a list of key decisions made by the Board of Directors based on the Committee's reviews and recommendations, see the Board of Directors section **on page 98**

i The Regulations on the HR and Compensation Committee are available on the Company's website



Corporate Secretary



Natalia

PODOLSKAYA

- Corporate Secretary

Born in 1960.

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

- 1983-1998: engaged in translation/interpreting, lecturing and research.
- 1998-2002: Manager at CJSC KPMG.
- 2002-2016: chief specialist at the Administrative Office of the Board of Directors of OJSC LUKOIL, chief specialist at PJSC LUKOIL.
- Since 2016: Corporate Secretary of PJSC LUKOIL.



A reliable information and digital environment is crucial for efficient performance of the corporate governance system. 》

Corporate Secretary of PJSC LUKOIL

NATALIA PODOLSKAYA

The Corporate Secretary is sufficiently independent of the Company's executive bodies as she functionally reports to the Board of Directors.

The Corporate Secretary of PJSC LUKOIL is appointed by the Company's President based on a resolution of the Board of Directors, and acts in line with PJSC LUKOIL's Charter and Regulations on the Corporate Secretary. The office of the Corporate Secretary has been set up to assist in the position's duties.



The Regulations on the Corporate Secretary of PJSC LUKOIL are available in the Board of Directors section of the Company's website



The Corporate Secretary monitors compliance with the Company's internal documents and immediately notifies the Board of Directors of any violations detected. The Corporate

Secretary also supervises compliance with the procedure for preventing conflicts of interest at the Board level set forth in the Regulations on the Board of Directors of PJSC LUKOIL.

Natalia Podolskaya has been the Corporate Secretary of PJSC LUKOIL since 2016.

In 2019, the Corporate Secretary ran a two-day induction training program for newly elected Directors of PJSC LUKOIL to ensure their quickest possible involvement in the activities of the Board.



For more details, see the Induction of new members of the Board of Directors section **on page 103**

As a member of the Company's sustainability Working group, the Corporate Secretary actively participated in coordinating its activities in 2019, including through preparing materials for meetings, cooperating with members of the Board of Directors and the Company's relevant

business units on sustainability matters, and contributing to preparation of the Sustainability Report.

Natalia Podolskaya is a member of the professional National Association of Corporate Secretaries. She participates in promoting best practices, including the methodological basis for corporate governance and IT. For instance, she actively participated in developing the requirements of, and testing, the Corporate Secretary digital solution. According to the developers of this solution, her expert knowledge and corporate governance experience became determinant in creating a practically applicable and valuable to experts information system.

DIRECTOR OF THE YEAR

In 2019, Corporate Secretary of PJSC LUKOIL Natalia Podolskaya won the "25 Best Corporate Governance Directors/Corporate Secretaries" annual category of the 14th "Director of the Year" National Award.

PRESIDENT AND MANAGEMENT COMMITTEE

The Company's executive bodies, the President and the Management Committee, play a key role in ensuring the timely and efficient performance of its operating and strategic tasks. According to the Company's Charter, the scope of authority of its executive bodies covers all day-to-day operations, except for matters reserved to the Company's General Shareholders Meeting or Board of Directors.

President

The President, the Company's sole executive body, is appointed by the General Shareholders Meeting for a term of five years and serves as the Chairman of the Management Committee. The key provisions of the contract with the President are subject to preview by the HR and Compensation Committee of the Board of Directors and final approval by the Board of Directors.

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

The President is responsible for operational management of the Company as prescribed by the Charter of PJSC LUKOIL.

The President's authority covers:

- Representing the Company's interests
- Entering into transactions on behalf of the Company
- Managing the Company's assets to support its day-to-day operations (within the limits set by the Charter)
- Signing financial documents
- Approving the staff schedule, signing employment contracts, applying rewards and sanctions to employees
- Approving the Company's organization
- Approving PJSC LUKOIL's internal documents regulating its day-to-day operations, save for internal documents to be approved by the Management Committee as prescribed by the Company's Charter
- Issuing binding orders and instructions

- Organizing the activities of the Management Committee
- Other functions established by the Company's Charter

Management Committee

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

The Management Committee is guided by applicable laws, the Charter of PJSC LUKOIL and the Regulations on the Management Committee of PJSC LUKOIL.

The authority of the Management Committee covers:

- Developing and implementing the Company's current business policy
- Developing and approving the Company's quarterly, annual and perspective activity plans, budget, and investment program, as well as monitoring their performance
- Making decisions on establishment by the Company of other legal entities, as well as on acquisitions and disposals of equity interests in other entities
- A number of powers related to development and implementation of the overall development strategy of the Company's subsidiaries
- Other powers set out by the Company's Charter

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

The number of members on the Management Committee was approved as 15 in July 2019. Meetings of the Management Committee are convened as necessary. All meetings are held in the form of joint attendance. At the same time, the Regulations on the Management Committee of PJSC LUKOIL provide for participation in Management Committee meetings via telephone or a video conference call. Participation in a meeting via the aforementioned means of communications qualifies as attendance in person. Attendance at Management Committee meetings remained traditionally high and in 2019 was 93.3%.

In 2019, the Management Committee held 28 meetings and discussed 149 matters (compared to 26 meetings and 126 matters in 2018). Among others, the following key matters were discussed:

- Approval of key budget indicators for LUKOIL Group
- Taking resolutions on the operations of LUKOIL subsidiaries
- Optimizing the production capabilities and the corporate structure of LUKOIL Group
- HR decisions on key executives of Russian entities of LUKOIL Group controlled by the Company by more than 50%
- Approval of business process management principles
- Discussion of matters related to industrial safety, occupational health and social policy
- Approval of the Company's local regulations underlying the Company's core businesses

Statistics of Management Committee meetings

2019	28
2018	26
2017	26

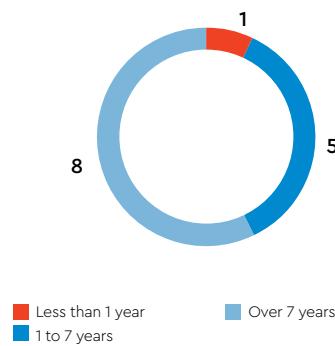
Matters discussed

2019	149
2018	126
2017	112

Management Committee membership as at December 31, 2019

	Length of service on the Management Committee, years ¹	Share in charter capital of PJSC LUKOIL
Vagit Alekperov	26	2.99 (27.39 ²)
Vyacheslav Verkhov	Elected to the Management Committee on July 16, 2019	0.001
Vadim Vorobyev	9	0.03
Denis Dolgov	1	0.04
Ravil Maganov	26	0.46
Ilya Mandrik	2	0.02
Ivan Maslyaev	26	0.04
Alexander Matytsyn	22	0.37
Anatoly Moskalenko	16	0.02
Oleg Pashaev	3	0.009
Denis Rogachev	4	0.006
Gennady Fedotov	9	0.02
Evgeny Khavkin	16	0.01
Azat Shamsuarov	6	0.01

Length of service on the Management Committee as at December 31, 2019



Changes in the membership of the Management Committee

Changes in the membership of the Management Committee of PJSC LUKOIL during 2019 were as follows:

- The powers of the member of the Management Committee Stanislav Nikitin were terminated early (Resolution of the Board of Directors dated December 12, 2019, Minutes No. 19). Stanislav Nikitin's biography is available in PJSC LUKOIL 2018 Annual Report on the Company's website.
- Vyacheslav Verkhov, Chief Accountant of PJSC LUKOIL, was

elected to the Management Committee (Resolution of the Board of Directors dated July 16, 2019, Minutes No. 12).

Changes in the positions held by members of the Management Committee of PJSC LUKOIL during 2019 were as follows:

- As from October 25, 2019, Anatoly Moskalenko was transferred from the position of Vice President for Human Resources Management and Corporate Structure Development to the position of Vice President for Human Resources Management and Social Policy.

¹ Full years as at December 31, 2019.

² As of 31 December 2019, the aggregate percentage of shares in PJSC LUKOIL which Mr. Alekperov directly owns, or is a beneficiary of (including through family trusts and mutual funds), was 27.39%. Mr. Alekperov directly owned 2.99%, and was a beneficiary (including through family trusts and mutual funds) of 24.40%, of the shares in PJSC LUKOIL.

The Company is not aware of any loans (credits) received by members of the Management Committee from an entity within LUKOIL Group.

Biographies of members of the Management Committee and the President



**Vagit
ALEKPEROV**

- President
- Chairman of the Management Committee
- Executive Director

Member of the Management Committee since 1993.

For more details, see the Biographical details of members of the Board of Directors section.



**Vyacheslav
VERKHOV**

- Member of the Management Committee
- Chief Accountant

Born in 1972.

Graduated from Lomonosov Moscow State University in 1994.

- 2000–2004: lead specialist, Deputy Head, Head of Transformation at the International and Consolidated Financial Statements Division; Head of Accounting and Tax Reporting Automation Methodology at the Accounting Department of OJSC LUKOIL.
- 2004–2012: Deputy Chief Accountant of OJSC LUKOIL.
- 2012–2018: Head of the Accounting Methodology Department of PJSC LUKOIL.
- Since 2018: Chief Accountant of PJSC LUKOIL.

Member of the Management Committee since July 2019.



**Vadim
VOROBYEV**

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

Born in 1961.

Graduated from N.I. Lobachevsky Gorky State University in 1983 and N.I. Lobachevsky Nizhny Novgorod State University in 1998. Candidate of Economics (PhD). Honored Oil Specialist. Awarded three medals, including a Medal of the Order "For Merit to the Fatherland", 1st and 2nd class, and the Order of Friendship. Distinguished employee of the Company.

- 1981–1992: served at local youth and party bodies.
- 1992–1998: management positions at Nizhny Novgorod insurance and banking institutions.
- 1998–2002: Vice President, President of JSC Oil Company NORSI-OIL.
- 2002–2005: General Director of LLC LUKOIL Volga-nefteprodukt.
- 2005–2009: Vice President, Head of the Main Division of Petroleum Product Sales Coordination in Russia of OJSC LUKOIL.
- 2009–2012: Vice President, Head of the Main Division of Petroleum Product Sales Coordination of PJSC LUKOIL.
- 2012–2016: Vice President for Petroleum Product Sales Coordination of PJSC LUKOIL.
- 2016–2017: Vice President for Oil Refining, Gas Processing and Petrochemicals of PJSC LUKOIL.
- 2017–2018: Senior Vice President for Sales and Supplies of PJSC LUKOIL.
- Since 2018: First Vice President of PJSC LUKOIL.

Member of the Management Committee since 2010.



**Denis
DOLGOV**

- Member of the Management Committee
- Vice President for Power Generation

Born in 1974.

Graduated from Tyumen State Oil and Gas University in 1996 and 2004. Candidate of Technical Sciences (PhD). Honored Power Generation Specialist. Awarded two medals.

- 1995: started to work at entities in West Siberia.
- 2002–2006: Deputy General Director for Production, First Deputy General Director – Chief Engineer of TPU Langepasneftegaz of LLC LUKOIL-West Siberia.
- 2006–2009: General Director of TPU Langepasneftegaz of LLC LUKOIL-West Siberia.
- 2009–2011: First Deputy Head of the Main Division of Power Generation of OJSC LUKOIL.
- 2011–2012: Head of the Main Division of Power Generation of OJSC LUKOIL.
- Since 2012: Vice President for Power Generation of PJSC LUKOIL.

Member of the Management Committee since 2018.


**Ravil
MAGANOV**

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

Member of the Management Committee since 1993.

For more details, see the Biographical details of members of the Board of Directors section.


**Ilya
MANDRIK**

- Member of the Management Committee
- Vice President for Exploration and Development

Born in 1960.

Graduated from Ivano-Frankovsk Oil and Gas Institute in 1982 and Tyumen Industrial Institute in 1994. Candidate of Geology and Mineralogy (PhD). Doctor of Technical Sciences. Honored Fuel and Energy Industry Specialist, Honored Oil Specialist. Awarded an order and three medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class. Russian Government Prize winner. Distinguished employee of the Company.

- 1982–1997: worked at oil fields in West Siberia.
- 1998–2007: Head of the Exploration Division, Deputy Head of the Main Exploration Division of OJSC LUKOIL.
- 2007–2012: Vice President, Head of the Main Exploration Division of OJSC LUKOIL.
- 2012–2017: Vice President for Exploration.
- Since 2017: Vice President for Exploration and Development of PJSC LUKOIL.

Member of the Management Committee since 2017.


**Ivan
MASLYAEV**

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

Born in 1958.

Graduated from Lomonosov Moscow State University in 1980. Candidate of Law (PhD). Distinguished Lawyer of the Russian Federation. Honored Fuel and Energy Industry Specialist, Honored Oil Specialist. Awarded four medals. Distinguished employee of the Company.

- 1992–1993: Head of the Legal Department of the Oil Concern Langepasuraikogalymneft.
- 1994–1999: Head of the Legal Division of OJSC LUKOIL.
- 2000–2012: Head of the Main Division of Legal Support of OJSC LUKOIL.
- Since 2012: Vice President – General Counsel of PJSC LUKOIL.

Member of the Management Committee since 1993.


**Alexander
MATYTSYN**

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

Born in 1961.

Graduated from Lomonosov Moscow State University in 1984. Candidate of Economics (PhD). Master of Business Administration (Bristol University, 1997). Distinguished Economist of the Russian Federation. Awarded two medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class, and the Order of Honor. Distinguished employee of the Company.

- 1994–1997: General Director of KPMG, international auditors.
- 1997–2012: Vice President, Head of the Main Division of Treasury and Corporate Finance of OJSC LUKOIL.
- 2012–2013: Vice President for Finance of OJSC LUKOIL.
- 2013–2017: Senior Vice President for Finance of PJSC LUKOIL.
- Since 2017: First Vice President of PJSC LUKOIL.

Member of the Management Committee since 1997.



**Anatoly
MOSKALENKO**

- Member of the Management Committee
- Vice President for Human Resources Management and Social Policy

Born in 1959.

Graduated from Supreme Soviet of the RSFSR Moscow Higher Combined Arms Academy in 1980, Military Diplomatic Academy in 1987, Frunze Military Academy in 1991, and the Russian Presidential Academy of Public Administration in 2005. Candidate of Economics (PhD). Awarded five orders, twenty medals and a Certificate of Honor from the President of the Russian Federation. Russian Government Prize winner. Distinguished employee of the Company.

- 1976–2001: service in the Armed Forces of Russia.
- 2001–2003: Head of HR, Head of the HR Management Department of OJSC LUKOIL.
- 2003–2012: Head of the Main Division of Human Resources of OJSC LUKOIL.
- 2012–2016: Vice President for Human Resources Management and Corporate Structure Development of PJSC LUKOIL.
- 2016–2017: Vice President for Human Resources Management and Security of PJSC LUKOIL.
- 2017–2019: Vice President for Human Resources Management and Corporate Structure Development of PJSC LUKOIL.
- Since 2019: Vice President for Human Resources Management and Social Policy of PJSC LUKOIL.

Member of the Management Committee since 2003.



**Oleg
PASHAEV**

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

Born in 1967.

Graduated from M.V. Frunze Higher Naval College in 1989. Awarded the Order of Honor and three medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class. Distinguished employee of the Company.

- 1984–1993: service in the Armed Forces of Russia.
- 1993–1997: worked for JSC Northern Shipping Company.
- 1998–2002: General Director of LLC Quorum-SK.
- 2002–2004: General Director of LLC LUKOIL Severnefteprodukt.
- 2004: First Deputy General Director for Aircraft Refueling of LLC LUKOIL Tsentrnefteprodukt.
- 2004–2016: General Director of LLC LUKOIL AERO.
- 2016: Vice President for Petroleum Product Sales Coordination of PJSC LUKOIL.
- 2016–2018: Vice President for Oil Product Sales of PJSC LUKOIL.
- Since 2018: Senior Vice President for Sales and Supplies of PJSC LUKOIL.

Member of the Management Committee since 2016.



**Denis
ROGACHEV**

- Member of the Management Committee
- Vice President for Procurement

Born in 1977.

Graduated from I.M. Gubkin Russian State Oil and Gas University in 2000. Honored Oil Specialist.

- 2000–2003: employed by the Main Division of Geology and Exploration of OJSC LUKOIL and LLC LUKOIL-West Siberia.
- 2003–2009: employed by Schlumberger Logelco and Baker Hughes B.V.
- 2009–2012: Deputy Chief of Staff, First Deputy Head of the Administrative Office of the Board of Directors of OJSC LUKOIL, First Deputy Head of the Administrative Office of the Board of Directors of OJSC LUKOIL – Executive Assistant to the President of OJSC LUKOIL.
- 2012–2013: General Director of LLC Trading House LUKOIL
- Since 2013: Vice President for Procurement of PJSC LUKOIL.

Member of the Management Committee since 2015.


**Gennady
FEDOTOV**

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

Born in 1970.

Graduated from the Moscow Institute of Physics and Technology in 1993. Honored Oil Specialist. Awarded the Order of Friendship and two medals, including a Medal of the Order "For Merit to the Fatherland", 2nd class.

- 1994–2002: employed by Halliburton and Shell.
- 2002–2007: Head of the Division of Planning and Investments, Deputy Head, Head of the Main Division of Corporate Budget Planning and Investments of OJSC LUKOIL.
- 2007–2012: Vice President, Head of the Main Division of Economics and Planning of OJSC LUKOIL.
- Since 2012: Vice President for Economics and Planning of PJSC LUKOIL.

Member of the Management Committee since 2010.


**Evgeny
KHAJKIN**

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

Born in 1964.

Graduated from the Moscow Institute of Economics, Management and Law in 2003. Candidate of Economics (PhD). Graduated from Moscow State Law Academy in 2014. Honored Oil Specialist. Awarded two medals and a Letter of Acknowledgement Certificate of Gratitude from the President of the Russian Federation. Distinguished employee of the Company.

- 1988: started to work at entities in West Siberia.
- 1997–2003: Deputy Head, First Deputy Head of the Administrative Office of the Board of Directors of OJSC LUKOIL.
- 2003–2012: Secretary of the Board of Directors, Head of the Administrative Office of the Board of Directors of OJSC LUKOIL.
- Since 2012: Vice President – Chief of Staff of OJSC LUKOIL.

Member of the Management Committee since 2003.


**Azat
SHAMSAROV**

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

Born in 1963.

Graduated from Ufa Oil Institute in 1986. Candidate of Technical Sciences (PhD). Honored Fuel and Energy Industry Specialist. Honored Oil Specialist. Awarded a Medal of the Order "For Merit to the Fatherland", 2nd class. Russian Government Prize winner. Distinguished employee of the Company.

- 1997–2000: Chief Engineer of Oil and Gas Production Board (OGPB) of Pokachevneft, Deputy General Director for Production of TPU Langepasneftegaz – Head of OGPB Pokachevneft, General Director of TPU Uraineftegaz.
- 2000–2001: President of Orenburg Oil Joint Stock Company (ONAKO).
- 2001–2008: Vice President, Senior Vice President of LUKOIL Overseas Holding Ltd.
- 2008–2012: Vice President of OJSC LUKOIL, General Director of LLC LUKOIL-West Siberia.
- 2012–2013: Vice President of OJSC LUKOIL for Oil and Gas Production of OJSC LUKOIL.
- Since 2013: Senior Vice President of PJSC LUKOIL for Oil and Gas Production of PJSC LUKOIL.

Member of the Management Committee since 2013.

REMUNERATION SYSTEM FOR MEMBERS OF THE COMPANY'S GOVERNANCE BODIES

When shaping the remuneration system and determining the particular remuneration for members of PJSC LUKOIL's governance bodies, the actual amounts payable are expected to be sufficient to engage, motivate to work efficiently, and retain persons having skills and qualifications required by the Company.

Remuneration system for members of the Board of Directors

The guidelines on remuneration and compensation of members of the Board of Directors, including their structure and terms of payment, are formalized in the Director Compensation and Expense Reimbursement Policy of PJSC LUKOIL (hereinafter, the "Remuneration Policy").

The Remuneration Policy has been developed based on the Corporate Governance Code and reflects the practices of remuneration and compensation accrual currently in place at the Company.

The Company believes that its preferred form of monetary remuneration payable to members of the Board of Directors is fixed annual remuneration not linked to any operational, financial or other performance of the Company. Furthermore, the Company pays additional remuneration for the higher responsibility levels and additional time spent on Directors' involvement in Committee activities, discharging the functions of the Chairman of the Board of Directors and Committee Chairmen.

In 2017, pursuant to the recommendations of the Corporate Governance Code, the Company established fixed remuneration for proper fulfillment of the duties of a Board Committee member instead of the previously applied remuneration for in-person attendance at each committee meeting. At the same time, the Company preserved remuneration for in-person attendance at Board or Committee meetings requiring a transcontinental

flight, since some Directors have to take long flights to attend meetings of the Board of Directors in person, which leads to additional time commitment.

Directors also have remuneration for each conference and other meetings attended by written proxy of the Chairman of the Board of Directors.

Directors' remuneration does not include short- and long-term incentive payments or additional benefits, including any insurance (except for the liability insurance of members of the Board of Directors), pension and other social benefits.

The Company does not provide for any extra payments or compensations in the event of early termination of Directors' tenure.

Remunerations are determined by the General Shareholders Meeting and reflect proposals of the Board of Directors which are based on recommendations of the HR and Compensation Committee.

The Annual General Shareholders Meeting held on June 20, 2019 resolved to establish the following amounts of remuneration to elected members of the Board of Directors (for 2019–2020 corporate year):

- Remuneration to the member of the Board of Directors – RUB 7,000,000
- Remuneration to the Board Chairman – RUB 5,400,000
- Remuneration to the Chairman of a Board Committee – RUB 1,100,000
- Remuneration to the member of a Board Committee – RUB 1,100,000
- Remuneration for each in-person attendance at Board or Committee meeting requiring a transcontinental flight – RUB 350,000
- Remuneration for each attendance at a conference or other event attended by written proxy of the Chairman of the Board of Directors – RUB 150,000

The Company also compensates the costs incurred by members of the Board of Directors to perform their duties, including costs of traveling, using video conference services, engaging advisors and experts to obtain their opinions on matters pertaining to the activities of the Board of Directors, with the total not exceeding the budget allocated by the Company, etc.



For more details, see the Director Compensation and Expense Reimbursement Policy of PJSC "LUKOIL" available on the Company's website



Members of the Board of Directors who are concurrently employed by the Company also receive other payments from the Company (salary, bonuses, additional social benefits) and, if they are members of the Management Committee, remuneration for performing the duties of Management Committee members. In the reporting year, three members of the Board of Directors were the Company's executives (President, First Executive Vice President, and Vice President for Strategic Development), with the President and the First Executive Vice President also sitting on the Management Committee.

Payments to the Board of Directors,¹

RUB thousand

	2017	2018	2019
Total payments to the Board of Directors	262,091	816,787	208,784
Remuneration of members of the Board of Directors	87,067	100,375	103,075
Compensation of costs	29,146	34,119	26,478
Payments to Directors who are employed by the Company, but are not members of the Management Committee	145,878	682,293	79,231
including:			
salary	48,059	35,968	33,925
bonus	87,832	607,372	30,372
other types of remuneration	9,987	38,953	14,934

¹ For Directors who concurrently sit on the Management Committee, this table includes only remuneration related to performing their duties of Directors; remuneration for performing the duties of Management Committee members and other payments made by the Company are included in the Payments to the Management Committee table.

Considerable year-on-year reduction in payments to members of the Board of Directors who are employed by the Company but do not sit on the Management Committee in 2019 was due to the payment in 2018 of final bonuses under the Regulations on Long-Term Incentives for Employees of PJSC LUKOIL and its Subsidiaries in 2013–2017.

Top management remuneration system²

The Top Management Remuneration System was developed to ensure the delivery of business targets, promote strategic business activities, support a uniform, systemic and consistent approach to financial incentives for key executives. The balance of interests of the Company's management and shareholders is key to the Top

Management Remuneration System in place at the Company.

The Top Management Remuneration System is included in the Regulations on PJSC LUKOIL's Management Remuneration and Incentive System.

Top management remuneration comprises fixed and variable components.

The fixed component consists of a salary determined taking into account the complexity of tasks and duties to perform, the scope of work under the direct influence of a key executive, and the extent of such influence. The fixed component also includes additional payments for discharging the duties of other temporarily absent key executives. The salaries are in line with the market,

which ensures the retention of key executives.

The variable component consists of annual bonuses and may also include one-off and target bonus payments and other payments.

Annual bonuses are paid as end-of-year bonuses and are intended to incentivize top managers to meet year-on-year targets. The motivational value of such payments is particularly high given the highly volatile external environment. To determine annual bonuses, the performance against the pre-set Key Performance Indicators is analyzed and approved. There are two types of KPIs: Company-wide (team performance) and individual (key executive's performance within the business line the top manager is responsible for).



For more details, see the Key Performance Indicators on page 38 and the Performance Assessment System on page 122 sections

Performance indicators used for annual bonus payments to key executives

Indicator group	Indicators	Group weight
Company-wide ³	<ul style="list-style-type: none"> LUKOIL Group's profit for the year LUKOIL Group's free cash flow Hydrocarbon production volume Ensuring HSE compliance across LUKOIL Group entities 	From 50% to 100%
Individual	Personalized for each executive in accordance with targets and objectives of his or her business line	Under 50%

² Top manager (executive employee) – President, First Executive Vice President, First Vice Presidents, Senior Vice Presidents, Vice Presidents of the Company, Chief Accountant, and executives responsible for certain business lines.

³ The Key Performance Indicators from the Set of KPIs approved by the Management Committee of PJSC LUKOIL are used as Company-wide indicators.

The balance of the Company-wide and individual components is determined for the functional activity the key executive is responsible for. Annual bonuses paid to the President of PJSC LUKOIL are based on Company-wide indicators. The weighting of the Company-wide and individual component and annual salary-based bonus targets are set out in the Regulations on PJSC LUKOIL's Management Remuneration and Incentive System. In November 2018, the Board made amendments to these regulations that were primarily aimed at more closely aligning annual bonus calculation with the Company's strategic goals. For instance, the amendments introduced the concept of priority KPIs, which affect the size of bonuses to a greater degree than other KPIs. The Company-wide priority KPIs are LUKOIL Group's profit and free cash flow. Individual KPIs used for certain key executives also

include the free cash flow of relevant business segments and sectors. In March and December 2019, additional amendments to the Regulations were made to adjust annual bonus calculation methodology and to reflect changes in the list of the Company's key executives.

Our management remuneration system also uses long-term incentives to drive better performance in the medium and long term. The incentives are set out in the Regulations on the Long-Term Incentive Program for Key Employees of LUKOIL Group for 2018–2022 and are intended to build an interest in the Company's long-term performance, enhance its investment case, and create shareholder value. The Program involves about 40 million PJSC LUKOIL shares. In 2019, the Program participants were given an opportunity to acquire shares on the Program terms for the first time.

Management Committee remuneration system

Each of the Management Committee members received remuneration for performing the duties of a Management Committee member in 2019, equal to the monthly official salary in their main position. The remuneration is provided for by contracts made with the Management Committee members and is paid against achievement of Company-wide KPIs over the reporting period. On top of that, the Management Committee members received:

- Base salary for performing their main position
- Annual bonuses for their year-round performance and other bonuses
- Additional social benefits

Management Committee members also participate in the Long-Term Incentive Program for Key Employees of LUKOIL Group. In 2019, they

Payments¹ to the Management Committee, RUB thousand

	2017	2018	2019
Total payments to the members of the Management Committee	1,738,788	5,502,415	1,684,611
Remuneration of Management Committee members	54,307	54,744	56,534
Salary	524,056	440,644	474,853
Bonuses (annual and other bonuses)	957,268	4,618,592	538,092
Other payments	203,157	388,434	615,132

¹ Including payments to the President of PJSC LUKOIL.

acquired a total of 179 thousand shares under the Program.

Considerable year-on-year reduction in bonuses in 2019 was due to the payment in 2018 of final bonuses under the Regulations on Long-Term Incentives for Employees of PJSC LUKOIL and its Subsidiaries in 2013–2017.

Severance pay for top management

In the event of early termination of the employment contract, a key executive officer is entitled to a severance pay in the amount of the sum of his basic salary for 12 months.

The contract of PJSC LUKOIL's President has the term of five years and may be terminated early subject to giving not less than one month's written notice of termination. In the event of early termination of the employment contract, the President is entitled to a severance pay equal to the sum of his basic salary for 24 months.

PERFORMANCE ASSESSMENT SYSTEM

The Company has in place a corporate performance assessment system based on Key Performance Indicators (KPIs). KPIs are a set of indicators that reflect the Group's industry-specific critical success factors and demonstrate its progress towards achieving its strategic goals.

The corporate performance assessment system is governed by the following local regulations:

- LUKOIL Group's Main Principles for Designing the Corporate Performance Assessment System – determine the main principles for, and approaches to, designing the KPI system
- Set of Key Performance Indicators – a document containing a list of KPIs by LUKOIL Group's business segment, business sector and budgetary unit, along with a guide to their calculation

LUKOIL Group's Set of KPIs has around 60 unique indicators. The total number of KPIs for LUKOIL Group across business segments, business sectors and budgetary units is around 400. KPIs are adjusted and updated as necessary, taking into account LUKOIL's revised strategic goals and plans, changes in its asset portfolio, and the external environment. The Set of KPIs is approved by the Management Committee of PJSC LUKOIL and reviewed once every two years.

In 2019, the Set of KPIs was expanded: an additional KPI reflecting hydrocarbon reserves replacement was added to the list of KPIs of the Exploration and Production segment; the list of KPIs of petroleum product supply entities was also changed.

The procedure for using KPIs in individual corporate processes is governed by relevant local regulations:

- LUKOIL Group's Growth Strategy Development Regulations
- LUKOIL Group's Corporate Planning Regulations
- LUKOIL Group's Corporate Management Reporting Regulations

KPIs in planning

To ensure connection between the goals and objectives at different time horizons, a designated set of indicators within the KPI system is applied at all planning stages. Furthermore, as the planning horizon becomes shorter, the set of applicable KPIs expands.

In budget planning, KPIs are used as target guides both at the stage of target development for top-down planning and at the stage of final formalization of targets and objectives as benchmark indicators against which subsequent performance assessment is carried out.

Performance management through KPIs

KPIs are crucial for managing both the overall performance of LUKOIL Group and the individual performance of its assets. Performance assessment is carried out on a regular basis and includes:

- Monitoring current results of operations on a monthly (and in some cases, weekly) basis
- Summing up the results of operations quarterly and annually

Certain indicators – first of all, financial ones – are subject to factor analysis which identifies controllable and uncontrollable factors. It helps give an objective assessment of how executives impact LUKOIL Group entities' performance.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

LUKOIL's risk management and internal control system (RMICS) is an integral part of its corporate governance.

The RMICS is organized and operates to provide reasonable assurance of achieving the following targets and objectives in the context of uncertainties and negative factors:

- The Company's strategic and business goals
- Asset integrity
- Compliance of all types of reports with established requirements
- Compliance with the applicable laws and the regulations of LUKOIL Group entities



The Regulations on the risk management and internal control are available on the Company's website



The RMICS is organized and operates in accordance with the following key principles

- Integration with the corporate governance system
- Focus on risk
- Ongoing operation continuity
- Full coverage of the Group's business
- Adaptivity through self-improvement and development
- Uniform methodology
- Employee responsibility for risk management and internal control performance
- Sufficiency of actions to achieve goals
- Economic feasibility
- Division of roles, duties and responsibilities
- Process formalization
- Informative value

Risk management and internal control processes are interrelated ongoing processes followed by governance bodies and employees while performing their functions. They are integrated into the operations of LUKOIL Group entities, i.e. they are implemented along with all other business processes and projects, rather than separately. The Company ensures effective interaction between process participants, taking into account the division of roles and responsibilities.

Key principles of, and approaches to, the RMICS organization at LUKOIL Group entities are detailed in the Risk Management and Internal Control Policy of PJSC LUKOIL, which complies with the generally accepted rules in this sphere and details key targets and objectives of the RMICS participants.

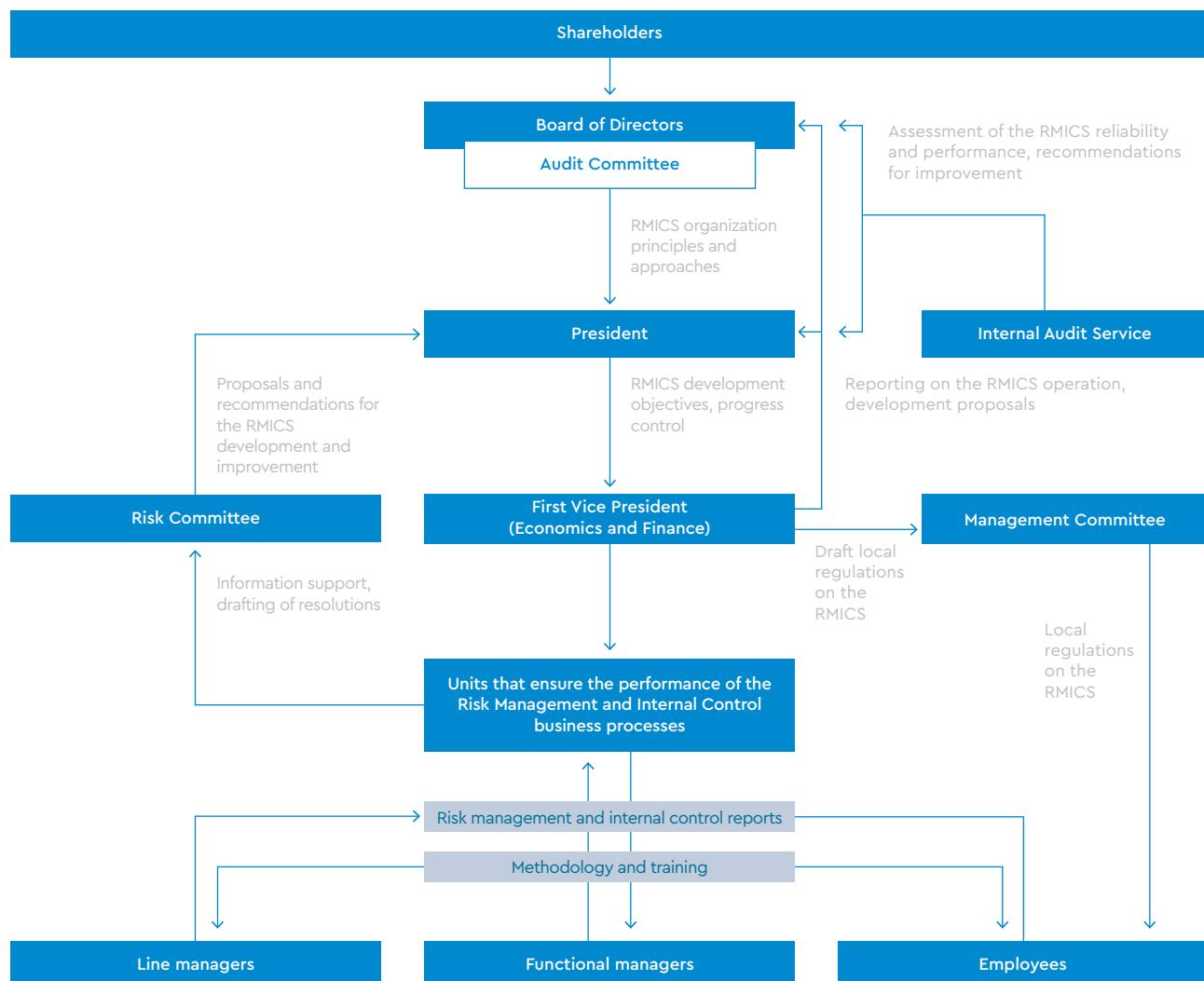
LUKOIL has implemented an approach to organizing the RMICS as a three-level system to protect the Company's

interests (see the LUKOIL's interests protection system diagram). LUKOIL believes that organizing a system of responsibility for achieving the Company's goals is justified by enhanced reliability achieved through eliminating redundancies, with each level complementing the others by focusing on its specific functions.

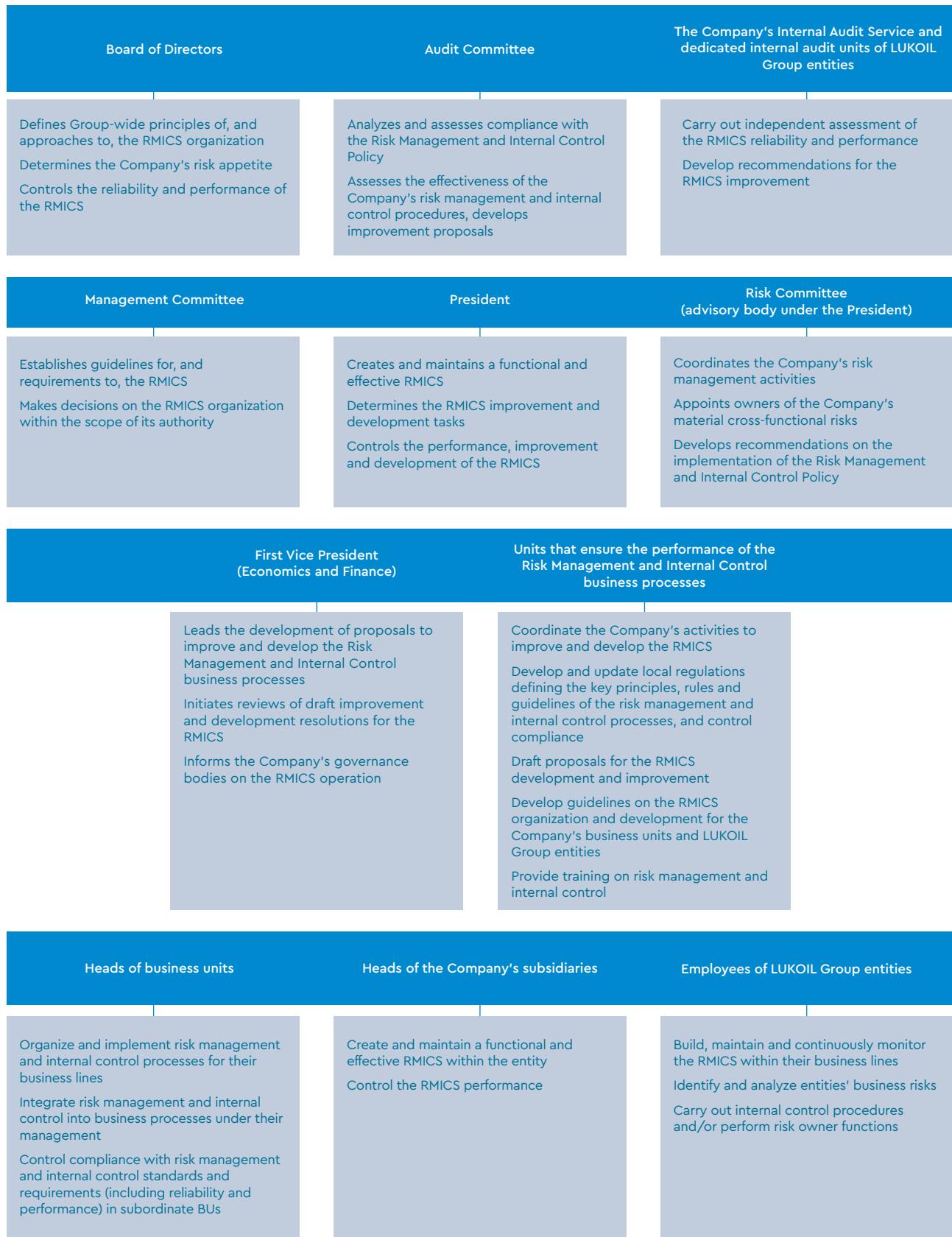
LUKOIL's interests protection system



RMICS structure at PJSC LUKOIL



Functional map of RMICS participants



Risk management

PJSC LUKOIL continuously improves its risk management system. In 2019, our key efforts were focused on improving the corporate enterprise risk management (ERM) system to match the international best practices. Risk management development and improvement focus on:

- Reviews, customization and implementation of new risk management approaches proposed by the Committee of Sponsoring Organizations of the Treadway Commission in its concept "Enterprise Risk Management – Integrating with Strategy and Performance" (COSO, 2017)
- Integration of the risk management process into major management decision-making such as taking on major investment projects and proceeding to the active investment phase based on the results of quantitative risk analysis
- Introduction of the portfolio optimization process in the investment program development
- Integration of post-investment analysis results into the risk management system to increase the quality of project risk assessment
- Introduction of the risk-return tradeoff in investment analysis and decision-making for certain projects
- Integration of the risk management process into the corporate governance system through risk orientation of the LUKOIL Group's Budgeting process
- Development of guidelines for the Risk Management business process, including the application

of probabilistic modeling and its use guidance in major management decision-making within LUKOIL's management practice, and development of specific risk management guides

- Improvement of risk information quality through harmonization, standardization and making recommendations on standard risk description
- Optimizations in information sharing, response to external and internal environment changes, and monitoring risk management activities

LUKOIL consistently improves its risk management guidelines, which establish uniform requirements to the end-to-end risk management process across LUKOIL Group entities and determine management standards for individual most critical risk categories.

The Board of Directors and the Management Committee place a special focus on risk management to provide reasonable assurance of achieving objectives despite uncertainties and negative impacts. PJSC LUKOIL continuously identifies, describes, assesses, and monitors risks and develops measures to mitigate their adverse effect on our business. At the same time, our risk management forms an essential part of our business and corporate governance system and involves employees across all management levels.

We regularly assess the aggregate risks of LUKOIL Group entities, with the risk profile included in annual reports reviewed by the Board of Directors. We identified most

material risk categories impacting the business operations of LUKOIL Group entities, which are consistently assessed in terms of quantity, determined acceptable levels for each material risk, and developed measures to mitigate or prevent their adverse effect. LUKOIL monitors the progress and effectiveness of its risk mitigation measures.

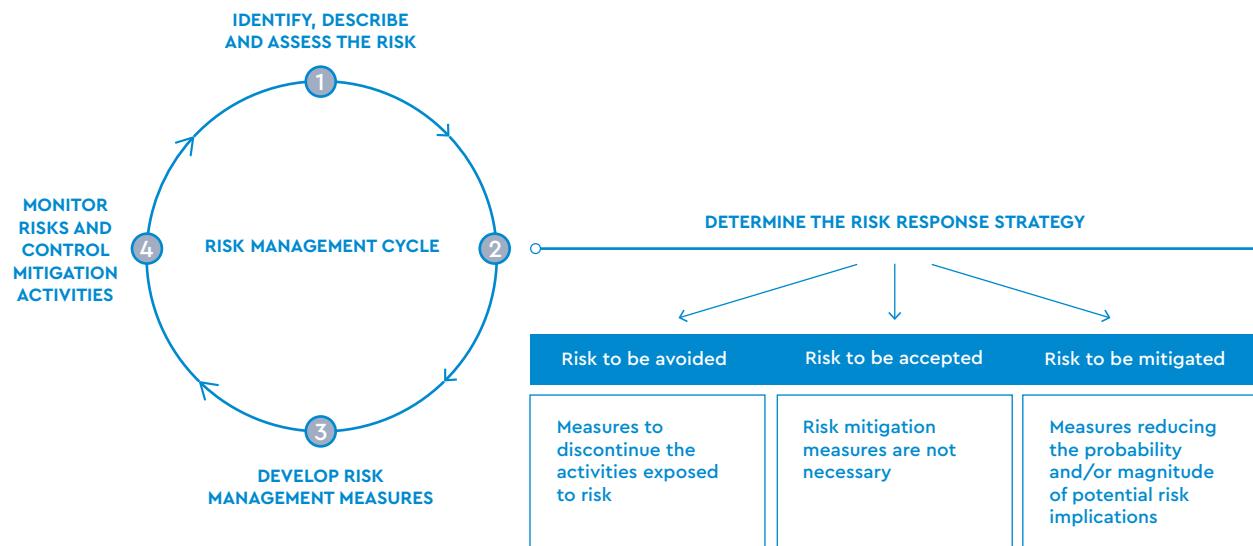
Taking into account the probabilistic and external nature of LUKOIL's risks, we cannot fully guarantee that risk management measures will reduce their adverse effect to an acceptable level. When disclosing identified risks, LUKOIL informs stakeholders about certain circumstances inherent to its operations, which may have an adverse effect on its business performance.

We take all possible measures to monitor and prevent such events, and should they occur, will strive to mitigate their implications as quickly as possible in order to minimize damage to the Company.

In order to improve management performance in LUKOIL Group entities, we continuously improve the automated risk management information system enabling:

- Automation of gathering, reviewing, reconciling and storing risk data, thereby enhancing responsiveness and improving management
- Standardization of risk data presentation
- Build-up of a knowledge base
- Automation of preparation of consolidated risk reports for LUKOIL's governance bodies

Risk management process at LUKOIL Group



Risk Committee

PJSC LUKOIL established its Risk Committee in 2011 to address the matters of improving the risk management system and effectiveness of the risk management process. It is a collective risk management body under the Company's President. The goal, functions, rights, responsibilities and procedures of the Risk Committee are determined by the Regulations on the Risk Committee. The membership structure of the Risk Committee is approved by the Company's President and includes, among others, Vice Presidents in charge of business segments. The Committee's functions include:

- Coordinating the Company's risk management activities
- Appointing owners of the Company's material cross-functional risks
- Developing proposals and recommendations on the implementation of the Risk Management and Internal Control Policy of PJSC LUKOIL

Internal control

In 2018–2019 we developed measures to enhance the internal control system at LUKOIL Group in accordance with the standards and requirements of the Regulations on Internal Control at PJSC LUKOIL. The following measures are aimed at further optimizing the use of available assets and minimizing avoidable losses through improving the efficiency of internal controls:

- Introduction of unified standards of, and requirements to, organization of an internal control system (ICS) into the operations of LUKOIL Group
- Prompt elimination of ICS gaps identified during monitoring activities
- Updating the internal control structure to reflect actual business processes
- Compliance with requirements of the Federal Tax Service (FTS) of Russia to ICS setup at LUKOIL Group entities that have switched or are preparing to switch to the tax monitoring regime

As part of regular report reviews in 2019, the Company monitored compliance with standards of, and requirements for, ICS organization and functioning at LUKOIL Group entities, with the snapshot of their ICS status submitted to the Audit Committee of the Board of Directors and then to the Company's Board of Directors. The Company's Internal Audit Service confirmed the effective ICS operation across LUKOIL Group entities.

In line with approved plans for developing and improving internal control, we continued to align ICS components at Group entities with the standards and requirements of the Regulations on Internal Control at PJSC LUKOIL. All violations and gaps identified and response measures taken were audited by the Internal Control Department and the Company's dedicated units.

LUKOIL Group has in place a scheme of applying violation and gap response measures at similar management units.



For more details on risks, see Appendix 2: Risks

To make ICS enhancement activities more effective, the Company has updated the Corporate Distance Learning System with a special training course for employees of LUKOIL Group entities responsible for internal controls. The Company also plans to develop a number of specialist training courses in 2020.

To improve the LUKOIL Group corporate governance system through digitalization of the Internal Control business process and providing all ICS-related units with quality updates and effective communications in internal control, the Company focused on developing and testing IT solutions and continued to automate control procedures in the reporting year.

SWITCHING TO THE TAX MONITORING REGIME

Since 2016, the Russian Federation has been introducing tax monitoring as a new form of tax control. To be able to switch to the tax monitoring regime the taxpayer must have in place an effective ICS complying with the Requirements of the FTS of Russia for organizing and functioning of all ICS components. The taxpayer must collect and submit to the tax authorities quarterly and annual reports on ICS organization and functioning, and assess the ICS maturity level against the FTS of Russia's criteria.

In 2018, a switch to the tax monitoring regime was piloted for one LUKOIL Group entity. In 2019, the Company successfully prepared and completed the transition to tax monitoring for PJSC LUKOIL and 3 key LUKOIL Group entities, while also consistently preparing to switch 23 other entities of the Group.

Internal controls in preparing financial statements

LUKOIL uses different internal controls at each stage of organizing the accounting process and preparing its consolidated financial statements, thereby ensuring the reliability of financial information. LUKOIL applies the following key procedures and methods to organize its internal controls:

1. Distribution

of roles and responsibilities.

LUKOIL Group has clear distribution of responsibilities at each stage of preparing its financial statements (both at the standalone subsidiary and consolidated levels). Russian entities prepare their RAS statements independently or through the Company's accounting center; IFRS statements of Russian entities are prepared by the Accounting Service of PJSC LUKOIL. IFRS statements of the Company's foreign subsidiaries are prepared either independently or at the Company's European accounting center. Local financial statements are the responsibility of entities' top managers and chief accountants or heads of accounting centers. The Company's President and Chief Accountant are responsible for preparing its consolidated financial statements.

2. Internal audits.

In performing audits in accordance with the approved annual activity plan, the Internal Audit Service assesses the effectiveness of internal control over the reliability of accounting (financial) statements and management reporting of LUKOIL Group entities.

The procedures ensuring additional control over the correctness of Group entities' financial statements include:

- On-site audits

- Providing accounting advisory services to Group entities, solving complex accounting issues
- Organizing auditing and reconciliation procedures for numbers in financial statements, controlling the correctness and reliability of Group entities' statements
- Follow-up audit of the financial and operating figures on a regular basis

3. The Group's unified accounting policy.

The Company has in place the unified IFRS accounting policy which is reviewed at least once a year. It is binding on all LUKOIL Group entities that prepare their IFRS statements.

The Company's President approves, on an annual basis, the corporate RAS accounting policy and requirements to the accounting policies of the Company's Russian subsidiaries.

Centralized development of RAS and IFRS accounting policies ensures application of unified principles of accounting and reporting for similar transactions and the comparability of results of LUKOIL Group entities.

4. Centralized decision-making.

The Group makes centralized decisions on the following accounting and reporting matters:

- Organizing the activities of subsidiary accounting services (independently or through a dedicated subsidiary)
- Selecting the auditor (for the Company's material subsidiaries)
- Dates of preparation of Group entities' accounting (financial) statements, end dates of their audit
- RAS and IFRS accounting policies
- Appointment of subsidiaries' chief accountants
- Accounting process automation

In 2019, LUKOIL continued to optimize and improve accounting services, including the merger of LLC LUKOIL-URTs Perm into LLC LUKOIL-Accounting Center (formerly LLC LUKOIL-URTs Volgograd). This merger continued the centralization of LUKOIL Group entities' accounting services operating in Russia into a shared services center.

5. Business unit interaction.

Consolidated IFRS financial statements are prepared in close collaboration between the Accounting Service of PJSC LUKOIL and various business units both within the Company and Group entities. The process stakeholders regularly exchange and additionally verify relevant information.

6. Employee training. All employees of the Company's Accounting Service engaged in the preparation of IFRS consolidated financial statements have a degree in accounting or finance and regularly enhance their qualifications. Many of them are certified accountants (according to Russian and international standards) and are members of professional accountants' associations in Russia, the UK and the USA. Some employees have

academic degrees in accounting and finance.

AUDIT COMMISSION

The Extraordinary General Shareholders Meeting held on December 3, 2019 resolved on early termination of powers of members of the Audit Commission Pavel Suloev, Ivan Vrublevsky and Artem Otrubyannikov and on approval of a new version of PJSC LUKOIL's Charter having no reference to the Audit Commission. The Audit Commission was dissolved to exclude duplication of functions of the Audit Committee of the Board of Directors, the Internal Audit Service and the Audit Commission dealing with control over the Company's business operations, and to cut the costs related to the activities of the Audit Commission. The Extraordinary General Shareholders Meeting passed a resolution to pay each member of the Audit Commission remuneration in the amount of RUB 3.5 million.

INTERNAL AUDIT

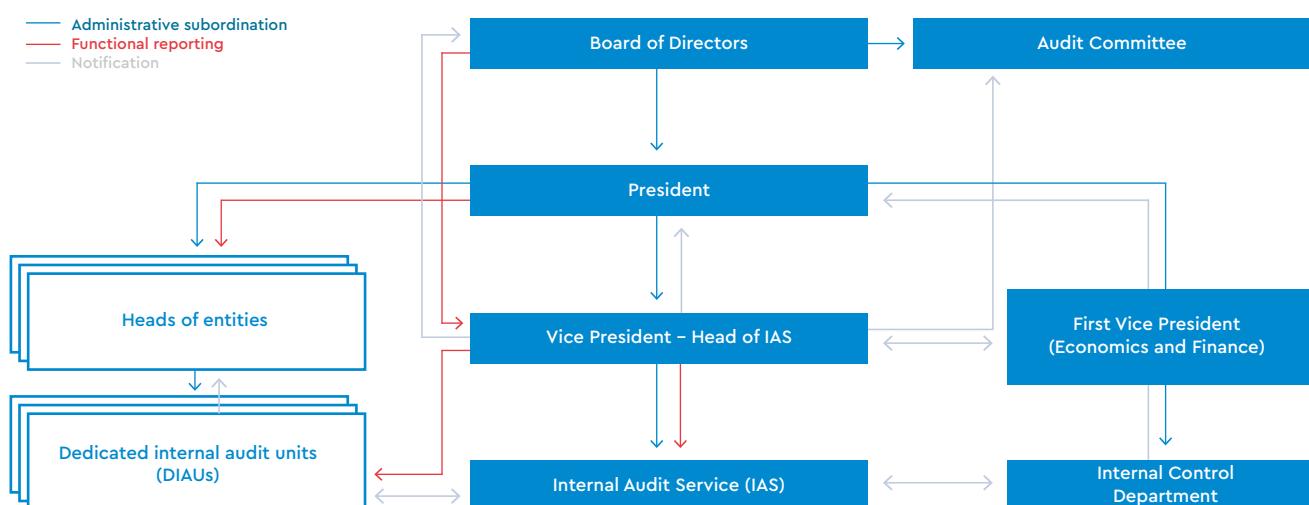
LUKOIL Group's internal audit system was set up to assist in achieving strategic goals and objectives through applying a holistic consistent approach

to assessment and improvement of the internal control and risk management system and corporate governance by way of audits and consulting engagements.

The Internal Audit Service of PJSC LUKOIL complies with applicable International Standards for the Professional Practice of Internal Auditing and the Code of Ethics for internal auditors adopted by the International Institute of Internal Auditors, and is guided by the local regulations on internal audit approved at PJSC LUKOIL.

The Company applies the generally accepted conceptual model of internal audit which separates internal audit functions from internal control and risk management functions. A special mode of functional and administrative reporting and accountability is established for internal audit to ensure the auditors' unbiased approach and the independence of audit units. Such form of accountability allows to provide the Company's governance bodies with reliable and up-to-date information on the effectiveness of the internal control, risk management systems and corporate governance.

Corporate internal audit system



Within LUKOIL Group, internal audit is performed by:

- The Internal Audit Service of PJSC LUKOIL (IAS) headed by Vice President – Head of the Internal Audit Service (hereinafter, also the "Head of IAS")
- Dedicated internal audit units of LUKOIL Group entities (hereinafter, also the "DIAUs")

The Head of IAS directly manages IAS activities; DIAUs functionally report to the Head of IAS. The Head of IAS reports to the Audit Committee of PJSC LUKOIL's Board of Directors (functional reporting) and the Company's President (administrative subordination).

As at the end of 2019, internal audit functions existed at 16 LUKOIL Group entities.

2019 Results

Controls & audits at LUKOIL Group entities. In 2019, the Internal Audit Service conducted 10 audits and had 3 consulting engagements and the auditors of dedicated internal audit units carried out 126 controls & audits.

In the past few years, we have seen a steady decline in the number of gaps and violations identified at LUKOIL Group entities due to higher performance of audited entities, as well as better and more reliable internal control, risk management and corporate governance systems.

In addition to audits, the Internal Audit Service provided audit consulting services in 2019 to LUKOIL Group entities implementing priority investment projects such as development of the Yaregskoye field, the V.I. Grayfer field and construction of a delayed coker complex to process heavy residuals at Nizhny Novgorod Refinery.

The objective of audit consulting is to assist and support LUKOIL Group entities in preventing and avoiding violations and irregularities and enhancing internal control and risk management processes.

Consulting engagements have helped build excellent partnerships between audit and management functions, achieve new audit competencies and demonstrated the usefulness and relevance of such practices going forward.

As part of providing for independent assessment of internal audit, by resolution of the Audit Committee of the Board of Directors of PJSC LUKOIL passed on March 4, 2019 (Minutes No. 1) the internal audit function of PJSC LUKOIL was assessed in 2019 by an independent external assessor for compliance with the International Professional Practices Framework (IPPF).

The assessment was carried out by the Institute of Internal Auditors and comprised two phases.

The first phase included analysis, assessment and development of recommendations for enhancing the internal audit in the form of a preliminary assessment report, followed by development of an internal audit improvement plan. The second phase focused on following up on the recommendations developed during the first phase and preparing an implementation report.

Based on the results of the analysis, the independent assessor concluded that, overall, the internal audit operations at PJSC LUKOIL complied with the IPPF, as well as the expectations and needs of the Company's management.

Among the positive aspects of internal audit operations were a high

degree of independence, transition from enforcing to fact-finding control with consulting factored in, highly skilled IAS employees, and effective use of an automated system – the corporate IT system for automation of risk management, internal control and internal audit processes.

Focus areas for improvement, in particular, included improvement of the risk analysis process in annual planning, a clear distinction between consulting projects and audits, and enhancing the IT skills of internal auditors.

As part of improving the guidelines supporting internal audit across LUKOIL Group, the Group updated the following key local regulations on internal audit in 2019 to include the external assessment results and the international best practices:

- The Regulations on Internal Audit at PJSC LUKOIL (updated version)
- The Rules of Internal Audit of Public Joint Stock Company "Oil Company 'LUKOIL'"
- The Regulations on Organizing and Conducting Audits at PJSC LUKOIL (updated version)

These local regulations were updated to align the Company's regulatory framework with the requirements of the International Professional Practices Framework, including the recommendations of the Institute of Internal Auditors made during the independent external assessment of the internal audit at PJSC LUKOIL, and to specify the main approaches to audits and consulting engagements.

In 2019, the Internal Audit Service's activities to carry out objective assessment of internal control, risk management and corporate governance processes included tests of relevant procedures later developed into their final versions.

In addition, the IAS continued to develop and update procedures for audits (controls & audits) applied by internal auditors.

As part of assessment of the internal control, risk management and corporate governance systems, in early 2019, the Internal Audit Service carried out relevant audit evaluations of the 2018 performance; the results were submitted to the Audit Committee of the Company's Board of Directors (Minutes No. 2 dated April 10, 2019) and the Board of Directors of PJSC LUKOIL (Minutes No. 6 dated May 15, 2019).

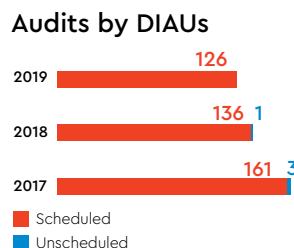
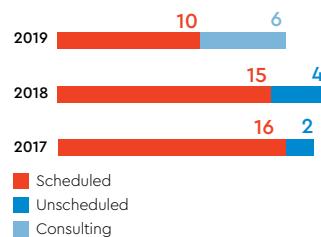
The assessment results confirm that PJSC LUKOIL operates effective internal control, risk management and corporate governance systems.

As part of audit automation and development of the corporate IT system for automation of risk management, internal control and internal audit processes, the Internal Audit Service piloted the automation of internal audit procedures in 2019 to screen data in the Company's information systems in order to identify unapproved and suspicious transactions (anomalies) and fraudulent activities.

The pilot proved the effectiveness of this solution for internal audit automation.

Controls & audits

Audits and consultations by the IAS



Fewer audits in 2019 resulted from the IAS providing audit consulting on three priority investment projects of LUKOIL Group entities in addition to regular controls & audits conducted in the reporting period.

Plans to improve internal audit

The key 2020 and mid-term objectives of the Internal Audit Service are as follows:

- Consistently implement the Program to Improve the Quality of Internal Audit at PJSC LUKOIL for 2017–2021
- Carry out audit and consulting plans
- Perform regular monitoring of LUKOIL Group entities' execution of the resolutions of the Company's governance bodies and internal audit recommendations based on audit results
- Improve the regulatory and procedural framework for internal audits
- Test audit (control & audit) options during audits
- Update (based on test results) and approve audit guidelines for corporate governance, internal control and risk management systems
- Enhance the performance of DIAUs at LUKOIL Group entities, including through consulting engagements and methodological support provided by the Internal Audit Service of PJSC LUKOIL
- Introduce and further improve automated internal audit processes, including step-by-step implementation of the project to automate internal audit procedures, and improvement

of the corporate IT system for automation of risk management, internal control and internal audit processes

- Introduce regular self-assessments of the internal audit at PJSC LUKOIL for compliance with the International Standards for the Professional Practice of Internal Auditing

EXTERNAL AUDIT

LUKOIL selects its independent auditor based on proposals made by the Audit Committee of the Board of Directors and approves the auditor at the General Shareholders Meeting on an annual basis, in line with Russian laws.

The auditor's independence is determined by the International Standards on Auditing and the national auditing rules (standards) approved by resolutions of the Russian Government.

In June 2019, the Annual General Shareholders Meeting approved JSC KPMG as the auditor of PJSC LUKOIL. To maintain independence and comply with audit standards, the Company's auditor regularly, at least once in seven years, changes its key audit partner. Rotation of the auditor's partner was last made in 2014.

The fee payable to JSC KPMG for auditing the Company's IFRS consolidated financial statements for 2019 was RUB 246,778 thousand (excluding VAT), for auditing the Company's RAS accounting (financial) statements for 2019 was RUB 10,286 thousand (excluding VAT).

The share of remuneration unrelated to audits in the total fee payable to the auditor is less than 30%.

SUSTAINABILITY MANAGEMENT SYSTEM

The Company's long-term development model aims to meet the social demand for energy in an economically, environmentally and socially acceptable way. Environmental, industrial, social, and personal safety has always been a top priority for the Company. The Strategic Development Program of LUKOIL Group for 2018–2022

considers sustainability as one of the Company's strategic goals.

The achievement of sustainability objectives is controlled strategically (by the Board of Directors, the Strategy, Investment and Sustainability Committee of the Board of Directors, the Management Committee) and operationally (by the Health, Safety and Environmental Committee of PJSC LUKOIL, by heads of functions

and business units at PJSC LUKOIL and by heads of LUKOIL Group entities). Sustainable development objectives are included in the employee motivation system and are applicable to all employees of PJSC LUKOIL and to heads and managers of LUKOIL Group entities.

Sustainability management system at PJSC LUKOIL as at December 31, 2019

Members	Key roles
Board of Directors Chairman – Valery Grayfer	<ul style="list-style-type: none"> Defines general principles and approaches Determines the Company's business priorities Aligns and approves long- and mid-term strategic development plans and programs Monitors the implementation of strategic sustainability objectives, plans and development programs
Strategy, Investment and Sustainability Committee of the Board of Directors Chairman – Sergey Shatalov, an independent director	<ul style="list-style-type: none"> Develops recommendations on setting up strategic goals aimed at long-term development of the Company and its business priorities Develops recommendations to the Board of Directors on defining the sustainability strategic goals of the Company's business (including industrial safety, environment protection, climate, social responsibility and corporate governance) and implementing them into the Company's Strategic Development Program Analyzes the existing corporate development concepts, programs and plans, as well as the competitive environment
Audit Committee of the Board of Directors Chairman – Victor Blazheev, an independent director	<ul style="list-style-type: none"> Monitors the reliability and performance of the risk management and internal control system, as well as the corporate governance system Analyzes and assesses compliance with the Risk Management and Internal Control Policy Monitors procedures that ensure legislative compliance Analyzes and assesses compliance with the conflicts of interest management policy
HR and Compensation Committee of the Board of Directors Chairman – Roger Munnings, an independent director	<ul style="list-style-type: none"> Develops priority areas related to human resources management Monitors the introduction and implementation of the Company's remuneration policy and various motivation programs, including long-term incentive plans for employees of the Company and its subsidiaries Plans staff appointments, provides recommendations on nominees to the positions of Management Committee members, the President of the Company and the Corporate Secretary

Members	Key roles
Management Committee Chairman – Vagit Alekperov, President of PJSC LUKOIL	<ul style="list-style-type: none"> Elaborates and approves the Company's quarterly, annual and perspective activity plans Develops and approves budgets and investment programs, including the Environmental Safety Program of LUKOIL Group Entities and the Industrial Safety, Labor Conditions Improvement and Protection, Emergency Prevention and Response Program of LUKOIL Group Entities Monitors progress against activity plans Develops and implements the overall strategy of the Company's subsidiaries
Health, Safety and Environmental Committee of PJSC LUKOIL Chairman – Ravid Maganov, First Executive Vice President of PJSC LUKOIL, Vice Chairman of the Board of Directors, a member of the Strategy, Investment and Sustainability Committee of the Board of Directors	<ul style="list-style-type: none"> Develops the HSE Policy, objectives, targets, and key performance indicators of LUKOIL Group entities Analyzes the effect of HSE initiatives Develops proposals to improve the HSE Management System of LUKOIL Group, including the efficient allocation of resources to comply with the HSE requirements Reviews measures for management of material HSE risks and environmental sustainability, including HSE initiatives
Head of sustainability – Evgeny Khavkin, a member of the Management Committee of PJSC LUKOIL, Vice President – Chief of Staff of PJSC LUKOIL	<ul style="list-style-type: none"> Organizes and coordinates: <ul style="list-style-type: none"> Efforts to shape the overall corporate position on sustainability Stakeholder engagement on the Company's sustainability agenda Development of local regulations on sustainability Sustainability-related communications between the Company's business units Preparation of the Group's Sustainability report Develops recommendations and proposals to governing bodies on improving sustainability and its management practices at the Company and other LUKOIL Group entities
Working Group on Sustainability Head of sustainability – Evgeny Khavkin, a member of the Management Committee of PJSC LUKOIL, Vice President – Chief of Staff of PJSC LUKOIL	<ul style="list-style-type: none"> Analyzes sustainability feedback from stakeholders Develops a unified corporate position related to sustainable development issues and aspects Effects sustainability-related communications and interactions between the Company's business units Consistently improves the system of collecting, preparing and disclosing sustainability reporting information Approves the list of disclosed indicators, their calculation guidelines and scope Approves the overall public position on sustainability Organizes and monitors the preparation of LUKOIL Group's Sustainability Report Develops sustainability recommendations for governance bodies
Corporate Secretary of PJSC LUKOIL Natalia Podolskaya	<ul style="list-style-type: none"> Interacts with members of the Board of Directors on sustainability-related matters Develops recommendations on improving sustainability management Participates in stakeholder engagement in sustainability matters Coordinates stakeholder engagement with members of the Board of Directors on the sustainability agenda Initiates activities aimed at improving sustainability management, with a view to their deeper integration into business processes

In 2019, the Strategy and Investment Committee of the Board of Directors was renamed into the Strategy, Investment and Sustainability Committee and its functions were expanded accordingly. The Committee discussed a far greater number of sustainability matters at its meetings.



For more details, see the Strategy, Investment and Sustainability Committee section

In the reporting year, the Working Group on Sustainability took on more functions and also changed its name. The Working Group was expanded to include heads of PJSC LUKOIL's core business units and held four meetings. Toby Gati, an independent director and a member of the Strategy, Investment and Sustainability Committee, regularly participated in the meetings. Her position on material sustainability aspects of non-financial disclosures was taken into account when LUKOIL Group Sustainability Report 2019 and other corporate documents were prepared. The Working Group's meetings were also attended by independent sustainability experts and consultants.

BUSINESS ETHICS

Being the cornerstone of its activities, the Company's corporate values help ensure commitment to the highest ethical standards, including strict adherence to respect of human rights, full legislative compliance and zero tolerance for any form of corruption.

The Company has in place the Code of Business Conduct and Ethics of PJSC LUKOIL approved by the resolution of the Board of Directors in 2018, which is a compilation of standards and rules for individual and collective behavior regulating the moral and ethical aspects of the internal relations across teams and describing requirements

and expectations for ethical business practices when dealing with external parties. The Code also includes social responsibility provisions set out by the conventions of the UN and International Labor Organization.



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



To regulate corporate ethics and ensure compliance with the Code, the Company has established the Business Ethics Commission.



See the Reference Information section for contact information regarding business ethics issues, see the Reference Information section

Preventing conflicts of interest involving Board members

To prevent potential conflicts of interest, the Company introduced certain limitations and requirements to members of the Board of Directors. In particular, in case of a conflict of interest, a member of the Board of Directors shall notify the Board of Directors of such conflict of interest prior to the discussion of the relevant agenda item and shall abstain from voting on any item in connection with which he or she has a conflict of interest. In addition, for the avoidance of a conflict of interest, a member of the Board of Directors shall notify the Board of Directors about his/her intention to serve on the governance bodies of other entities (apart from entities controlled by the Company and other entities in which the Company has an equity interest), and of being elected (appointed) to such governance bodies.

The Corporate Secretary monitors the compliance with the procedure for preventing conflicts of interest involving Board members.



For more details on preventing conflicts of interest involving Board members, see the Regulations on the Board of Directors of PJSC LUKOIL on the Company's website



Preventing abuse and fraud by the Company employees

Pursuant to the Corporate Security Policy of LUKOIL Group, abuse of official position, fraud and a conflict of interest are recognized as internal threats to the security of the Company and are defined as intentional or unintentional actions by employees causing financial, economic, material, reputational, or other damage to LUKOIL Group entities.

In line with recommendations set out in the Corporate Governance Code, the Company's corporate governance system has been enhanced with a set of preventive and control procedures designed to prevent abuse of official positions, conflict of interest situations and other violations.

To mitigate reputational risks, the Company implements relevant preventive, organizational, control and inspection measures, including through interaction with law enforcement agencies.

Upon discovering indications or facts of unlawful behavior, abuse, or conflicts of interest, official investigations and, if necessary, additional measures are carried out to identify the root causes and circumstances of violations committed.

The distribution of functions related to organizing preventive measures, identifying and preventing ethical standard violations, corporate fraud and corruption

Members	Functions
Business Ethics Commission	Supervision of corporate ethical business relations and implementation of the standards and rules of the Code of Business Conduct and Ethics of PJSC LUKOIL and the Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations
Internal Audit Service	<p>Audits and audit consulting which include:</p> <ul style="list-style-type: none"> Analysis of the reliability and efficiency of the internal control, corporate governance and risk management procedures applied in LUKOIL Group entities Engagement in the development and control of measures to increase the efficiency of corporate governance, internal control and risk management Identification of the reasons, conditions and circumstances which led to the violation of internal control, corporate governance and risk management procedures, with an assessment of the actual and potential damage of such violations
Internal Control Department	<p>Overall coordination of the Company's activities to improve and develop the ICS</p> <p>Development of corporate standards of, and requirements to, the ICS, allowing to:</p> <ul style="list-style-type: none"> Prevent (mitigate) opportunities of corporate fraud related to the misrepresentation of financial statements, and illegal use of resources or assets, during risk identification and assessment Provide for a separation of functions, authorities and duties in control procedure development, which should reduce the risk of ill-intentioned avoidance of control procedures by employees in order to engage in corporate fraud or corrupt activities <p>Supervision of corporate standards of, and requirements to, the ICS, through:</p> <ul style="list-style-type: none"> Analyzing regular reports from LUKOIL's business units and subsidiaries on the results of internal control monitoring, as well as the reports on identified violations and shortcomings of the internal control and response measures Reviewing LUKOIL's draft regulations brought up for approval by its governance bodies
Corporate Security Department	<p>Coordination of LUKOIL Group's activities to ensure economic and internal security, and implementation of expert analytics and inspection measures at the following stages:</p> <ul style="list-style-type: none"> Bidding and contract signing Reviewing candidates for positions at LUKOIL Rotating and appointing managers

During these activities, we carry out a risk assessment to identify potential conflict of interest situations or abuse by employees. Should a risk be identified, we notify the head of the relevant business unit to review the risk and make a decision on its mitigation.

To ensure compliance with the requirements of the Code of Business Conduct and Ethics of PJSC LUKOIL and establish a uniform procedure for preventing conflict of interest situations, as well as eliminate the negative impact of any actual conflict of interest situation on the process and results of the Group's operations, the Management Committee adopted the Regulations on the Actions of LUKOIL Group Entities and Their Employees in Conflict of Interest Situations. Compliance with these Regulations is mandatory for all employees at Group entities.

Employees are required to assess their official activities to identify any conflicts of their private interests with the Group's interests and prevent and avoid such situations.

If a manager comes to the conclusion that a conflict of interest exists or is possible in the future, his or her written report shall contain proposals regarding measures required to prevent the conflict of interest and its negative impact on the operations of a Group entity.

A conflict of interest situation is assessed through industry (line) and functional internal control and during audits carried out by the Internal Audit Service of PJSC LUKOIL. The facts

and risks of negative implications of conflicts of interest identified through internal control and internal audit are duly reported to LUKOIL's President and, if necessary, to the Business Ethics Commission.

To avoid conflicts of interest, members of the Management Committee need approval of the Board of Directors to be able to hold several positions.

LUKOIL's employees undergo regular professional trainings, trainings on ethical standards and anti-corruption conduct, and the Company's management is invited to attend guidance meetings. Key executives of LUKOIL Group entities and employees of corporate security units are examined annually for the knowledge of methods to identify and respond to conflict of interest situations. As part of the induction process, new hires have to read the local anti-corruption regulations.

In their relations with business partners, LUKOIL's employees are required to comply with the Code of Business Conduct and Ethics. When selecting business partners, LUKOIL verifies their business reputation and encourages their compliance with the ethical standards set out in Code of Business Conduct and Ethics of PJSC LUKOIL.

LUKOIL has in place a set of internal documents of different levels regulating its anti-corruption efforts:

- Code of Business Conduct and Ethics of PJSC LUKOIL
- Corporate Security Policy of LUKOIL Group
- Risk Management and Internal Control Policy of PJSC LUKOIL
- LUKOIL Group Antimonopoly Policy
- Regulations on Internal Control at PJSC LUKOIL
- Regulations on LUKOIL Group Entities and Their Employees in Conflict of Interest Situations
- Corporate Culture Rules at LUKOIL Group Entities
- Regulations on Holding Tenders to Select Suppliers and Contractors of LUKOIL Group Entities
- Contracting Rules of Public Joint Stock Company "Oil Company 'LUKOIL'"
- Regulations on Confidentiality at PJSC LUKOIL
- Requirements to Computer and Information Security at LUKOIL Group Entities

To consolidate corporate anti-corruption practices, the Company's Board of Directors passed a resolution in 2019 to develop the anti-corruption policy of PJSC LUKOIL in 2020, setting out unified anti-corruption principles, goals and objectives.

LUKOIL's business ethics policy applies to its subsidiaries. Requirements of LUKOIL's internal documents to business ethics and anti-corruption procedures translate into internal documents of LUKOIL Group entities.

In particular, the updated Business Ethics Code which was adopted in late 2018 was sent down to LUKOIL Group entities. Their HR services were tasked that employees read and acknowledge the Code and were also advised to include it into the mandatory onboarding package for new hires. The progress of the Code implementation at Group entities was discussed and approved by the Board of Directors in autumn 2019.

LUKOIL has zero tolerance for any form or manifestation of corruption and complies with applicable anti-corruption laws in the countries of operation, with the management acting as a role model to employees in combating corruption.

For the past five years, the Company has prepared annual Reports on Payments to Governments pursuant to foreign laws applicable to PJSC LUKOIL as an issuer of publicly traded securities listed on the London Stock Exchange. These reports serve to increase the transparency of payments made by companies from extractive industries and may be helpful to different groups of users.

 The full text of the Report on Payments to Governments is available on the Company's website



Insider information control

As an issuer whose securities are traded on regulated markets both in Russia and in the UK, PJSC LUKOIL pays special attention to measures aimed at preventing the misuse of insider information.

The Company's relevant activities are regulated by:

- Federal Law No. 224-FZ
On Countering the Misuse of Insider Information and Market Manipulation and Amending Certain Laws of the Russian Federation dated July 27, 2010
- EU Market Abuse Regulation No. 596/2014 adopted by the European Parliament and the EU Council on April 16, 2014
- LUKOIL has in place the Insider Information Regulations of Public Joint Stock Company "Oil Company 'LUKOIL'"¹ and a number of other local regulations, also applicable to LUKOIL Group entities

Pursuant to the EU Market Abuse Regulation, a special procedure applies to transactions with Company securities performed by Board of Directors and Management Committee members. Newly elected Board of Directors and Management Committee members are promptly informed about requirements regarding the procedure and timing for notifying regulatory agencies and the Company about securities transactions applicable to them and to persons closely related to them, as well as about the prohibition on performing transactions with Company securities during closed periods. Pursuant to the international best practices, limitations on securities transactions during closed periods are also set for insiders who are not members of the Company's governance bodies.

To monitor compliance with the applicable Russian and foreign laws aiming to counteract the misuse of insider information and market manipulation, the Board of Directors considers matters related to compliance with such requirements on an annual basis.



For more details on transactions with PJSC LUKOIL shares by members of the Company's governance bodies in 2019, see Appendix 4: Transactions with PJSC LUKOIL Ordinary Shares by Members of the Board of Directors and Management Committee of PJSC LUKOIL

INFORMATION SECURITY

PJSC LUKOIL considers its information security role in protecting the Company information, ensuring the accuracy, completeness and reliability of external data, safeguarding the data provided by government authorities, personal data owners and customer and partner data.

Information security relies on:

- Regulations on exercising such information security processes as managing access to information resources, processing information security incidents, managing mobile devices, and arranging for information security trainings
- Requirements to set up software and technical data processing tools to ensure their information security
- Instructions and guidelines for administrators and operators of information security tools
- Instructions and guidelines for users to ensure information security when using computers and office equipment
- Technical regulations and regulations on providing information security services, and service level agreements

Company employees have a personal responsibility for taking security measures and are trained in information security on a regular basis.

¹ The updated version of the Insider Information Regulations of PJSC LUKOIL was approved by the Company's Board of Directors on February 12, 2020 (Minutes No. 4). The updated document sets out a legal framework for transactions on the domestic and foreign markets and further restricts the procedure and terms of transactions with Company securities.

One of LUKOIL's key priorities for 2020 is to increase automation of information security processes, including further development of information security solutions for automated process control systems to comply with regulatory requirements to IT functions.

SUBSIDIARY MANAGEMENT SYSTEM

Being the corporate center of LUKOIL Group, PJSC LUKOIL coordinates the operations of Group subsidiaries.

The corporate governance model of subsidiaries reflects their legal status and jurisdiction and may include the general shareholders (members) meeting, the board of directors (supervisory board) and the sole executive body. The Company's governance bodies at all levels are involved in governing subsidiaries of PJSC LUKOIL within their respective authority.

In 2019, the Management Committee approved a set of local regulations governing business process communications between the Company and its subsidiaries, to enhance the Company's regulatory framework.

Strategic subsidiary management

The Board of Directors determines the priority areas of the Group's overall development.

In accordance with the Charter, the scope of authority of the Company's Management Committee covers

the development and implementation of the general strategy for the Company's subsidiaries, in particular:

- Organizing the implementation of a uniform operational, technical, financial, pricing, marketing, social, and HR policy
- Preliminary approval of decisions of the Company's subsidiaries regarding stakes in other entities, as well as decisions on obtaining and terminating subsoil licenses under certain conditions
- Coordinating the operations of the Company's subsidiaries

The President (or his/her authorized representative) represents the Company at general shareholders (members) meetings of subsidiaries and other entities in which the Company holds an interest, and votes on their agenda items.

Therefore, decisions made by the Management Committee in respect of subsidiaries are subsequently implemented in the decisions of the governance bodies of the subsidiaries in which the President or his/her authorized representative acts as LUKOIL representative.

Improvement of the Group's structure

The Management Committee consistently works to improve the structure of LUKOIL Group in order to ensure optimal conditions for strategic goal achievement. We have the LUKOIL Group Restructuring Commission which annually reports to the Management Committee on restructuring progress within the Group.

The LUKOIL Group Restructuring Commission previews proposed acquisitions of stakes in other entities before escalating them to the Management Committee. The Management Committee makes decisions on the Company acquiring stakes in other entities within the scope of authority determined by the Charter of PJSC LUKOIL. In addition, the Management Committee approves measures for further restructuring of LUKOIL Group entities and other entities in which they directly hold an interest. The Restructuring Commission's meeting materials are prepared and approved using an information system set up for making decisions on LUKOIL Group entities holding stakes in other entities.



For the Group's structure and a list of its key entities, see the Key Subsidiaries section

Approval of subsidiaries' material transactions¹

For the purpose of enhancing control over material transactions made by its subsidiaries, the Company employs the Procedure for Approving Material Transactions Performed by Subsidiaries of OJSC LUKOIL. Such transactions are made by subsidiaries only after their consideration and approval by the Management Committee in accordance with the Procedure. The Procedure does not apply to intra-group transactions.

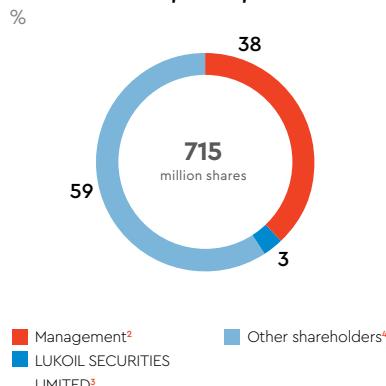
At the same time, material transactions made as part of investment projects affirmed by the Management Committee of PJSC LUKOIL, are approved according to the procedure established by the Company's local regulations governing the Group's investment activities.

¹ Material transactions of subsidiaries include transactions of the Company's subsidiaries (excluding transactions to which PJSC LUKOIL and/or its subsidiary was the counterparty), where they acquire, or (may) dispose of, directly or indirectly, fixed assets and/or intangible assets with a (book) value exceeding USD 20 million, or 10% of the book value of the subsidiary's assets (if the said value is below USD 20 million); provide loans, credit facilities, guarantees, sureties, and special-purpose financing for amounts exceeding USD 20 million or to receive loans and credit facilities for over USD 20 million, except for short-term (less than one year) loans and credit facilities obtained in the ordinary course of business on an arm's length basis.

SHARE CAPITAL

As at December 31, 2019, PJSC LUKOIL had a charter capital of 715,000,000 ordinary shares with a nominal value of RUB 0.025 each.

PJSC LUKOIL share capital structure as at December 31, 2019,

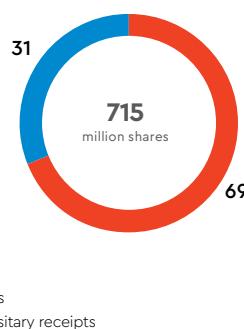


On June 20, 2019, the Annual General Shareholders Meeting of the Company passed a resolution to reduce the charter capital in 2019 by 35,000,000 ordinary shares. In February 2020, the charter capital was further reduced by 22,134,238 ordinary shares based on the resolution of the Extraordinary General Shareholders Meeting of the Company passed on December 3, 2019. As a result, the total number of issued ordinary shares decreased in the first quarter of 2020 to 692,865,762 shares.

As at December 31, 2019, depository receipts were issued to represent 31.2% of the Company ordinary shares.

Shares and depository receipts of PJSC LUKOIL as at December 31, 2019,

%



LUKOIL ranks among the Top 3 Russian companies with the highest free float value.

The list of key shareholders of PJSC LUKOIL whose names are on the shareholder register is regularly updated and is available on the Company's website.



For more details on the share capital, see the Company's website



Share buyback

In September 2018, LUKOIL SECURITIES LIMITED, a wholly owned subsidiary of the Company, launched the share buy-back programme of PJSC LUKOIL in the open market in an aggregate amount of up to USD 3 billion. The program was completed in August 2019 with 37.2 million shares purchased, including in the form of depository receipts.

In October 2019, the Company announced another buy-back programme for a total amount of up to USD 3 billion. The program is scheduled to last from October 1, 2019 to December 30, 2022.

Cancellation of shares

In June 2019, the Annual General Shareholders Meeting of PJSC LUKOIL resolved to reduce the charter capital by way of purchasing a portion of issued shares to decrease their total number in order to optimize the share capital structure of the Company, including through acquisition and cancellation of the shares held by LUKOIL SECURITIES LIMITED (a 100% subsidiary of the Company). The Company shareholders were given equal and fair opportunities to sell their shares on the same terms.

To translate this resolution into action, PJSC LUKOIL purchased 35 million ordinary shares from Company shareholders, including 15.5 million shares from LUKOIL SECURITIES LIMITED. As a result, the number of issued ordinary shares in PJSC LUKOIL was decreased to 715 million shares.

In December 2019 the Extraordinary General Shareholders Meeting of PJSC LUKOIL resolved to reduce the charter capital by way of purchasing a portion of issued shares to decrease their total number. Based on this resolution the Company bought back and subsequently cancelled 22 million ordinary shares in February 2020. Almost all cancelled shares were bought from LUKOIL SECURITIES LIMITED. The Company shareholders were given equal and fair opportunities to sell their shares on the same terms. As a result, the total number of issued ordinary shares in PJSC LUKOIL was decreased to 693 million shares.

² Percentage of PJSC LUKOIL shares which the members of the Board of Directors or Management Committee own directly and/or indirectly, and/or are beneficiaries of. For more details, see the Board of Directors' composition and the Management Committee membership sections.

³ LUKOIL SECURITIES LIMITED is a 100% subsidiary of the Company, which carries out shares purchases as part of the buy-back programme.

⁴ Including 5.5% held by CYPRMAN SERVICES LIMITED which operates the Long-Term Incentive Program for Key Employees of LUKOIL Group for 2018–2022.

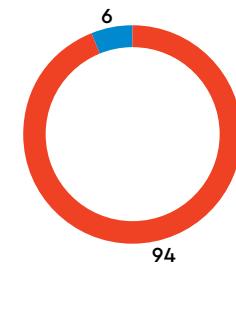
Except for the listed above, the Company management is not aware of any shareholders (holders of shares) holding more than 5% in the Company's charter capital.

Major institutional investors in shares and depositary receipts as at December 31, 2019

Name	Share in free float, %
Vanguard Group	2.4
BlackRock	1.6
Invesco	0.9
Harding Loevner	0.9
FMR	0.8
Schroders	0.7
Dimensional Fund Advisors	0.6
LSV Asset Management	0.6
Government Pension Investment Fund Japan	0.6
Canada Pension Plan Investment Board	0.5

Source: Bloomberg

Recommendations of analysts of investment banks and financial companies for LUKOIL shares, as at December 31, 2019, %



Ordinary shares and depositary receipts tickers of PJSC LUKOIL

Ticker	Exchange	Type	Listing
LKOH	Moscow Exchange	Ordinary shares	1st level
PJSC LUKOIL ordinary shares are admitted to, and mainly traded on, the Moscow Exchange, included in the Level One quotation list, and are one of the most liquid instruments in the Russian equity market.			
LKOD	London Stock Exchange	Depositary receipts	Standard
The depositary receipts (DRs) of the Company are traded on the London Stock Exchange. One DR issued for PJSC LUKOIL shares equals one ordinary share issued by PJSC LUKOIL. Company depositary receipts are one of the most liquid depositary receipts among Eastern European issuers.			
LUK	Frankfurt Stock Exchange	Depositary receipts	
LUKOY	US OTC market		
PJSC LUKOIL depositary receipts are also traded on the Munich and Stuttgart Stock Exchanges.			

Including: Bank of America Merrill Lynch, Citigroup, Goldman Sachs, HSBC, JP Morgan, Morgan Stanley, Raiffeisen Bank, Renaissance Capital, UBS, WOOD & Company, ATON, BCS, Gazprombank, VTB Capital, Sova Capital, Sberbank CIB, Veles Capital.



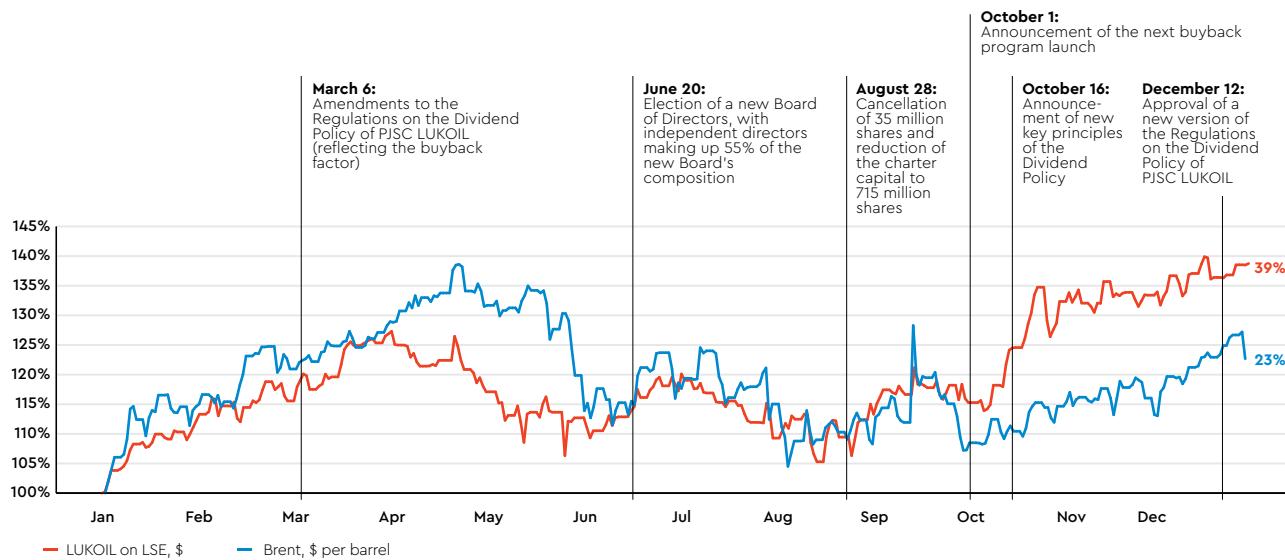
The list of analysts covering Company securities is available on the Company's website



Indices which include PJSC LUKOIL shares

Index	The Company's shares and DRs weight in the index as at December 31, 2019, %
FTSE Russia IOB	17.0
MOEX Russia Index	13.6
MSCI Russia	16.0
MSCI Emerging Markets Eastern Europe	12.0
MSCI Emerging Markets EMEA	4.2

PJSC LUKOIL depositary receipts price performance in 2019



Stock price performance. In 2019, all country indices comprising developed and the majority of emerging economies went up. The Russian market was one of growth leaders: the US dollar-denominated RTS Index was up by 45% in 2019, whereas the Russian ruble-denominated MOEX Russia Index was up by 29%. By the end of 2019, PJSC LUKOIL shares were up on the Moscow Exchange by 23% to RUB 6,169 per share. PJSC LUKOIL depositary receipts on the London

Stock Exchange went up by 39% to USD 99.2 per DR. Throughout the year, the ruble-denominated price of Company shares reached historical peaks several times while the US dollar-denominated price hit its highest peak since mid-2008. As at the end of 2019, almost all analysts of investment banks and financial companies recommended to buy LUKOIL shares.

Bonds. The Company pursues a flexible debt portfolio management policy and borrows in the Russian and international capital markets. All three leading international rating agencies have assigned investment-grade ratings to LUKOIL.

In early 2019, global rating agency Moody's upgraded LUKOIL's long-term credit rating from Baa3 to Baa2.

Rating agency	Rating	Outlook	Review date
Fitch	BBB+	Stable	November 2, 2017
Standard & Poors	BBB	Stable	September 19, 2017
Moody's	Baa2	Stable	February 12, 2019

Outstanding Eurobonds as at December 31, 2019

Placement/maturity date	Years to maturity	Coupon, % per annum	Coupon payment frequency	Issue size, US dollars	ISIN: Regulation S/Rule 144A
November 2, 2016/ November 2, 2026	10	4.750	semiannual	1,000,000,000	XS1514045886/ US549876AL44
April 24, 2013/April 24, 2023	10	4.563	semiannual	1,500,000,000	XS0919504562/ US549876AH32
November 9, 2010/ November 9, 2020	10	6.125	semiannual	1,000,000,000	XS0554659671/ US549876AE01
June 7, 2007/June 7, 2022	15	6.656	semiannual	500,000,000	XS0304274599/ US549876AA88

The Eurobonds were issued by LUKOIL International Finance B.V., a wholly-owned subsidiary of PJSC LUKOIL registered in the Netherlands.

DIVIDENDS

LUKOIL's Dividend Policy is based on balancing the interests of the Company and its shareholders.

The Dividend Policy agenda was discussed at two meetings of the Board of Directors in 2019. In early 2019, the Board of Directors approved an amendment to the Regulations on the Dividend Policy of PJSC LUKOIL, allowing to factor in the effect of share buyback when determining the amount of dividends. A new principle was added stipulating that the Company intends to provide the annual growth of the total amount of dividends calculated to be paid on the Company's outstanding shares less the shares held by LUKOIL Group entities at a rate not lower than the ruble inflation in the reporting period. In late 2019, a new version of the Regulations on the Dividend Policy of PJSC LUKOIL was approved, stipulating the following new principles:

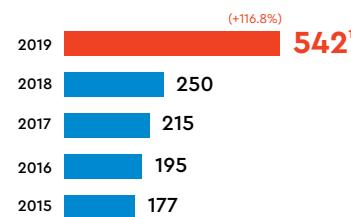
- The total amount of dividends on the Company's issued shares, excluding the shares held by LUKOIL Group entities, should equal at least

100% of the Company's adjusted free cash flow

- The adjusted free cash flow is calculated on the basis of the consolidated financial statements of PJSC LUKOIL prepared in accordance with IFRS and is determined as net cash from operating activities less capital expenditures, interest paid, repayment of lease obligations and expenses on purchasing the Company's stock
- Dividend per ordinary share is rounded to the nearest Russian ruble
- Dividends are paid twice a year (subject to approval by the General Shareholders Meeting) with the amount of interim dividends calculated based on the consolidated financial statements for the six-month period

Based on the 2019 performance, the Board of Directors recommended the Annual General Shareholders Meeting to approve the 2019 dividends of RUB 542 per ordinary share (including interim dividend in the amount of RUB 192 per ordinary share paid in January 2020).

Dividend per share, RUB



¹ Total dividend amount recommended by the Board of Directors based on the 2019 results.



The Regulations on the Dividend policy are available on the Company's website



The report on dividends accrued and paid

Period	2017			2018			2019		
	9M 2017	FY2017	Total	9M 2018	FY2018	Total	9M 2019	FY2019	Total
Accrued dividend per share, RUB	85	130	215	95	155	250	192	350³	542³
Accrued dividend, RUB million	72,298	110,573	182,871	71,250	116,250	187,500	137,280		
The issuer's governance body deciding on dividend payouts	Extraordinary General Shareholders Meeting	Annual General Shareholders Meeting		Extraordinary General Shareholders Meeting	Annual General Shareholders Meeting		Extraordinary General Shareholders Meeting		
Date of the meeting of the issuer's governance body deciding on the dividend payout, Minutes No.	December 4, 2017; Minutes No. 2 dated December 6, 2017	June 21, 2018; Minutes No. 1 dated June 25, 2018		December 3, 2018; Minutes No. 3 dated December 5, 2018	June 20, 2019; Minutes No. 1 dated June 25, 2019		December 3, 2019; Minutes No. 2 dated December 5, 2019		
Declared dividend payout period	up to January 12, 2018 / up to February 2, 2018 ²	up to July 23, 2018 / up to August 13, 2018 ²		up to January 11, 2019 / up to February 1, 2019 ²	up to July 19, 2019 / up to August 9, 2019 ²		up to January 10, 2020 / up to January 31, 2020 ²		
Ratio of unpaid to accrued dividends, % ¹	0.060271	0.046467	0.051925	0.060167	0.105070	0.083808	0.065803		

Total accrued dividends are calculated through multiplication of the total number of PJSC LUKOIL shares by the amount of dividends per share.



For more details, see the Share Capital, Share Prices, and Dividends section of the Analyst Database



¹ Dividend payouts were not made to the shareholders who had failed to provide their payout details as per Article 42 of Federal Law No. 208-FZ On Joint-Stock Companies dated December 26, 1995.

² Nominee shareholders and trustees (professional security traders) whose names are on the shareholder register of PJSC LUKOIL / other shareholders whose names are on the shareholder register of PJSC LUKOIL.

³ Dividend amount recommended by the Board of Directors based on the 2019 results.

Total accrued dividends are calculated through multiplication of the total number of PJSC LUKOIL shares by the amount of dividends per share.

INFORMATION OPENNESS AND TRANSPARENCY

As an issuer of publicly traded securities, PJSC LUKOIL makes regular mandatory disclosures, providing equal access to all stakeholders in accordance with Russian laws and the requirements of the Moscow Exchange and the London Stock Exchange. The Company effects regular and timely publications of press releases and disclosures of material facts on major developments within the Group.

The Company strives to continuously increase its informational openness and transparency through publishing a wide range of information

products beyond applicable statutory requirements. For example, in addition to the mandatory annual publication of its Annual Report, the Company publishes the Analyst Databook containing detailed digital data on its operating and financial performance. On a quarterly basis, in addition to statutory financial statements prepared under Russian and international standards, the Company publishes financial presentations and aggregated financial and operating performance results in Excel format.

To enhance its openness, the Company presents its financial statements during quarterly conference calls, conducts other presentations, organizes site

visits, senior management speeches at conferences, face-to-face meetings, and communications with stakeholders. The Company regularly responds to inquiries made by stakeholders, including the media, institutional investors, environmental organizations and shareholders.



The Regulations on the Information policy are available on the Company's website



EXPERT ASSESSMENT

PJSC LUKOIL won awards in three categories of the 22nd Annual Reports Contest 2019, organized by the Moscow Exchange and Stock Market Media Group and held in partnership with Institutional Investor for the first time.

Following the results of an independent survey, LUKOIL received an award in the Extel Survey Best Corporate by Large Cap Russia 2019 category as the Best IR Professionals.

Once again, LUKOIL also became the winner of the award of the Russian Union of Industrialists and Entrepreneurs for the best corporate social responsibility and sustainable development report.

The Company's revamped web-complex received a separate award in the Best Design and Navigation of a Corporate Website category. LUKOIL's web-complex had also been the only Russian website which had made it to Top 30 global corporate websites, according to Bowen Craggs & Co (Index of Online Excellence), a British consulting company.

2020 financial calendar

Strategy Day		
Presentation of 2019 results		March 11
Financial results announcement		
FY2019		March 10
Q1 2020		June 3
Q2 2020		August
Q3 2020		November
2019 dividends		
Recommendation by the Board of Directors		May 18
Dividend record date		July 10
9M 2020 interim dividends		
Recommendation by the Board of Directors		October
Dividend record date		December
General Shareholders Meeting		
Annual General Shareholders Meeting		June 23
Extraordinary General Shareholders Meeting		December
Annual publications		
Annual report		May 22
Analyst Databook		May 22

KEY ENTITIES WITHIN THE GROUP

EXPLORATION AND PRODUCTION

RUSSIA

West Siberia

LLC LUKOIL-West Siberia
LLC RITEK (TPU RITEK-Belyoarskneft)
LLC LUKOIL-AIK
LLC TURSUNT

Timan-Pechora

LLC LUKOIL-Komi
LLC Bashneft-Polyus (25.1%)

Urals

LLC LUKOIL-PERM
LLC UralOil
LLC PermTOTneft (50%)

Volga

LLC LUKOIL-Nizhnevolzhskneft
LLC RITEK (TPU Volgogradneftegaz,
TPU RITEK-Samara-Nafta)
LLC JV Wolgodeminoil (50%)

Other

LLC LUKOIL-Kaliningradmorneft
LLC RITEK (TPU TatRITEKneft)
LLC Oil Company Priazovneft (49%)

KAZAKHSTAN

LUKOIL Overseas Karachaganak B.V.
LUKARCO B.V.
JSC TURGAI PETROLEUM (50%)
LUKOIL Overseas Kumkol B.V.
LLP LUKOIL Kazakhstan Upstream

UZBEKISTAN

LUKOIL Overseas Uzbekistan Ltd.
LLC LUKOIL Uzbekistan Operating Company
SOYUZNEFTEGAZ VOSTOK LIMITED

IRAQ

LUKOIL Overseas Iraq Exploration B.V.
LUKOIL MID-EAST LIMITED

EGYPT

LUKOIL OVERSEAS EGYPT LIMITED

AZERBAIJAN

LUKOIL Overseas Shah Deniz Ltd.

NORWAY

LUKOIL Overseas North Shelf AS

NIGERIA

LUKOIL Overseas Nigeria Limited
LUKOIL UPSTREAM PRODUCTION NIGERIA LTD

ROMANIA

LUKOIL Overseas Atash B.V.

GHANA

LUKOIL OVERSEAS GHANA TANO
LIMITED

CAMEROON

LUKOIL Overseas Etinde Cameroon Sarl

MEXICO

LUKOIL UPSTREAM MEXICO, S. de R.L. de C.V.

THE REPUBLIC OF CONGO

LUKOIL Upstream Congo Anonymous
Company Unipersonel

SAUDI ARABIA

LUKOIL Overseas Riyadh Ltd.

UAE

LUKOIL Upstream Abu Dhabi GmbH

OIL REFINING AND GAS PROCESSING

RUSSIA

LLC LUKOIL-Volgogradneftepererabotka
(Volgograd Refinery)
LLC LUKOIL-Nizhegorodnefteorgsintez
(Nizhny Novgorod Refinery)
LLC LUKOIL-Permnefteorgsintez
(Perm Refinery)
LLC LUKOIL-UNP
(Ukhta Refinery)
LLC LUKOIL-KGPZ
(Korobkovsky GPP)

ITALY

ISAB S.r.l.
(ISAB Refinery)

BULGARIA

LUKOIL Neftochim Burgas AD (99.85%)
(Burgas Refinery)

NETHERLANDS

Zeeland Refinery N.V. (45%)
(Zeeland Refinery)

ROMANIA

PETROTEL-LUKOIL S.A. (99.77%)
(Ploiești Refinery)

PETROCHEMICALS

RUSSIA

LLC Saratovorgsintez
(Saratovorgsintez)
LLC Stavrolen
(Stavrolen)

BUNKERING

RUSSIA

LLC LUKOIL MarinBunker

BULGARIA

LUKOIL-Bulgaria Bunker EOOD

AIRCRAFT REFUELING

RUSSIA

LLC LUKOIL-AERO
LLC LUKOIL-Varandey-AVIA

BULGARIA

LUKOIL Aviation Bulgaria EOOD

(Short names of the Group's organizations used in the Report)

REFINING, MARKETING AND DISTRIBUTION

LUBRICANTS

RUSSIA

LLC LLK-International
LLC INTESMO (75%)

TURKEY

LUKOIL Lubricants Middle East Madeni
Yağ Sanayi ve Ticaret Limited Şirketi

AUSTRIA

LUKOIL Lubricants Europe GmbH

ROMANIA

LUKOIL LUBRICANTS EAST EUROPE S.R.L.
Belarus
JLLC LLK-NAFTAN

POWER GENERATION

RUSSIA

LLC LUKOIL-Astrakhanenergo
LLC LUKOIL-Volgogradenergo
LLC LUKOIL-Kubanenergo
LLC LUKOIL-Rostovenergo
LLC LUKOIL-Stavropolenergo
LLC LUKOIL-Ecoenergo
LLC Volgodonskaya Teplovaya
Generatsia
LLC Kamyshin CHPP
OJSC KamyshinTeploEnergo
LLC Astrakhan Heat Supply Networks
LLC Volgodonsk Heat Supply Networks
LLC Volzhsky Heat Supply Networks
LLC Rostov Heat Supply Networks
OJSC KTE
LLC LUKOIL-ENERGOSETI
LLC Teplovaya Generatsia G. Volzhskogo
LLC LUKOIL-TsUR
LLC LUKOIL-ENERGOSERVIS
LLC LUKOIL-Energoengineering

ROMANIA

LAND POWER S.A.

TRANSPORTATION

RUSSIA

LLC LUKOIL-Trans
LLC Varandey Terminal
(Varandey terminal)
LLC LUKOIL-KNT
LLC RPK-Vysotsk LUKOIL-II
(Terminal in Vysotsk)
JSC LUKOIL-Chernomorye

LATVIA

VARS

DISTRIBUTION

RUSSIA

LLC LUKOIL-Severo-Zapadnefteprodukt
LLC LUKOIL-Uralnefteprodukt
LLC LUKOIL-Tsentrnefteprodukt
LLC LUKOIL-Yugnefteprodukt
LLC LICARD
LLC LUKOIL-Reservnefteprodukt
LLC LUKOIL-Reservnefteprodukt-Trading

AZERBAIJAN

CJSC LUKOIL-Azerbaijan

BELARUS

FLLC LUKOIL-Belarus

BELGIUM, LUXEMBOURG

LUKOIL Belgium N.V.

BULGARIA

LUKOIL BULGARIA EOOD

GEORGIA

LLC LUKOIL-GEORGIA

ITALY

LUKOIL Italia S.r.l.

MACEDONIA

LUKOIL MAKEDONIJA DOOEL Skopje

MOLDOVA

LUKOIL-Moldova S.R.L.

NETHERLANDS

LUKOIL Netherlands B.V.

ROMANIA

LUKOIL ROMANIA S.R.L.

SERBIA

LUKOIL SRBIJA AD Beograd (99.42%)

USA

LUKOIL NORTH AMERICA LLC

TURKEY

LUKOIL Eurasia Petrol Anonim Şirketi

FINLAND

Oy Teboil Ab

CROATIA

LUKOIL Croatia Ltd.

MONTENEGRO

LUKOIL MONTENEGRO DOO, Podgorica

TRADING

SWITZERLAND

LITASCO SA
(LITASCO)



The full list of Subsidiaries is available
on the Company's website



Reference Information

About the Company

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

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

Legal address and head office

11, Sretensky Blvd, Moscow, 101000, Russia
Website: www.lukoil.ru (Russian), www.lukoil.com (English)
Central Information Service
Tel.: +7 495 627 4444, +7 495 628 9841
Fax: +7 495 625 7016

Shareholder Relations

Tel.: +7 495 981 7320
Fax: +7 495 627 4564
Email: shareholder@lukoil.com

Investor Relations

Tel.: +7 495 627 1696
Email: ir@lukoil.com

Press Service

Tel.: +7 495 627 1677
Email: media@lukoil.com

Filling Stations Hotline

Tel.: +7 800 100 0911
Email: hotline@lukoil.com

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

Depository 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)



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



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

Feedback

You are welcome to send any comments and/or suggestions as regards the Group's reports to our IR email ir@lukoil.com.

Feedback from the shareholders and other stakeholders helps us improve information transparency and enhance the reporting quality.

Forward-looking statements

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

Conversion factors

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

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

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

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

Other information

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

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

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

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

Terms, acronyms and abbreviations

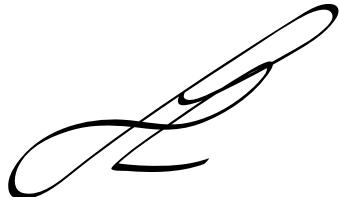
References to "PJSC LUKOIL," "LUKOIL Group," "the Group," "LUKOIL," "the Company," "we" and "our" throughout this document are all equivalent for the purposes of this Report and refer to LUKOIL Group, PJSC LUKOIL and/or its subsidiaries depending upon the context in which the terms are used.

2D – two-dimensional
3D – three-dimensional
6M – six months
9M – nine months
AC – Audit Committee
ADNOC – Abu Dhabi National Oil Company
AELI – All-Union Extra-Mural Law Institute
AGM – Annual General Shareholders Meeting
AI – Russian gasoline grades indicating the research octane number (RON)
APG – associated petroleum gas
AR – augmented reality
ASSR – Autonomous Soviet Socialist Republic
BoD – Board of Directors
boe – barrel of oil equivalent
BU – business unit
CAPEX – capital expenditures
CCGT – combined-cycle gas turbine
CDP – Carbon Disclosure Project
CEO – Chief Executive Officer
CHPP – combined heat and power plant
CIS – Commonwealth of Independent States
CJSC – closed joint stock company
COSO – Committee of Sponsoring Organizations of the Treadway Commission
CPC – Caspian Pipeline Consortium
DIAU – dedicated internal audit unit
DR – depository receipt
DWT/CTP – Deepwater Tano/Cape Three Points (block)
E&P – Exploration and Production
EBITDA – earnings before interest, taxation, depreciation and amortization
EGM – Extraordinary General Shareholders Meeting
EOR – enhanced oil recovery
ERM – enterprise risk management
ESG – Environmental, Social and Governance
ESPO – East Siberia – Pacific Ocean pipeline
EU – European Union

FER – fuel and energy resources
FTS – Federal Tax Service
FX – Foreign Exchange
FY – full year
Gcal – gigacalorie
GDP – gross domestic product
GHG – greenhouse gas
GNPC – Ghana National Petroleum Corporation
GPC – gas processing complex
GPP – gas processing plant
GR – government relations
GW – gigawatt
HPP – hydroelectric power plant
HR – human resources
HRCC – HR and Compensation Committee
HSE – health, safety and environment
IAS – Internal Audit Service
ICS – internal control system
IFRS – International Financial Reporting Standards
ILO – International Labor Organization
IMO – International Maritime Organization
IPJSC – insurance public joint stock company
IPPF – International Professional Practices Framework
IPRA – International Public Relations Association
IR – investor relations
ISO – International Organization for Standardization
IT – information technology
JSC – joint stock company
JV – joint venture
km – kilometer
KPI – key performance indicator
kWh – kilowatt-hour
LLC – limited liability company
LTAFR – lost-time accident frequency rate
LTIFR – lost-time injury frequency rate
MARPOL – International Convention for the Prevention of Pollution from Ships
MET – mineral extraction tax
MOOC – massive open online course
MSAL – Moscow State Law Academy
MW – megawatt
MZHF – multi-zone hydraulic fracturing
NGL – natural gas liquids
NGO – non-governmental organization
OECD – Organization for Economic Co-operation and Development
OEM – original equipment manufacturer
OGPB – Oil and Gas Production Board

OHSAS – Occupational Health and Safety Assessment Series
OJSC – open joint stock company
OPEC – Organization of Petroleum Exporting Countries
p.p. – percentage point
PhD – Doctor of Philosophy
PJSC – public joint stock company
PJSFC – Public Joint Stock Financial Corporation
PLMA – Plan to Localize and Mitigate the Consequences of Accidents at Hazardous Production Facilities
PMSM – permanent magnet motor
PR – public relations
Q1 – first quarter
Q2 – second quarter
Q3 – third quarter
R&D – research and development
RAS – Russian Accounting Standards
RITEK – Russian Innovation Fuel and Energy Company
RMICS – risk management and internal control system
ROACE – return on average capital employed
RSPP – Russian Union of Industrialists and Entrepreneurs
RTS – Russian Trading System (Index)
RUB – Russian ruble
SAGD – steam-assisted gravity drainage
SDGs – Sustainable Development Goals
SEC – Securities and Exchange Commission
SECA – Sulfur Emissions Control Area
SISC – Strategy, Investment and Sustainability Committee
SPCC – Spill Prevention, Control and Countermeasure
TAI – tax on additional income
TCFD – Task Force on Climate-related Financial Disclosures
TPP – thermal power plant
TPU – Territory Production Unit
UAE – United Arab Emirates
UK – United Kingdom
UN – United Nations
USA – United States of America
USD (\$) – US dollar
USRBC – U.S.-Russia Business Council
USSR – Union of Soviet Socialist Republics
VAT – value-added tax
vs. – versus
WECM – wholesale electricity and capacity market

The Annual Report of PJSC LUKOIL
is preliminarily approved by the Board
of Directors of PJSC LUKOIL
(Minutes No. 9 dated May 18, 2020).

A handwritten signature in black ink, appearing to read "Vagit Alekperov".

Vagit Alekperov

President, Chairman of the Management
Committee of PJSC LUKOIL